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U.S.-INDONESIA RELATIONS

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AND PACIFIC AFFAIRS

OF THE

COMMITTEE ON FOREIGN RELATIONS
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U.S.-INDONESIA RELATIONS

THURSDAY, SEPTEMBER 15, 2005

U.S. SENATE,
SUBCOMMITTEE ON EAST ASIAN AND PACIFIC AFFAIRS,
COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The subcommittee met, pursuant to notice, at 2:03 p.m., in room SD–419, Dirksen Senate Office Building, Hon. Lisa Murkowski (chairman of the subcommittee) presiding.

Present: Senators Murkowski and Obama.

OPENING STATEMENT OF HON. LISA MURKOWSKI, U.S. SENATOR FROM ALASKA

Senator MURKOWSKI. We will bring to order the Subcommittee on East Asian and Pacific Affairs. Good afternoon and welcome to today's hearing on United States-Indonesia relations. I appreciate the witnesses' acceptance of the invitation to appear before this subcommittee here this afternoon.

And before we get going, I would like to express my appreciation and the gratitude to the people and the Government of Indonesia for their generous offer of assistance to our recovery efforts in the wake of Hurricane Katrina. And this offer is even more impressive given that Indonesia is, itself, still recovering from the devastating December tsunami.

In 2001, Congressman Jim Leach noted that, "There is no country in the world of such vital importance that is less understood than Indonesia." And he made that comment in 2001, and I believe that this statement still applies when it comes to the United States-Indonesia relationship.

Shortly before we went on break in August, I had an opportunity to meet with some members of the Australian Parliament, and they urged me and the United States, as a whole, to pay more attention to Indonesia. And, I think, for some very good reasons. In our efforts in the war on terrorism, we are also, unfortunately, battling the misperception of many in Islamic nations that our actions target all Muslims. And, while Indonesia's perception of the war on terror has changed as a result of terrorist bombings in Bali and the Jakarta Marriott, many Indonesians point to the repression of Muslims around the world as the root cause of terrorism.

Indonesia, as the world's fourth most populous nation, is home to, by far, the largest Muslim population of any nation and provides a moderating influence among Islamic states. So, if we want to improve our standing with the Muslim community outside of the United States, Indonesia is, appropriately, a good starting point.

Accordingly, it is in the United States interest to have a strong bilateral relationship with Indonesia.

Following the destruction of the December tsunami, U.S. efforts to assist the affected areas brought us tremendous goodwill. And, rather than sit on our laurels, we must work to build on that goodwill.

I'm pleased that Mr. Kunder, with USAID, is here today to provide an overview of our continued work in Indonesia. The people of Indonesia know who is working with them side by side as they rebuild their communities. And, while media attention of the tsunami aftermath has faded in the background, our assistance efforts must remain strong.

Likewise, the United States must continue our efforts against the avian influenza, or the bird flu. As part of the supplemental appropriations bill passed in May, Congress provided $25 million to help contain and prevent the spread of the bird flu in the Asia region. The United States also sponsored the attendance of four Indonesian officials from the Ministries of Health and Agriculture to the APEC Health Task Force Symposium held in July.

And the impacts of the bird flu are not limited to just the health of the people, but the health of the economy, as well. In the past year, Indonesia's rate of inflation was 7.84 percent, in part because the destruction of chickens due to the avian influenza, which had led to an increase in the price of eggs and chickens. According to Indonesia's Central Bureau of Statistics, the increase in food prices was the major contributing factor in inflation growth. Continued cooperation on this issue is a win for United States-Indonesian relations and a win for the people of both our nations.

Looking at other economic factors coming from a state whose economy is heavily dependent on natural resources, it should come as no surprise that I tend to pay attention to the energy sector. Of course, right now we've got plenty of company from those who are also looking at the high oil prices around the globe.

Indonesia, however, continues a policy of energy subsidization, and the high price of oil and gas on the worldwide market is having a significant impact on Indonesia's economy. The subsidies are expected to cost $13–$14 billion this year, which I understand is about one-third of Indonesia's federal budget.

The fuel subsidies distort economic development by encouraging the inefficient use of energy sources. As an example, Japan, which does not have price subsidies, is five times more efficient with its energy uses than China, which does subsidize its energy costs.

Indonesia's fuel subsidies have increased domestic demand to the point that even with its vast reserves, Indonesia is a net importer of oil. The increased demand for foreign monetary reserves to purchase the oil has led to a 10-percent decrease in the value of the rupiah. Combine this with the inflation rate's nearly 8-percent increase, and the average Indonesian's domestic buying power is considerably impacted, causing potential harm to economic stability.

While the issue of domestic fuel subsidies is one for Indonesia's Government to address, I, for one, remain very interested in international energy policy. In a world that is more and more interdependent on global oil supplies, we need to be encouraging greater energy efficiencies, not just here at home, but overseas, as well.

I'm pleased that at their meeting in May, President Bush and President Yudhoyono announced the resumption of bilateral energy consultations. Delegations met in Jakarta on August 29 for the first working-group meetings on mutual energy security issues and production and capacity capabilities, and I look forward to what progress can come from this effort.

The last several years have also brought a spotlight to the various separatist groups within Indonesia. East Timor's independence in 2002 continues to resonate as Congress considers whether to lift restrictions to military aid. I compliment the Government of Indonesia and the Free Aceh Movement for reaching a peace agreement this past August. And the issue of West Papua has been raised in the context of the House-passed Foreign Relations Authorization bill.

Now, without going into it too much further, I would note that the joint statement between the United States and Indonesia following the President's meeting in May emphasized the administration's support for Indonesia's territorial integrity and reiterated that the United States opposed secessionist movements in any part of Indonesia.

It is clear that Indonesia's importance to the United States is not fully recognized on a general level, but its geographic location cannot be ignored. Strategically positioned along some of the key shipping lanes in the world, and centrally located within the Asian region, with 224 million people, Indonesia is ready to grow.

So, I look forward to hearing from each of the witnesses to get their thoughts on what steps we, in Congress, can take to further our relationship, while not sidestepping our responsibilities to ensure international standards are upheld.

I want to welcome to the committee Senator Obama and would ask if you have any opening remarks or comments you would like to make.

STATEMENT OF HON. BARACK OBAMA, U.S. SENATOR FROM ILLINOIS

Senator OBAMA. Well, thank you very much, Madam Chairman.

I appreciate the witnesses being here today. As usual with these very informative hearings on important topics, we end up having to split our time with votes. But I did want to make sure that I took the time to hear the testimony, in part because I suspect I'm the only U.S. Senator who ever spent time in Indonesia as a child. And not only did I develop a great love for the people and the country, but also as a consequence, I have a deep appreciation for the absolutely critical role that Southeast Asia, in general, and Indonesia, in particular, can play in U.S. foreign policy.

I'm glad to see that we have some capable people involved in helping to craft policy in that part of the world. I think that the trends that have taken place with respect to democracy in Indonesia are extraordinarily encouraging. One of the memories that I have from growing up is of a deeply faithful brand of Islam that also existed side by side with Christianity, with other cultures, and of an extraordinary tolerance for diversity that existed in Indonesia. In that sense, Indonesia provides a potential model for how

a modern developing country can reconcile the demands of a modern world with traditional faith.

I think it's absolutely critical that we spend more time and pay more attention to thinking about this region at the highest levels of our Government, to strengthen the linkages between our two countries.

Obviously, there are still some problems that remain, dating back to 1967, 1968, and the early 1970s, when I was there. Corruption was always a problem. I would expect that it continues to be a problem, in terms of hampering the development of the country. The extraordinary breadth and power of the military and in the ability for civilian officials to control the military process was a problem then. It is still a problem today. And the vast differences in wealth and opportunity between a small elite and the majority of the people who continue to struggle to survive in Indonesia was a problem, and continues to be a problem. Issues surrounding the free press have also remained a constant theme.

I don't want to gloss over some of the issues that the country faces, but, given the enormous size and strategic importance of the country, and given the extraordinary quality of the people in Indonesia, I hope that this committee, as well as the administration, will be devoting more and more attention to the country as time goes by.

So, with that, I would look forward to hearing from these witnesses. And I apologize in advance if I end up having to leave a little bit early.

Senator MURKOWSKI. Thank you, Senator. Appreciate the comments. I didn't realize that you had spent growing-up years there. That's——

Senator OBAMA. Oh, if the testimony was in Indonesian, I could actually understand some of it. [Laughter.]

Senator MURKOWSKI. There you go. Well, we'll call on you for interpretation, if necessary. Thank you. Appreciate that. [Laughter.]

With that, let's go to the first panel that we have with us this afternoon: Mr. Eric John, who's the Deputy Assistant Secretary, Bureau of East Asian and Pacific Affairs, here with the Department of State.

Mr. John.

STATEMENT OF ERIC G. JOHN, DEPUTY ASSISTANT SECRETARY, BUREAU OF EAST ASIAN AND PACIFIC AFFAIRS, DEPARTMENT OF STATE, WASHINGTON, DC

Mr. JOHN. Thank you, Madam Chairman.

I appreciate the fact that you're taking time for this hearing, not just in a busy Senate Calendar, but also in the context of the suffering of hundreds of thousands of fellow citizens in the South in the wake of Hurricane Katrina.

I think you'll find a lot of my statement matches, or is actually redundant, with what the chairman and Senator Obama have said, and that is that we see very great potential in the relationship with Indonesia and positive trends in the direction that it's going.

In his inaugural address this year, President Bush spoke of the spread of democracy throughout the world and our Nation's need to support that. And Secretary Rice, in her confirmations here,

again spoke of the compatibility of the support for democracy and the spread of peace and prosperity, and how those two work together. And I think you won't find any nation that exhibits that better than Indonesia, with its democratic transformation over the past year and the implications for United States policy and our strategic interests in the region.

Indonesia is clearly, by virtue of its size, its location, and status as a democracy, one of the most important countries to the United States in Asia or, indeed, I would say, the world. If you look at such facts as, since the fall of—since the fall of Suharto in 1998, Indonesia has become the world's third-largest democracy. It has more people of Muslim faith than Iran, Iraq, Egypt, and Saudi Arabia, combined. The strategic sealanes that pass through and along Indonesian territory carry one-third of the world's sea trade. And the Malacca Straits have over half the world's oil trade.

Finally, but perhaps most importantly, Indonesia is a key player in the dominant ideological struggle of our time, and that is the competition between democratic modernization and the rise of extremist Islam. And I think Senator Obama put it very well when he said that we have this problem of reconciling the demands of a modern world with the demands of faith and the diversity of faith in a nation. And I think Indonesia sets the example of democracy being able to accommodate that diversity and support for that faith. Indeed, when I was back in—when I was visiting Jakarta in July, I met with several members of Islamic parties in the Congress, and they pointed out that not only is Islam compatible with democracy, but, indeed, it thrives under democracy, because the two match well together and they can spread the word of Islam and there is no threat to it. It's the perfect case for how democracy supports Islam.

I would like to look at three things briefly, and that is the opportunity that we have in Indonesia, the trends that we see going on in Indonesia, and the implications for United States foreign policy there.

The trends in Indonesia today are very positive with respect to democracy, countering terrorism and extremism, economic reforms, security-service reform, and peaceful resolution of conflicts.

The success of the 2004 national elections and the joint United States-Indonesian response to the tragic earthquake and tsunami of December 26 have opened a window of opportunity for our relationship with Jakarta. We now have the opportunity to forge close long-term ties with this nation that composes 14 percent of the Islamic world. We have the chance to achieve a breakthrough in our relations with the largest Muslim-majority nation and third-largest democracy in the world. And if we succeed, it will have far-reaching effects on our common interests.

Secretary Rice noted to President Yudhoyono in their—during the last meeting that the United States has pulled back at times in its relationship with Indonesia, but she added that this will not be the way it is in the future. Madam Chairman, we must be both a good and a 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 allow Indonesia to succeed as

a modern democratic power, and one that acts as a positive force on the global stage and ensures prosperity for its people at home.

The positive trends we've seen: Democracy, we've noted—the national elections were free, fair, peaceful in 2004; and, in 2005, they have their first-ever democratic local elections.

For countering terrorism, extremist Islam, the Indonesian Government has done an admirable job of pursuing, arresting, and prosecuting terrorists and also shown that Islam in Indonesia is tolerant and open.

In terms of economic reform, the government has announced an ambitious reform program, boosted investor confidence, attacked corruption, and made a push for infrastructure development. It's a very long road to countering corruption, but it's one that the President of Indonesia is committed to.

And, in terms of your comments on fuel subsidies, I don't think I could agree more. It is not only a question of energy production and an impact on the energy markets, but the budget impact that you noted has a significant deleterious effect on the ability of discretionary spending for infrastructure, for the health system, and for the education system in Indonesia. And I don't think Indonesia will be able to tackle those until it tackles the problems of its fuel-subsidy program. President Yudhoyono is doing so now, and we fully support him in those efforts.

In terms of security-service reform, in May President Yudhoyono and President Bush jointly stated that normal military relations would be of interest to both countries, and they undertook to continue working toward that objective. The reforms that we have in Indonesia to date include the establishment of a police force that's 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, that same year, to ensure that Parliament begins to exert control over the military's business interests.

And also we've seen a positive trend in resolving political differences through dialog. In Aceh, which you mentioned, the implementation of a peace accord is underway. In fact, it was today that the Aceh rebels, GAM, began turn their weapons in. And the Indonesian military has begun its first stage of withdrawal from Aceh.

President Yudhoyono has publicly pledged to fully implement the special autonomy law in Papua, and the Indonesian and East Timor Governments created, in August, the Bilateral Truth and Friendship Commission to promote reconciliation and bring closure to the gross human rights violations that were committed there in 1999.

Briefly, the implications for how we should approach Indonesia now. I've 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, a potentially very strong partner in Southeast Asia, a partner in the war on terrorism, and a major open economy in a critical region—together these factors make a strong case for upgrading and deepening our relationship with Indonesia. In this light, we should aim to develop

a more mature multifaceted relationship between our two major democracies; continue United States assistance, as described by Mr. Kunder, for tsunami reconstruction, education, the justice sector, and police; increase exchanges between our two countries; support President Yudhoyono's reformist program; and support further development; support military reform; and bolster Indonesia as a leader in ASEAN and as a stable democracy in this critical region.

Thank you.

[The prepared statement of Mr. John follows:]

PREPARED STATEMENT OF ERIC G. JOHN, DEPUTY ASSISTANT SECRETARY, BUREAU OF EAST ASIAN AND PACIFIC AFFAIRS, DEPARTMENT OF STATE, WASHINGTON, DC

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.
- The strategic sealanes 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 extremist Islam. Indonesia is aggressively combating the tiny minority of 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.

II. OPPORTUNITY

The success of Indonesia's 2004 national elections, and the joint Indonesian-United States response to the tragic earthquake and tsunami of December 26 have opened a window of opportunity for United States-Indonesian relations. The positive trends in Indonesia today with regard to democracy, countering terrorism and extremism, economic reform, security service reform, and peaceful resolution of conflicts, strengthen this opportunity. 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.

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 runoff 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 firsthand knowledge of the United States 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 he 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—no other country was able to match our response. 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.

With Indonesia we have the opportunity now to forge close, long-term ties with a developing democracy that is home to 14 percent of the Islamic world. Indonesia has a history that includes serious human rights abuses, separatist conflict, ethnic and interreligious 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 today's Indonesia.

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. 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 modem, democratic power, one that acts as a positive force on the global stage and ensures prosperity for its people at home.

III. POSITIVE TRENDS

Democracy

Indonesia is a frontline 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 7 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 8 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 farflung 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, particularity 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.

Countering terrorism and extremism

Indonesia is a key player in the dominant ideological struggle of our time: The competition between democratic modernization and extremist 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 and remains 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 3 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 has just recovered 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 percent 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 8-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 anticorruption 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 over one-fourth 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 include:

- 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.

- The passage of legislation in 2004 to ensure that the Parliament begins to exert control over the military's business interests.

President Yudhoyono and Defense Minister Juwono Sudarsono are committed to implementing and consolidating these reforms. Sudarsono is Indonesia's first civilian Defense Minister and is working to strengthen civilian control 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.

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 resume International Military Education and Training will reestablish 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. 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 United States 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 noncriminal GAM prisoners and beginning to withdraw military troops from the Province. United States 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 excombatants.

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 longstanding 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 committed in 1999. There has been no credible accountability for the crimes. 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? Indonesia's democratic transition and reformist government present a window of opportunity. The importance of seizing this opportunity cannot be overstated. 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, multifaceted 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.
- Bolster Indonesia as a leader of ASEAN and as a stable democracy in a critical region.

Senator MURKOWSKI. We will next turn to the Honorable James Kunder, who is the Assistant Administrator in the Bureau for Asia and the Near East in the U.S. Agency for International Development.

STATEMENT OF HON. JAMES R. KUNDER, ASSISTANT ADMINISTRATOR, BUREAU FOR ASIA AND THE NEAR EAST, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT, WASHINGTON, DC

Mr. KUNDER. Thank you, Madam Chairman.

I would just like to echo Eric's comments about the Hurricane Katrina situation. We're aware of the fact, obviously, that while we're focusing on these issues halfway around the world, as Eric said, many of our own citizens are suffering. The Administrator of USAID, Andrew Natsios, did offer the assistance of our technical experts from the Office of Foreign Disaster Assistance. And, in fact, these folks are working along the gulf coast right now. And we've opened some of our warehouses for international disaster assistance supplies to make those available to FEMA, just as FEMA has, in the past, made some of those supplies available to us. So, I think there's been pretty good cooperation on that score.

Let me just echo what's been said thus far. I think we, also, look at Indonesia in terms of enormous opportunities, but also risks. And what our programs have been trying to do is seize the opportunities and try to minimize the risks. Indonesia is the largest single United States foreign assistance program in East Asia. In 2005, we've obligated $143 million. And in fiscal 2006, we've asked to spend $164 million. These are obviously very sizeable figures. But, of course, with the populations we're looking at, these amount to less than a dollar per Indonesia citizen. So, in a nation of this size and strung out across the archipelago, the operational question for us is: How do we make an impact? How do we use these U.S. taxpayer dollars that the Congress has generously provided to have an impact across this country?

What we have done is focused in on four areas:

One is democracy, to take advantage of the opportunities that the Indonesians themselves have made available through last year's elections and also through their own attempts to decentralize government and move away from a more authoritarian model to a model closer to the citizenry. For that to work, local government has to be effective in delivering social services and being accountable to the population. So, while we continue to support democracy in the electoral process, and while we continue to support the improvement of central Indonesian institutions, like the Parliament and like the Supreme Court, and the elimination of endemic problems like corruption, we're also focusing on making local government more responsive across Indonesia.

Second, we're focusing on the economic-growth issues. The challenge that President Yudhoyono faces and which, of course, is directly relevant to the international war on terrorism is: How do you find jobs for 2½ million new entrants into the workforce every year? Historically, education has not been job-relevant in Indonesia, so we're focusing on creating the economic reforms, addressing issues like improper subsidies in the Indonesian budget, so that this economy will be investor-friendly and will create those 2½ million new jobs each year.

Third, we are focusing specifically on education. The educational statistics in Indonesia indicate that it is an education system in some crisis. Indonesian students do not score well on international tests. And, in fact, their performance has been declining in recent years. The decentralization of the education system provides us with new opportunities to address the critical problems facing education in Indonesia. These include better teacher training, more community participation, and a more participatory, engaged method of teaching that gets students doing creative thinking on their own, rather than just rote recitation. We also believe this is critically important to providing the kind of citizens that the new democratic Indonesia will need.

So, we're focusing on 200 model school districts around the country, and we've had success in getting parental involvement and community involvement, better teacher training. And we've seen signs that the Indonesians are grabbing this opportunity, because the teacher-training and community-participation techniques we've piloted in those 200 schools have already been adopted in an additional 900 schools voluntarily by the Indonesian Government. We hope that kind of replication will continue.

We're also working on basic healthcare. Indonesia continues to have high infant mortality and maternal mortality rates, continues to suffer from lack of safe drinking water and other endemic health and social problems. We're trying to address those, as well.

Let me turn my attention briefly to the avian flu issue. We very much appreciated the $25 million that was made available in the appropriations bill this year. That is going to be a complex and challenging problem for us to take on. As the chairman indicated, the nature of the poultry industry, not just in Indonesia, but across East Asia, tends to be a backyard poultry industry. And, given the inefficiency of compensation programs for birds that are culled out of the population to stymie outbreaks, and the lack of faith of many of these small farmers that they will receive compensation for their

birds, enforcement of regulations when there are outbreaks is a challenge across the region. I can certainly answer more detailed questions about that. We're focusing that money as effectively as we can, but it is a very challenging environment. Also, given the transmission between the commercial poultry industry and the migratory birds that fly through the region, you have a particularly challenging environment to keep these vectors from spreading.

Let me just turn very briefly to the tsunami, if I could. On the principle that a picture is worth a thousand words, let me just show a couple of brief slides. This shows the epicenter of the earthquake, the red dot there. And, naturally, it's right next to Sumatra. Indonesia did, of course, bear the brunt of the tsunami—both the earthquake damage and the tidal wave.

The thing that we did immediately after the tidal wave hit was to meet the emergency needs of the population in Sumatra. U.S. food assistance went in immediately. And, also, these are portable chlorination bottles that were widely distributed among the population. One of the almost miraculous successes of this is, despite the horrific loss of life, there was no follow-on widespread starvation, there was no follow-on widespread outbreak of endemic disease. We applaud the quick response by the United States military, United States civilian agencies, the international community, the NGOs that were on the ground, and the United Nations, not to mention the Indonesians themselves, who, despite the institutional weaknesses of some of their crisis response agencies, did a very credible job of getting on the ground and starting to work closely. All of those things headed off the epidemic diseases that might have raised those death tolls even higher.

The other thing we did was to immediately try to get some cash into that economy and start rebuilding people's lives. This is a typical cash-for-work program, where we provided some resources in wages so that people could get back to work rebuilding their own communities. And the other aspect of that, of course, is that there's a psychological benefit if people immediately can reengage in the reconstruction process.

An important part of what we tried to do in Aceh and across Sumatra was to get community involvement—this slide is a community meeting, a townhall meeting, if you will—so that we heard from the local citizens what they thought the priorities are for reconstruction, so that it wasn't outsiders coming in telling the local folks what we thought should be done, but, rather, hearing what their priorities were so that they would sustain the effort.

And, finally, we are now transitioned from the relief and rehabilitation phase into the reconstruction phase. This is the chargé at the U.S. Embassy and our USAID mission director cutting the ribbon to start the reconstruction of the Banda Aceh-Meulaboh Road. This is a sign of the initial work. The trucks are literally out dropping gravel along the road right now. What we've done is to get the project up and running and to show visible signs of reconstruction—we're focusing on the first 80 kilometers out of Banda Aceh—while we look at the much larger reconstruction program that's going to rebuild the entire 240-kilometer road between Banda Aceh and Meulaboh.

So, my report here would be that I view this, despite the horrific loss of life, to be a reasonably successful international relief effort led by the Indonesians themselves. Because of the money generously provided by the Congress, we've tried to launch, as quickly as possible, into the reconstruction effort that'll be necessary. I just spoke, this morning, with our rep who's on the ground in Banda Aceh. He reports that things are moving along quickly. But we still anticipate a very substantial reconstruction effort, probably extending out 2 to 4 years before we have the kind of major reconstruction that we'll need in that region.

The final issue I just want to touch on, Madam Chairman, because you raised it in the last hearing, was that a significant part of our tsunami response is the building of a tsunami early-warning system. Again, Congress generously provided resources so that we could launch this effort as part of an international attempt to prevent this kind of tragedy in the future. That effort is underway. It, also, is a complex effort because of the more than 20 nations that border the Indian Ocean. There are a number of technical and political approaches to how this should be done. And, naturally, each of those governments feels some responsibility for warning its own citizens. So, building a system that we can do quickly, but also building a system in which we have buy-in from all the nations of the region, is a complex technical and political task. But we are actively engaged with the United Nations, International Oceanographic Commission, and a number of other bilateral donors on that effort right now.

Thank you.

[The prepared statement of Mr. Kunder follows:]

PREPARED STATEMENT OF HON. JAMES R. KUNDER, ASSISTANT ADMINISTRATOR, BUREAU FOR ASIA AND THE NEAR EAST, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT, WASHINGTON, DC

Madame Chairman, members of the subcommittee, thank you for inviting us to testify today on United States-Indonesia relations and, more specifically, on U.S. Agency for International Development (USAID) programs there and in other tsunami-affected countries. I will address why Indonesia is important to U.S. foreign policy, its major development challenges, and what the USAID is doing to help the Government of Indonesia (GOI) meet these challenges. Among those challenges is, of course, the havoc wrought by the tsunami of December 2004 which affected several countries within the region. I will summarize the broader USAID tsunami response and its impact.

Indonesia is strategically important to the United States. With the world's fourth largest population and the largest Muslim population, it is also the third largest democracy. Last year, Susilo Bambang Yudhoyono, the democratically elected President, successfully campaigned on a pro-jobs and anticorruption platform. This year, local elections continue throughout the archipelago with local government leaders directly elected by their constituents for the first time in Indonesian history. Indonesia has embarked on major changes in democratic governance and decentralization. It has vast energy and mineral resources, a location astride some of the globe's most important ocean routes, and large expanses of rainforest and coral reef. It is in U.S. interests to support Indonesia's future as an independent, stable democracy, prosperous and at peace with its neighbors. And U.S. interests support an Indonesia with diminished potential as a source and victim of terrorism, crime, fewer internally displaced persons, less disease prevalence, fewer trafficked persons, and less narcotics trafficking.

Indonesia's challenges are immense. Lack of a democratic tradition has meant a lack of experienced political leadership in democratic governance. Despite progress, economic growth remains too low to accommodate the growing labor force. Serious rule of law deficiencies and widespread corruption and bureaucratic obstacles discourage job-generating foreign investment. High levels of poverty, foreign radical re-

ligious influences, and a poor education system work against our goal of Indonesia as a stable, democratic state and foster conditions that potentially create an operating and recruiting environment for violent Islamic groups.

There are also encouraging signs. The GOI has taken bold steps to improve governance including transferring about 2 million employees, approximately two-thirds of the central government workforce to local governments. Since 1998, GOI efforts have reduced inflation from 80 percent to below 6 percent and growth is set to expand by approximately 5.7 percent this year. There are substantial challenges that could derail this transition. The education system is in crisis. Democratic reforms are fragile after years of authoritarian government and most local governments are ill-equipped to assume planning, budgeting, and management responsibilities. The current rate of GDP growth, while much improved, will still not absorb the 2.5 million new entrants into the job market each year. Net foreign investment has declined over the last 5 years, although there is some hope that it is turning around. Sectarian and separatist conflicts continue.

USAID programs are an integral part of an integrated USG strategy to combat terrorism, promote democracy and good governance, provide education reform, assure a better life for the people of Indonesia, and support Indonesia's economic prosperity. Another key component is post-tsunami reconstruction.

The USAID 5-year strategy in Indonesia (FY 2004–2008), focuses on five key strategic directions, with crosscutting themes that focus on working at the local level, fighting corruption, and developing public-private partnerships that support all of our program objectives. These five strategic directions are: (1) Improving the quality of decentralized basic education; (2) improving the delivery of basic human services such as health care and clean water; (3) advancing democratic, decentralized governance; (4) strengthening economic growth and promoting job creation; and of course, (5) providing critical post-Tsunami reconstruction assistance.

BASIC EDUCATION

To improve the quality of decentralized basic education, this administration committed to provide at least $157 million (from FY 2004–2009) to improve management and governance in the education system, improve teaching and learning in public and private schools, and provide relevant life and work skills to students. This program is coordinated closely with the Embassy public affairs section, which provides scholarships, exchange programs, English teacher development, and university exchanges. Our education programs contribute to countering extremism and terrorism. Education is the foundation for effective citizen participation in a democracy. Education helps secure economic opportunities for disadvantaged or marginalized populations. Increased quality of teaching and learning in public and private schools provides an alternative to the more extremist, radical schools. Livelihood programs help out-of-school youth learn essential skills for jobs. Education programs diminish the underlying conditions that terrorists seek to exploit. We are promoting moderation, tolerance, and support for pluralism by developing critical thinking skills. These same skills are also essential to finding and keeping good jobs and effectively participating in Indonesia's democratic system, modern society, and the world economy. We are also increasing access to education opportunities for vulnerable or marginalized populations.

USAID basic education programs are already working in 200 schools, including 40 madrassahs, and are reaching 70,000 students. New and expanded programs are expected to directly reach 4,500 public and private schools, 4 million students, 55,000 educators and 1 million out-of-school youth over the life of the programs. Concrete results are already being achieved. Active learning methodologies are being effectively applied and community and parental involvement is on the rise. School committees are actively managing 80 percent of the schools currently involved in our programs. Local governments in other parts of Indonesia have introduced best practices developed in USAID partner schools to 900 additional schools using their own resources. Most importantly, student performance in key subjects such as math and science is improving.

HEALTHCARE, CLEAN WATER, AND ENVIRONMENT

To improve basic human services, the USG is providing assistance to improve access to higher quality basic human services, using an integrated approach that combines support for health care at the community level, food and nutrition, and access to clean water and sanitation. Health care programs are focusing on maternal and neonatal health; reproductive health; child health and nutrition; prevention of HIV/AIDS, tuberculosis and malaria; decentralization of health care service delivery; and improved hygiene to prevent diarrhea. In fiscal years 2004 and 2005, the USG pro-

vided $64.7 million for these activities. USAID food assistance programs will target poor communities and directly impact women and children. Environmental services programs will support better health through improved water resources management and expanded access to clean water and sanitation services. These integrated programs will also promote biodiversity conservation, forest management, land-use planning, and reforestation activities, which provide a sustainable source of clean water. Activities will introduce sustainable approaches to providing safe drinking water at the point of use.

HIV/AIDS prevention activities have directly reached over 1 million members of high-risk groups. USAID has worked with 300 private sector midwives from six provinces to improve the quality of the services they provide. We have worked with the GOI and international agencies to plan and implement essential National Immunization Days to halt the spread of the life-threatening wild polio virus, which has recently been reintroduced to Indonesia, and are working with the GOI and other USG agencies on response programs to control the risk of avian influenza in Indonesia. Progams have enabled local authorities to provide 18 million preschool children with Vitamin A capsules to strengthen their immune systems and prevent blindness. USAID assistance has helped local authorities to place an additional 2.2 million hectares of forest and coastal areas under better management and protection.

ECONOMIC GROWTH

To strengthen economic growth and employment creation, and in a direct response to one of President Yudhoyono's highest priorities, the USG is providing assistance to assist both the government and the private sector in improving the business and investment climate, combating corruption, increasing competitiveness in key sectors, and improving the safety and soundness of the financial system. Efforts to promote a transparent and predictable legal and regulatory climate for business will reduce the hidden costs of doing business, reduce business uncertainty and promote trade, investment, and job creation. USAID support will help the GOI to improve the oversight of bank and nonbank financial intermediaries in assuring safety and soundness in the financial system and to improve transparency and governance. Programs in this area will assist in the detection and prevention of financial crimes and terrorist financing. Anticorruption efforts will include support to the Commercial Court and the Anti-Corruption Court. As a result of GOI commitment and USAID technical assistance, Indonesia was removed from the international watch list of Non-Cooperating Countries and Territories on February 11, 2005.

USAID successfully advised the GOI on Indonesia's Deposit Insurance Law, and is now assisting in the creation of a new deposit insurance agency that will better protect depositors and the banking system. In an important public-private alliance, USAID launched the "Success Alliance" to promote and improve the quality of Indonesia's cocoa, under which more than 60,000 farmers have been trained. Our industry partners have invested several million dollars in research and marketing and have committed to purchasing more than $150 million in Indonesian cocoa.

DEMOCRACY AND GOVERNANCE

To advance democratic decentralized governance, the USG is providing assistance to help Indonesia build effective and accountable local governance, to address conflict and improve pluralism, and to consolidate the democratic reform agenda. USAID will work with 100 local governments to strengthen the local legislative process, to engage citizens in planning and strategic decisionmaking, and to link participatory planning, performance budgeting, and improved financial management support to improve local government ability to effectively deliver basic services. Programs will advance and safeguard key democratic reforms, including the rule of law, freedom of information, justice sector reform, free and fair elections and decentralization. USAID support will help local organizations address violent conflict across Indonesia, promote pluralism, reach out to Islamic mass-based and other civil society organizations, and will provide immediate support to the implementation of the peace accord agreed to by the GOI and the Free Aceh Movement (GAM).

In 2004, USAID was the largest bilateral donor to the nationwide legislative elections and to the first ever direct Presidential elections. With 155 million registered voters and more than 575,000 polling stations, the Indonesia elections were the largest single-day elections in the world. USAID assistance helped the Supreme Court establish and implement its blueprint for comprehensive reforms, which includes reducing the backlog of cases, improving the quality and integrity of judges, publishing court decisions, and modernizing the court information systems. In support of Indonesia's decentralization process, USAID has been a leading donor, providing

direct capacity-building support to local governments. USAID helped the GOI develop and implement revenue-sharing formulas and techniques that have assured funding continuity for local governments. With USAID assistance, local governments are implementing measures to address corruption at the local level.

USAID in a partnership with The Asia Foundation (TAF) successfully administers the Islam and Civil Society Program (ICS). Over the past 7 years, The Asia Foundation's ICS program has played a crucial role in fostering, consolidating, and strengthening the prodemocracy movement in Indonesia by engaging mass-based organizations that have strong nationwide networks, as well as on-the-ground credibility and legitimacy. USAID and TAF have created a network of over 30 prodemocracy and mass-based organizations addressing issues such as women's human rights, the integration of democracy themes into mainstream media, and cooperation among civic education providers at higher education institutions.

USAID and TAF have supported innovative civic education curriculum development programs in three Islamic education systems nationwide, providing teacher training and textbooks on democracy education and active learning pedagogy to over 550 education providers and 120,000 students in 2004 alone. TAF support has enabled Indonesian partner organizations to provide training on human rights and gender issues within over 1,000 pesantren (Islamic boarding schools) and introduce civic education and active learning methods to pesantren and madras (Islamic day schools), the sector of Indonesia's education system in most need of reform. The People's Voter Education Network (JPPR) was established by TAF, with USAID financing, in 1998 and has provided large-scale voter education and election-day monitoring in the 1999 and 2004 elections. The JPPR, composed of long-term ICS partners, mass-based Muslim organizations, combined with mass-based Christian and interfaith groups, deployed over 140,000 community-based voter education and election day monitoring volunteers, and produced and distributed over a million pieces of voter education materials in 350 districts. USAID and TAF have supported the creation and continued production of one of the largest radio talk shows in Asia, reaching 3 million listeners, called "Religion and Tolerance." In addition to the above-mentioned media programs, TAF has opened a dialogue with more than 20 Islamic youth groups (including hardline groups) on university campuses in 4 cities.

TSUNAMI RELIEF—INDONESIA

The Indian Ocean tsunami struck on December 26, 2004. The Provinces of Aceh and North Sumatra, on the island of Sumatra, were the closest bodies of land in the direct path of the killer tsunami waves. American individuals, families, nonprofit organizations, and private corporations donated hundreds of millions of dollars to help relieve the suffering and begin the reconstruction. The U.S. Congess responded to the President's request with a supplemental budget package that is currently providing approximately $400 million for relief and reconstruction in Indonesia.

The funding provided by the Federal Government enabled USAID/Indonesia to immediately assist over 580,000 people. USAID supplied food, water, and hygiene kits, and provided cash for work to clean up and rebuild damaged infrastructure. In the aftermath, USAID is building roads, supporting reconstruction programs that are identified by the affected communities themselves, strengthening the community governance and political infrastructure, and helping to establish early warning prevention systems for future catastrophes. USAID has also partnered with the private sector to help channel resources to assist with the reconstruction. We have developed five Global Development Alliances, or public/private partnerships, providing tangible assistance to Acehnese citizens.

The compassion of ordinary American citizens and the private sector, combined with prompt government action, has significantly changed the way Indonesians view the United States of America. According to post-tsunami polls conducted by Terror Free Tomorrow, a nonprofit/nonpartisan organization represented by Senator John McCain, Lee H. Hamilton, and many other distinguished professionals, 65 percent of Indonesians are now "more favorable" to the United States because of the American response to the tsunami, with the highest percentage among people under 30. A separate poll conducted by the Pew Global Attitudes Project in Indonesia reports that nearly 80 percent of Indonesians say that the donations gave them a more favorable view of the United States. This measurable progress on "winning hearts and minds" and gaining allies in the Global War on Terrorism is a major blow to al-Qaeda and other terrorists.

After only 2 months in office, President Yudhoyono was faced with the tsunami disaster. Dealing with the immediate aftermath was far beyond the capability of any single government. While the massive damage resulting from the tsunami cannot

be undone overnight, the GOI, in partnership with international donors such as the U.S. Government, has taken several important steps forward over the past 9 months. USAID has played a vital role in that process.

USAID moved quickly to put to good use the funds that were provided by the U.S. Congress—$48 million was immediately obligated for emergency relief and recovery programs. USAID cooperated closely with both civilian and military authorities. Our Office of Foreign Disaster Assistance (OFDA) and the Asia Near East Bureau worked closely with the military, planning the initial relief effort. The USAID tsunami point person traveled to the region with Deputy Secretary of Defense Wolfowitz to ensure a seamless transition from initial relief to reconstruction. As the Navy sailed away from Aceh, we were already announcing new grants to rebuild lives and communities. In June, the USG and the GOI signed an agreement to defer and reschedule debt payments falling due to the USG this year in order to free GOI resources for tsunami victims. Approximately $21 million was obligated for the budget subsidy cost of this rescheduling consistent with the Federal Credit Reform Act.

On July 7, 2005, USAID signed a new agreement with the GOI, committing $332 million (of FY 2005 tsunami supplemental funding) for reconstruction programs. On August 25, USAID launched a $13.5 million contract with an Indonesian construction company and started work on the first phase of road reconstruction in Aceh. USAID has committed to reconstructing the 240-kilometer road from Banda Aceh to Meulaboh in its entirety. The road is the economic backbone of the region, connecting Aceh Province with the rest of North Sumatra and Indonesia. The overall road project, which will total $245 million, will provide mobility, improve communication, create local jobs, and serve as the lifeline for economic growth in the tsunami-devastated region. The first (or "phase one" contract) phase will repair enough of the road surface and bridges to reopen the first 80 kilometers of the road leading from Banda Aceh to Lamno. A second contract will be awarded for Architecture and Engineering (A&E) services for the design of the remaining road sections and overall construction supervision. A third contract will be awarded to resurface, rehabilitate, and reconstruct the road from Lamno to Meulaboh as these sections are not covered by the first contract.

I should mention that USAID is assuring that our contractors hire employees from all parts of Aceh and North Sumatra. Young men from diverse communities and backgrounds will have the opportunity to work together rebuilding their nation, and develop respect for each other at the same time. A significant factor in evaluating the phase one road project proposals was the quality of plans to "utilize local resources both personnel and material," and the demonstrated ability of the contractor to "integrate local Acehnese subcontractors." The contractor has a management plan in place and estimates that between 300 and 400 full-time Acehnese personnel will be hired to support the project. Tenders for the large road project will also include a plan for recruiting, training, and hiring Indonesian personnel for all other phases of the construction project.

Second, to ensure proper oversight and success of this project and all of our projects in Aceh, we have established a USAID satellite office in the city of Banda Aceh. From there our staff continues to monitor the successful culmination of relief and recovery activities, such as water and sanitation and cash-for-work programs, as well as manage implementation of our reconstruction work. Over 580,000 people have already benefited from these efforts.

The GOI has established its Aceh Rehabilitation and Reconstruction Agency, referred to as the BRR. Its director, Dr. Kuntoro, has requested technical assistance and USAID has been able to quickly provide the necessary expertise in the areas of audit and financial management, spatial planning, information and communications technology.

We are particularly proud of the communities participating in our Community Based Recovery Initiative. They have moved from temporary employment activities, such as debris cleanup, to implementation of small-scale reconstruction projects, such as meeting houses and health posts. Community members work together democratically to set their priorities. In order to rebuild, residents need to agree on land boundaries. USAID is providing important expertise on community mapping to help families establish proper land claims and to help communities map out the proper locations of schools, commercial areas, parks, and other public infrastructure.

In the wake of the tsunami, there is new hope in Indonesia. After 30 years of conflict, the Free Aceh Movement has signed peace accords with the Government of Indonesia. This unprecedented progress deserves U.S. Government support. USAID has already started funding public information campaigns to assure that all excombatants and communities understand the terms of the peace agreement, including their roles. These efforts may be followed by longer term reintegration sup-

port in areas such as vocational training and microfinance support. Such programs are crucial to solidifying the early months of peace and to the long-term success of our larger reconstruction programs in Aceh and North Sumatra.

TSUNAMI RELIEF—REGIONAL

In Sri Lanka, where over 30,000 people lost their lives and over half a million were rendered homeless, the USAID team moved quickly to reestablish a means of livelihood for the victims. Over 300,000 people were put to work on construction activities, and we are pleased to report that over 1,500 businesses have been started or restarted. Some 24,230 people have received grants and training to start up new employment. We have paid special attention to restoring and rebuilding critical services, and to date have rebuilt 74 schools (benefiting over 181,000 students), 21 clinics and 3 hospitals, and other community structures such as market places, bathing enclosures, and small roads. In keeping with our desire to improve disaster preparedness at the local level, 37 communities have received equipment to enable them to join the national emergency alert system. Also in Sri Lanka, USAID has built vocational education centers to help diversify a workforce that was overly reliant on fishing. Another effort was the construction of playgrounds, to try to help children cope with returning to communities near the sea.

I am pleased to note that the Sri Lanka mission has just signed a contract with a U.S. firm for several major construction projects in the east and south of the country. Over the coming 2 to 3 years, USAID will rebuild a major bridge washed away in the southeast, repair three fishing harbors, and construct or repair up to 14 vocational and technical centers where people can go to learn a marketable skill. Work on these important projects is beginning this month. You are aware of the tragic civil war that has gripped the island for decades. Wherever possible, our USAID mission uses such projects to bring together people from diverse communities to work together for the common good. We are proud of the collaborative work among Mission Teams and with the Office of Foreign Disaster Assistance to provide not only immediate relief, but early on to incorporate longer term options for rehabilitation and reconstruction. We believe Sri Lanka can serve as a model for future collaboration and programming.

In India, state and municipal governments responded well and are coordinating a number of vital reconstruction activities, such as moving people into permanent housing. Soon after the tsunami hit, USAID provided temporary employment to 17,280 people. We are now moving to help provide longer term employment opportunities, and have given out over $100,000 in microcredit to over 86 self-help groups, serving a total of about 1,500 people. Further to getting people back to work, we have repaired over 200 boats. Over the next 2 years USAID will finance skills training and job placement services for thousands of vulnerable women and youth. USAID financed the construction of 1,500 temporary shelters, established or restored 1,300 water points, and built over 5,500 latrines. To ensure that villagers are better prepared for any further disasters, USAID trained over 400 communities in disaster preparedness, including actual drills simulating an emergency. By September 2007, USAID will have financed such training in over 22,000 Indian villages.

In Thailand, USAID is working with communities to diversify livelihood opportunities, better manage community-based resources and effective disaster management systems. The targeted communities encompass five rural fishing communities in Ranong Province on the Andaman Sea that were severely affected by the tsunami. USAID's implementing partners, the University of Rhode Island's Coastal Resources Center and Thailand's Asian Institute of Technology, have helped villagers to identify and prioritize their needs for assistance, fostering participatory decision-making processes. The $3 million project has replaced fishing boats, provided microcredit and small business training to 21 microenterprises, started 20 new businesses, and provided 941 person days of cash-for-work in mangrove rehabilitation for tsunami affected families. The integrated coastal management strategies of this demonstration will provide lessons and good practices for the nation and other tsunami affected countries.

In the Maldives, USAID provided three airlifts. These provided 250 rolls of plastic sheeting which provided temporary shelter for 750 people. Three water bladders, 9,600 water containers which provided safe drinking water for approximately 24,000 people, and 2,000 hygiene kits that served 10,000 people. USAID also provided $1,200,000 for health, nutrition, water, and sanitation. Combined humanitarian assistance from the U.S. Government to the Maldives totaled $1,363,000 with a possible $8.7 million in additional funding being negotiated by the Department of State. Currently, all USG funds allocated for the Maldives are managed by the U.S. Embassy in Sri Lanka.

In an effort to mitigate the effects of further disasters, USAID is coordinating the U.S. Goverment's Indian Ocean Tsunami Warning System (IOTWS) program. This $16.6 million, multiagency effort to develop early warning capabilities for tsunamis and other hazards will monitor changes in the ocean floor and also connect local communities to a warning system. USAID is working together with U.S. technical agencies such as the National Oceanic and Atmospheric Association, the U.S. Geological Survey, the U.S. Forest Service, and the U.S. Trade and Development Agency to bring targeted expertise to both national and regional efforts. USG funding will also support the International Oceanographic Commission as it takes the lead role in developing an international warning system with data-sharing for over 26 countries.

The USAID Global Development Alliance (GDA) works to enhance development impact by mobilizing the ideas, efforts, and resources of the public sector with those of the private sector and nongovernmental organizations. USAID, through the GDA, has formed 18 partnerships with the private sector in tsunami-affected countries leveraged more than $17,200,000 in private sector funds for the tsunami. USAID current and prospective partners in post-tsunami reconstruction include: Mars, Chevron, Microsoft, Coca-Cola, Prudential, Deutsche Bank, IBM, Hilton, 3M, ConocoPhillips, and the Mellon Foundation.

In conclusion, I would like to thank the committee for this opportunity to report on tangible progress in achieving USG foreign policy goals in Indonesia as well as the early results of USAID programs addressing the tsunami. Our USAID staff at the missions in Sri Lanka, Indonesia, India, and Thailand have made a tremendous effort to get things moving quickly, using existing contracts and grants and expedited procedures wherever possible, to restore living conditions and economic security to the victims of this disaster. As we have moved out of the relief effort and into longer term reconstruction, USAID continues to place emphasis on helping people get back to work, training men and women for new types of employment, and providing the infrastructure they need for better living conditions, as well as economic security.

Senator MURKOWSKI. Thank you, Mr. Kunder. I appreciate it, and I appreciate that last comment there about the early-warning alarm system, because we're curious about how that is going to be implemented and wanted to know if, in fact, we're achieving the success that we're hoping for in educating the people about what the system is all about. It's one thing to put it in place, it's another thing to actually know what to do with the information once you get there. So, it sounds like there is some progress on educating the communities in that.

Mr. KUNDER. As you pointed out the last time, Madam Chairman, it is a segmented approach. The technical part of it, the getting the buoys out there in the water, determining what the locations will be, getting the transmission of the signals to land, and then having each nation distribute that information out to the local community in such a way that it'll be received in, in some cases, what are rural areas, and then educating the local public both on how to respond and what kind of mitigation efforts they should take, it's a very complex undertaking across the region. I'm not here to report success yet, but I'm here to report that the effort is well underway.

Senator MURKOWSKI. Senator Obama, may I just mention, I got a note that we're supposedly going to have a vote here in about 10 or 15 minutes. It's my hope that we will be able to ask the questions that we have of these two gentlemen and then take a break to do the votes. I understand there's a couple of them, at least. And then we would come back for that second panel.

Senator OBAMA. Yes. Madam Chairman, unfortunately, before we go vote I've got to return to my office.

Senator MURKOWSKI. OK.

Senator OBAMA. I just want to thank the witnesses. We'll probably submit some questions in writing to the witnesses, and hopefully that can open up a dialog between our office and both State Department and AID on this. But thank you very much for the informative testimony.

Senator MURKOWSKI. Thank you for being here.

Let me go ahead and ask a couple of questions—of you, first, Mr. John. Talking about, you know, the spread of democracy and the opportunity that we have with this relationship, growing and positive relationship, with Indonesia. And both of you have mentioned a little bit about the education aspect. And you, Mr. Kunder, have indicated that there's a need for education reform, that we need to do more to help in that area.

The question to you, Mr. John, is, in terms of the exchanges that we might have between Indonesia and the United States, are there many Indonesians who look to the United States as a place to come for higher education? And are we doing anything to seek Indonesian students in any way?

Mr. JOHN. There aren't enough Indonesian students who are looking at the United States as a place to study. I think it's a function of many things, and it's hard to describe all of the factors. I think the financial crisis of many years ago, of 1997, impacted them. And I think the new visa regulations and restrictions that we have in the United States are, perhaps, misunderstood by the general public in Indonesia as being much more restrictive than they really are. And we have to get out the word—and the Embassy is working to get out the word—that we do welcome Indonesian visitors, and particularly Indonesian students. That's in a general perspective.

Specifically, Indonesia has, compared to a lot of its neighbors in the region, a woefully inadequate number of graduate degrees—and, specifically, Ph.D.s. I believe they only have 7,000 or so in the entire nation of 230 million, which is far short of what they need.

One of the aspects of our engagement with Indonesia in the years ahead—in the next 3 years, specifically—is to invite a—I don't have the number, exactly, but several dozen Indonesians per year to the United States for master's degrees in areas that are applicable and quite necessary in Indonesia right now.

We also are working with universities on a regular basis in Indonesia to enhance their American studies programs, to enhance other areas that would enable Indonesia to develop more rapidly. So, it's a key concern of ours, and it's one that we're working closely with the Indonesian Government on.

Senator MURKOWSKI. Recognizing, then, that you—at least at the higher-education level—you really have a real discrepancy, or you're not able to find the Indonesians that you would think—I would want to think that you want at the higher levels, what does this do to those efforts to make sure that we are hiring and training the local people in the efforts for reconstruction? For instance, you know, it's one thing to be out there moving the dirt. It's another thing to be out there heading up the company that's making the decisions to move the dirt. How are—are we able to assist at all with the training, with the education, to make sure that it is

the Indonesian population that is making things happen at the higher levels? Either one of you.

Mr. KUNDER. Certainly capacity-building of Indonesian institutions is a high priority for us and is embedded in all of the programs. Specifically on moving dirt, in fact, an Indonesian construction firm is building that first 80 kilometers of the road. The way the system is structured, we anticipate an American firm coming in behind that to do the larger-scale reconstruction, but we've gotten the Indonesians immediately involved.

The reconstruction agency, the rehabilitation and reconstruction agency of the Indonesian Government that is leading the effort in Aceh, is receiving technical assistance from us and support in its internal procedures. Approximately one-third of our total program supports what we would consider democracy and governance interventions. We are putting programs into the Supreme Court, into the Indonesian Parliament, and into the Indonesian Ministries to build their oversight systems, their inspector general capacity, so that we're very much aware of the fact, because we are spending less than a dollar per person, it's not going to be United States taxpayer dollars that are either going to rebuild Aceh or are going to make the transition to a vibrant, prosperous democracy in Indonesia; it's going to be the Indonesians, themselves. So, we are investing in building up Indonesian institutions. It's not something we have to convince them to do. I mean, they are very eager to take the lead on these issues.

So, we have been providing technical assistance specifically on the scholarships issue. This is a fundamental problem. We have done analysis within our USAID programs, and, because of a number of policy decisions and budgetary constraints, we are not supporting as many scholarships worldwide as we were 10 years ago or 15 years ago. We have asked for additional funds in the 2007 budget to get these numbers back up again, because of all the reasons Mr. John was mentioning.

It's ironic that the gentleman who leads the reconstruction effort for the Indonesian Government in Aceh, Dr. Kuntoro, who has been universally praised for his leadership and organization, was a beneficiary of a U.S. Government scholarship for study in the United States, a graduate scholarship. And now he's back, leading that agency, and doing an excellent job. And, of course, we're able to interface effectively with him. So, he's a living, breathing example of the kind of thing we're talking about here.

Senator MURKOWSKI. Mr. John, let me go back to the discussion about energy issues. And we've both raised the issue of the subsidization. There's actually an article in today's Financial Times indicating that there's this discussion in—not a debate—it doesn't sound like it's a debate anymore—that Indonesia is going to move to reduce the subsidy. And there's some discussion about a date as early as the 1st of October, but it—nobody seems to be willing to commit to a timetable, but it seems clear from this article that there is a move afoot to do that. But it makes reference to the fact that these subsidies have caused a distortion in price. They use terms "causing a massive misallocation of budget resources." But they also speak to the disincentive to businesses in terms of viewing this as an—viewing Indonesia as an investment opportunity

when we have the subsidization as it is and just a level of uncertainty.

What actions, if any, is Indonesia currently taking to improve their energy efficiency, to help with their capacity development to meet the demand—what's going on that will help this picture and, hopefully, provide a little bit more stability?

Mr. JOHN. I guess it's, sort of, two components—one on reducing the subsidies. You know, the very good news is that Indonesia is a democracy, which means it has a lot of politicians. And, you know, they run into a political wall on reducing subsidies that have been very popular when they were affordable and became just ingrained in the system. So, it's—you know, there's a commitment by the leadership. And they have to reconcile the very difficult political demands that are placed on them, though, when they actually reduce the subsidies because the people it adversely impacts in the very short run are the ones that Senator Obama was referring to as the least wealthy of society. President Yudhoyono is working on a program to assist the poor at the same time as reducing subsidies.

The second component of increasing capacity, I think, in terms of relationship with the United States, one key part of that is getting increased foreign investment into Indonesia. Today, for example, President Yudhoyono is in New York meeting with a large investor forum to attract foreign investment. But what foreign investors have stated is that Indonesia—well, they would spend more on exploration in Indonesia if the government there would modify its investment tax and business rules to make them more clear and to apply them consistently.

The business people—foreign business people are worrying less about the tax rates, but more about fair and transparent tax administration. I think there is a commitment by the administration in Jakarta to work on that, that's key to having more investment. And more investment is key to having a better energy sector. I mean, if you look at U.S. investment, most of the $10 billion that we have invested there is in energy and mining, so it has a very direct impact on that.

Senator MURKOWSKI. I am told we've got about 8 minutes left into the vote, so I've got a couple of more before we're going to have to take a break here.

Very quickly, Mr. John, Secretary Rice did not go—did not attend the ASEAN Ministry Conference at the end of July, and I think it was—there were a lot of raised eyebrows, or, "What's going on?" How was that—how was that viewed or taken by Indonesia, her lack—or her not being in attendance at that—those meetings? Was that—did that cause some consternation?

Mr. JOHN. I think—well, throughout ASEAN, as a whole, there was—certainly a lot of the leaders voiced consternation about her inability to appear at the ASEAN Regional Forum. I think, to look at it from a broader perspective, though—and I believe that most nations, including Indonesia, in Southeast Asia are—is that bilaterally the United States has committed to enhancing our relationships with most of the nations in Southeast Asia. And if you look at all the steps that we've done, which I think all of us have spoken to today, the Indonesian Government sees that we are very com-

mitted to a strong bilateral relationship. And Secretary Rice, on Monday, at the U.N. General Assembly, met with all of the ASEAN Foreign Ministers. She met with them in June, in Washington, with—not with the Foreign Ministers, but with ASEAN representatives who were visiting Washington. I think she's made very clear, on a variety of instances, our willingness to, and very strong desire to, remain deeply engaged with ASEAN, make it a very strong organization, and build that in the future. And, indeed, I think on Monday she looked forward to continuing her cooperation and work with ASEAN.

Senator MURKOWSKI. Good. Good.

Let me ask you, Mr. Kunder—you mentioned the reconstruction efforts—has the funding for the tsunami response been adequate, in your opinion?

Mr. KUNDER. The money that the Congress made available, we think, allows us to do the absolutely critical elements, which were to do some of the emergency relief, to at least jumpstart the reconstruction effort, to launch the early-warning system across the region. In the business we're in, we could always use a few more dollars, and, given the scale of the devastation, there's a lot more work that needs to be done, but we have no complaints. We appreciated the money that was made available. And I think it will get the critical issues underway.

Senator MURKOWSKI. Good. Good. That's important.

The bird flu that we've discussed relatively briefly here, I understand that there has been a working group that has been established. And I'm curious to know whether or not the working group has proven itself effective. What's the level of cooperation with Indonesian officials?

Mr. KUNDER. You're talking about the U.S. Government working group or the international group? Within the U.S. Government, the President just announced the need to have an international group working on this, and that idea is just launched at this point. Within the U.S. Government, we do have, I think, excellent interagency coordination. There was a State Department coordinator named earlier. The NSC is heavily involved. Our military colleagues are working, as are the Centers for Disease Control at HHS, and many other U.S. Government agencies. As I mentioned earlier, it is a complex multifaceted problem we're taking on, but I'm very satisfied with the level of interagency cooperation, thus far.

Senator MURKOWSKI. Good. And then, as that expands to the international group, hopefully you're just drawing in a bigger network, then.

Mr. KUNDER. There is already a fair amount of cooperation among the nations of the region and the international donors. And with the President's new initiative, I think that's going to be enhanced.

Senator MURKOWSKI. Good. Good. I was pleased to see the picture that you had there—you described it as a town meeting—because I think we want to know that there is a level of input at the very local level in terms of what is happening with the reconstruction and how priorities are set. And it appears, from what you have said here this afternoon, that there is a great deal of input at that very local level. Is that correct?

Mr. KUNDER. Yes, ma'am. You'll have NGO panelists later who also have folks on the ground, and I believe they'll confirm that same thing. That's been one of the hallmarks of the effort. First of all, in any disaster, it is the local people who save most of the people who were saved initially. As much as outside help is appreciated, the Indonesians got this thing started on their own, and we've tried to make sure that they continue to have a strong voice, not only in doing the work, but setting the direction and setting the priorities locally. Yes, ma'am.

Senator MURKOWSKI. Good. Good. Thank you.

I'm going to have to excuse myself. We will take a break and commence with the next panel when we get done. I'm not certain how many votes we have. I guess we've just got one vote, so it should be a pretty quick break.

So, I appreciate the testimony from both of you this afternoon, and the time that you've spent with us.

Thank you.

[Recess.]

Senator MURKOWSKI. OK. Well, thank you for indulging us in a little bit of a stretch break and an opportunity to go vote.

We will next turn to our second panel this afternoon. And welcome to all three of you, gentlemen. We will lead off the testimony this afternoon, the Honorable Paul Cleveland. He will be followed by Dr. Hadi Soesastro, the executive director for the Center for Strategic and International Studies. And, upon his conclusion, Dr. Randy Martin, who is the director of Global Emergency Operations for Mercy Corps, will speak to us.

So, with that, Ambassador Cleveland, thank you for joining us this afternoon.

STATEMENT OF HON. PAUL CLEVELAND, AMBASSADOR (RET.), ARLINGTON, VA

Ambassador CLEVELAND. Good afternoon. All right, thank you. Does that do better?

Senator MURKOWSKI. There you go.

Ambassador CLEVELAND. I appreciate the opportunity, Madam Chairman, to come before this committee today. May I say that my views don't necessarily represent the views of the United States Indonesia Society, nor its board. I want to say that at the outset. They're my own, so I'll be a little more direct, maybe, than otherwise.

I'm particularly pleased, Senator, to be here before you and to note that you've picked up the long-term abiding interest that your father had in East Asia. I met and worked with him on many occasions, and I know from my personal experience, that he made major contributions to the improvement of relations with East Asia and the Pacific, and we're all very grateful to him, and grateful to you for picking up the baton.

Also, all of us at USINDO are delighted that you've chosen to focus on Indonesia, as previous panelists have said. This nation has always been of major importance, but it's increasingly so these days, because it's a counterweight to China's and India's—and I don't think we should forget India's—growing influence in South-

east Asia—and because democracy is flourishing there in the largest Muslim nation in the world.

It is our interest to pay commensurately greater attention to Indonesia. These hearings clearly are moving us in that direction.

Democracy is, indeed, flourishing in Indonesia today, and that is the major point I would make here, along with the corollary that it is, therefore, in our interest, more than ever, to support Indonesia as much as we possibly can.

One year after the exceptionally well-run, transparent, and clean elections of 2004, the year of voting frequently, President Susilo Bambang Yudhoyono (SBY), is emerging as the best President Indonesia has ever had, in my view. While he's sometimes criticized as hesitant and indecisive, it's increasingly clear to me that's not really the case. He's a deliberate, politically astute man who focuses on developing consensus. That's true. But that's a virtue in a democracy, particularly one that's as diverse and as large and as difficult to manage as Indonesia's. His decisions have been largely wise and courageous. They're moving the country forward—if not as fast as everybody would like, they're certainly moving in the right directions. And, moreover, he is, for the most part, bringing the people with him.

He's moved with great speed and under great pressure when called on. One day following the terrible tsunami that wrecked Aceh and killed over 130,000 people, Yudhoyono flew from the opposite end of the country to be onsite, began immediately to organize the greatest disaster-relief effort—one of the greatest, I would say, probably in his nation's history. One that, after some organizational bumps, is now proving reasonably effective.

He set aside the military state of emergency in Aceh, and opened the province to outside assistance, which immediately began pouring in. That was not necessarily an easy decision to make. Indonesians are very sensitive to outside involvement, interference as they may see it, but, in fact, our assistance following the tsunami became a tremendous plus for the United States, because we did very well, and I think that's been recognized by the Indonesian people.

But, not only that, with a major assist from his aggressive Vice President, Jusuf Kalla, SBY recognized and exploited the deep desire of the Acehenese in the depth of the tragedy to rebuild better lives, and he fashioned a deal with the separatist movement, the GAM (Gerakan Aceh Merdeka), that was signed on August 15. In the view of a large number of observers, it has a very good chance of succeeding after 30 years of fighting and the loss of 15,000 or more lives. The first major surrender—as Erik John mentioned—the first major surrender of weapons and the extraction of TNI and police forces begin today, as we speak here.

There are a lot of other successes. To list just a few, I think SBY has struck out against the nation's greatest scourge, which has been corruption. A substantial number of leading officials have gone to jail, and there are a lot more under indictment. This is a very difficult, hard job for him. There are, and will always be, more big fish to be indicted.

Moreover, the criminal code needs clarifying, judges need higher salaries. We always used to say, "If you put a man that makes $30

a week opposite a man who makes $3,000, the latter is obviously going to buy off the former." Sentencing needs to be more commensurate with crimes committed.

There's widespread amazement among Indonesians and foreigners, both, at how seriously SBY has pursued this goal of going after corruption, and, also, I think the progress he's made.

With the help of a great Minister of Defense and reformist, Juwono Sudarsono, plus several generals and admirals whom he has placed at the head of the TNI who are reformists themselves, SBY has continued the extraction of the military from politics and has begun to budget more for the TNI so he can persuade the military to give up the businesses that enable them to remain independent of civilian control. I think that's a critical and important move. It will take quite a long time to accomplish, but they're moving in that direction, and they have already increased the Defense Department's official budget.

SBY has declared continuing war on terrorism. He's reached out effectively to the United States and to the world to build confidence in his leadership and to encourage foreign direct investment vital to the success of Indonesia's economy. He has also attacked tough problems confronting the domestic economy. For example, he decreased budget-busting fuel subsidies, and he looks like he's on the verge of doing some more of that. And I think your emphasis on that, Senator, is exactly right. It is probably the single greatest problem in the domestic economy that he faces. It's very difficult politically, as has been stated, but he is proceeding.

His government is also continuing the complex, but essential, job of decentralizing government. If he didn't have any of these other things to do and he was just doing that, that would be plenty. Indonesia has been the largest undecentralized government in the world, so I think it's very important.

Madam Chairman, there are a lot of things that still have to be done, and I will be happy to address some of those in questions. But a great mentor of mine, and many others of my generation in the Foreign Service, Marshall Green, coined a phrase when he was our Ambassador in Indonesia in the late sixties, "We must help the Indonesians help themselves." Indonesians are proud, enduring people, determined to succeed. With so many truly effective younger Indonesians now emerging in Indonesia's new democracy, the time has never been more opportune to help the Indonesians help themselves. I'm sure whatever we do, they will prevail. If we help them seriously, however, they will prevail that much sooner and we'll both benefit greatly from the progress and partnership that results.

Thank you.

[The prepared statement of Ambassador Cleveland follows:]

PREPARED STATEMENT OF HON. PAUL M. CLEVELAND, AMBASSADOR (RET.), IMMEDIATE PAST PRESIDENT AND TRUSTEE, THE UNITED STATES-INDONESIA SOCIETY, (USINDO)

INTRODUCTION

It is an honor and pleasure, Madam Chairman, to appear before this committee today. May I begin by saying that the views expressed in my testimony are my own and not necessarily those of USINDO or its board.

The United States-Indonesia Society welcomes the focus this hearing brings to developments in the fourth largest nation in the world and to relations between the United States and Indonesia, the world's third and fourth largest democracies. Not only is Indonesia's democracy flourishing, it is flourishing in the world's most populous Muslim nation.

Indonesia has always been important to us and to the world in strategic, political, and economic-cum-commercial terms, but that importance has risen substantially in the past several years as Indonesia has become an increasingly important counterweight to China's spreading influence in the region. Also Indonesia has become a democratic pacesetter for the Islamic world and for the Southeast Asian region.

Indisputably, the United States has a very high level of interest in Indonesia's success. To ensure fulfillment of that interest, our Government needs to devote more time, energy, and assistance to Indonesia's development.

I am pleased to appear on today's panel with Dr. Hadi Soesastro, executive director of the Center for Strategic and International Studies in Jakarta. CSIS is Indonesia's oldest think tank and with which USINDO has had a long and productive relationship. Dr. Soesastro is his country's leading authority on economic, trade, and business relations with ASEAN and the larger Asian community.

REMARKABLE PROGRESS

Relatively secure against outside encroachment, resource and culturally rich, Indonesia was governed for centuries under authoritarian and colonial rulers in such a way that political growth was stunted and the country's full potential never came near being met.

While progress toward establishing democracy along with economic recovery was substantial in some areas during the first 6 years after President Suharto's fall in 1998, it was marked by halting leadership, continuing high levels of corruption, only modest economic growth, and failure to grapple comprehensively and effectively with such major problems as separatism, military and police reform, environmental degradation, judicial and public prosecutorial reform, plus tax and other commercial and trade related changes necessary to attract essential foreign investment. Advances were made on self-sustaining political/economic development, but relapse into authoritarian control remained a widely considered possibility.

Progress made in the last year contrasts sharply.

In 2004 Indonesia held a series of remarkably clean elections with high voter turnout, including the largest one day election in the history of the world when it voted for Parliament in April of that year. Moreover, the electorate proved sophisticated and sought honest, progressive leadership, voting in the government of President Susilo. Bambang Yudhoyono (SBY) with a 61-percent margin in Indonesia's first direct election of a President last September. Among other things, SBY's campaign featured a promise to eradicate corruption that decidedly appealed to the Indonesian people. To satisfy the high level of voter confidence, in its first year SBY's administration has:

- Undertaken widespread change and reform for better governance including critical military and police reform;
- Required his Cabinet appointees to sign an anticorruption pledge and taken on a substantial number of corruption cases, including several high profile ones;
- Struggled to maintain fiscal balance by reducing politically explosive fuel subsidies in early 2005—now it clearly must repeat that move against the background of ever mounting international oil prices;
- Addressed tax, investment, and microbusiness climate reforms to attract urgently needed foreign investment;
- Effectively managed the tsunami relief effort despite the magnitude of the task and bureaucratic shortcomings;
- Reached a peace agreement with Acehnese rebels (the GAM), initiated serious political dialogue on Papua, and sought common ground with East Timor on a reconciliation process;
- Worked closely with the United States in restoring cooperative military relations and pursuing the investigation into the Timika incident of August 2003;
- Undertaken an impressive set of overseas visits including one to the United States to reestablish key relationships and made distinct strides in improving relations with Australia, Japan, China, India, and others; and
- Reinvigorated regional dialogue on trade, investment, terrorism, security cooperation, and maritime security.

By any measure it has been a remarkably active beginning and has gone far toward locking in effective, sustainable, democratic development.

CHALLENGES AHEAD

As impressive as this beginning has been, the long-term challenges ahead are larger still. To illustrate:

- Improved organization and management in the administration, including creation of Presidential Palace coordinating mechanisms (such as national security and domestic councils) will be a must if any President of Indonesia is to govern more effectively;
- Along with better political party organization and improved staffing and organization within the Parliament itself, as well as better performance by the parliamentarians, there must be increased coordination with and lobbying of the Parliament by the administration in order to pass difficult legislation and cease reliance on overuse of Presidential decrees—the President has done well personally in persuading the DPR to raise fuel subsidies and in winning approval of the Aceh peace accord, but he cannot devote all his energy to the DPR and a large number of bills are currently languishing in the DPR's inbox;
- Other reforms within the administration such as increased tax collection, especially from large tax payers, new tax law revision and strengthening of the commercial court will be crucial to ensure fiscal viability;
- Continued heavy emphasis needs to be placed on decentralizing and balancing the distribution of power, responsibility, and fiscal capability from Jakarta to local government—an immensely complicated task;
- Capacity-building among government civil servants at provincial and local government levels is needed so officials will be closer to the people and take responsibility for their actions; and
- Local elections in 2005 and 2006 must be clean and well run.

These problems would be formidable enough for any new democracy to manage. But there is much more, and I would now like to turn to several major issues discussed below in greater detail, in which both the U.S. Government and the Society are involved: Corruption and judicial reform; security; separatism (Aceh and Papua); society and religion; and education.

CORRUPTION AND JUDICIAL REFORM

Corruption is endemic in Indonesia—the country ranks at the bottom of Transparency International's corruption pile—and it is universally seen at home as well as abroad as the number one problem Indonesia must overcome if it is to restore confidence in both government and business.

Obviously closely related, judicial reform along the lines of the Indonesian Supreme Court's "blueprint" has to be implemented. Apart from the courts, reform has yet to take hold in the Justice Ministry and public prosecutor's office, and upgrading and reform of Indonesia's legal fraternity also still lies ahead.

SBY has made initial inroads into this problem. As noted, he required all Cabinet Ministers to take a pledge to conduct their affairs with integrity and to avoid corruption, collusion, and nepotism (KKN). He sent special messages to key targets where corruption has been most rampant: The Attorney General's Office, Customs and Taxation, and the Bank of Indonesia.

The Supreme Audit Agency which has had a good reputation in the past was given sweeping powers to gather facts regarding the operations of the state-owned enterprises. He gave the Corruption Eradication Commission both autonomy and special security protection in addition to which he formed a special interdepartmental corruption eradication team.

Getting down to cases the administration's prosecutions are beginning to produce results. The former governor of Aceh, Abdullah Puteh, was given a 10-year sentence for misuse of state funds; the Bank Mandiri's former president was fired and has been indicted for a major loan scandal. New investigations are being mounted regularly into state-owned companies as well as the activities of some 57 state officials, including governors, mayors, and legislators. The former Minister of Religion is being investigated for filching $71 million from Haj funds.

In some areas SBY has fallen short. While he retains impeccable credentials personally, his administration in the view of some failed to go after some high-level people it should have, leading to the accusation that he has not come down hard enough on "the big fish." He has basically proven courageous against the scourge of corruption and he has accumulated political capital that he should put to use in this most vital cause. But follow-through will be the watchword of observers and critics in the future.

The Judiciary: All the "follow-through" in the world, however, cannot correct the corruption problem if cases can be bought off and come to naught in the courts or

the prosecutors' offices. It has been said that judges have gathered to bid on cases that they believe hold potential for large payoffs. More than any other of the three sectors of government, the judiciary is in need of reform. Indonesia's economic, political, and social strengths cannot be upgraded in the last analysis unless the courts uphold the law of the land. There are a number of reform needs:

- Judicial incompetence is both legend and intact. One reason: Personnel selection is often corruption, but there is encouragement in the recent appointment of the Judicial Commission that will oversee the performance of the country's 6,000 judges and recommend appointments.
- Case outcomes vary widely. An Australian girl allegedly dealing in marijuana received 20 years; Abu Bakar Basyir got less than 3 for his leading role in terrorism in Indonesia. Some big businessmen have gotten off scot-free even when open-and-shut cases are brought against them, or in some cases as some foreign investors have found big business miscreants are able to turn the tables on their accusers.
- Judges salaries are too low, and they are therefore more susceptible to bribery.
- Administration of the judiciary branch is poor. It no longer depends administratively or legally on the executive as it once did and that is certainly a step forward. Nor, however, has it been closely monitored and held accountable. There is considerable irony not to mention danger in the fact that it has become a law unto itself. Much is done behind the scenes, out of sight of potential exposure and correction. Lack of transparency, low pay, and an overall budget that is three-tenths of 1 percent of the entire government's budget lie at the heart of the problem. Mismanagement abounds.
- A new criminal code (some 20 years in the making) has been widely criticized for its vagueness and repressive nature with regard to press freedom. Vague definitions of crimes, procedures, and jurisdictions complicate an already overly complicated and inefficient system based to a considerable extent on old colonial laws.

The Supreme Court has a "blueprint," a widely anticipated Judicial Commission is underway, and NGOs and outside assistance are all over the place. Yet the overall reform process promises to continue slowly at best. The way ahead is clear enough. A start has been made. But the need for more rapid implementation cries out.

The United States has a substantial role to play. First of all it is useful for the U.S. Government and its legal profession to apply diplomatic pressure on the Indonesians when it is clear that individual Americans or corporations have been hard done by in the Indonesian courts. To avoid nationalistic backfires, it is important that to the extent possible, this be in the form of respectful assistance to those in Indonesia who are even more concerned than we about the need for corrections. Our approach should be to help Indonesians help themselves.

Apart from the diplomatic pressure in some cases that clearly go off the rails, we need to help with the reform process. Through USAID we are supporting NGOs that are providing valuable advice and inputs into the reform process. A code of legal ethics is being developed with the assistance of the American Bar Association. Importantly, a joint working group on legal reform was announced during President Yudhoyono's visit to Washington in May and this should bring new impetus to the overall effort. The involvement of a senior judicial official, perhaps a Supreme Court Justice, would be a welcome spur to progress.

DEFENSE AND SECURITY

The United States-Indonesia Society has recently produced three publications on Indonesia's defense and security:

- "Towards a Stronger U.S.-Indonesia Security Relationship" by John Haseman and Eduardo Lachica;
- "Indonesia's War on Terror" by William Wise; and
- "Indonesia and the United States, Shared Interests in Maritime Security" by Bronson Percival.

These studies point to three major conclusions:

- More effective measures to promote regional and maritime security and counter terrorism in Southeast Asia require closer United States cooperation with the armed forces and law enforcement authorities of Indonesia;
- Promoting defense reform in Indonesia requires cooperation with the Yudhoyono government, not sanctions and withholding assistance;
- There are important—indeed essential—opportunities to further cooperation and constructive relations with Indonesia to achieve human rights, professional

and other reforms within the Indonesian military that many outside the Indonesian Armed Forces would like to see.

Supporting these conclusions is the important progress that has already been made to overcome the shortcomings and in some cases the abuses of the past.

- The military has essentially taken itself out of formal politics, although no one would deny that it still wields substantial informal political clout;
- Members of the armed forces no longer sit in Parliament as part of a special faction and active duty military officers can no longer serve in civilian government positions;
- The police (Polri) have been separated from the armed forces (TNI) and are separately under the command of the President;
- The military justice system has been placed under the civilian oversight of the Supreme Court as in the United States;
- Of great importance a recent law requires that military-run businesses be brought under full government control, a working group headed by the Defense Ministry is to recommend implementation measures to go to the President soon;
- Treasury expenditures for the TNI are now subject to prior approval by the Defense and Finance Ministries; if the TNI gives up its businesses the TNI budget will need to be doubled to $5.6 billion;
- And consideration is being given to a long-term plan for repositioning and realigning the structure; roles and missions of the armed forces.

While reform is the focus of discussion when the subject of the military comes up, it is important to keep in mind that the military is vital not just for external defense but for the time being at least to the security and stability of the domestic scene as well. The shortcomings of democracy remain widespread. The military should be in the background and ease or be eased out gradually to avoid violence during the present institution-building phase. The TNI has a long proud history; it cannot be cast over the side. Reform should zero in on a careful transition to civilian control, adequate budgets and capacity-building to enable the military to play the professional, nonmilitary role many of its best officers see in its future.

Co-equal with reform of the TNI and closely linked to the reform in the judiciary branch is capacity-building for the police. Necessary measures identified in the USINDO studies include:

- At least a doubling of police forces close to U.N. standards to perform community policing and basic local security functions;
- Improvements in salaries, training, and living conditions as a disincentive for corruption—a major problem in the police;
- Emphasis on upper level management; and
- Improvements in police intelligence and coordination with other law enforcement authorities, particularly relating to counterterrorism and internal security.

To help ensure success in this area, Indonesia is blessed with moderate reform-minded leaders. First, SBY, himself, a former general who has been known as a reformer and who has placed other moderates at the top levels of the armed forces, while supporting the General Endriartono Sutarto, who has taken a strong non-political stance, as his senior military commander. Then there is Defense Minister Juwono Sudarsono who is the best possible leader to begin to assert the necessary civilian leadership in the defense sector.

Reform of the military and the police will take a long time as the military's presumption of power in domestic terms has existed for a long time, moreover it will take time to bring the police up to standard, ready to take over. But we should not wait for some ideal to emerge. Now is the time that U.S. assistance will have the most impact on the reform process.

Against this background there are many opportunities for the United States and other donors to assist with professional training, defense management, improvements in command and control, and establishment of a national security or defense council and staffing in the office of the President. Through IMET and FMF and police assistance we can help the trustworthy defense leadership of Indonesia to make the changes we would like to see. By continuing to stiff them we will only frustrate and eventually alienate them.

Juwono Sudarsono had good bilateral defense talks with our administration in early August. Congress should join the effort to further cooperation, not impose further restrictions.

SEPARATISM: ACEH

Indonesia has long been bedeviled by threats of separatism and separatist forces in Aceh and Papua. While prepared to make concessions in the form of greater autonomy, the national goverment has always seen a united Indonesia as vital to its interests. Fearful not only of losing control of these important provinces but of the centrifugal effect the losses would have elsewhere in the country, Indonesia has resisted the separatist movements zealously, and the United States instructed by its own history, along with many other nations, has supported this position.

An insurgency was underway for many years in Aceh where tens of thousands of people have been killed. The TNI has been in the vanguard of the effort to quell rebellion and has among other things developed major vested interests in illegal logging and other ventures in the province. Many among the resistance have had vested interests of their own, so the antagonists became locked in struggle despite central government efforts to reach accord.

Ironically, it took disaster to engender peace. The tsunami that struck Aceh and killed well over 100,000 people has had a beneficial effect on the conflict in that province and an agreement has been reached that will call for careful monitoring and nurturing but holds genuine promise. Under a balanced set of compromises, the GAM gives up its guns and the TNI leaves the province, while the province achieves autonomous status but remains a province within Indonesia. The agreement will take careful monitoring. The government will face challenges from nationalists who believe it was too generous with the GAM and from the Acehnese people who do not yet fully understand the terms. The popular view favors peace. But implementation will be as large a determinant of success as the initial agreement. We should strongly encourage positive resolution of problems and a lasting peace settlement wherever appropriate.

The challenge now to use the phrase of Sidney Jones is "to shift from bullet to ballot."

The tsunami has opened the way to unprecedented public and private assistance from the United States, other nations, and world organizations. The outpouring of our aid, particularly our military's emergency role in the early post-disaster period, has helped repair the United States tarnished image throughout Indonesia.

Acehnese reconstruction in general is encouraging. While it got off to a slow start, USINDO President Al La Porta just back from the province reports major progress. Housing construction is now rapid, most people are out of tents, local mosques, and schools are being rehabilitated, land issues are being sorted out, commercial activity is on the rebound.

The task now is twofold: To reconstruct Aceh's settlements and livelihoods and consistent with the new agreement and prospects for economic growth to reorient the province from south to north, rebuilding the entrepots in Banda Aceh and on Sabang Island. There is also a need to upgrade the east coast highway, as well as an internal road networks and many other infrastructure components. GAM fighters and victims of the past fighting need resettlement assistance. According to political observers, GAM candidates are unlikely to capture a single county-level government, but the elections rightly should involve ex-GAM fighters to give them a political outlet for their needs and demands.

USINDO has played a small but, we believe, effective role directing its own assistance efforts to rebuilding a small component of the Aceh educational system. Agreements have just been concluded for USINDO to build a new model high school on the campus of Syiah Kuala University in Banda Aceh to meet local community need as well as provide a training facility for new teachers. We are cooperating with the Sampoerna Foundation of Jakarta as well as USAID and hope that the model school buildings will be opened a year from now. We have received generous donations from the corporate sector as well as private individuals and school children. An elementary school walkathon in New York raised $10,000.

On the larger front the continuing assistance of the United States as well as other donors will be needed for years to come. We have done well so far. The new west coast road will make a major contribution as will community development, teacher training, and schools management. United States help in police training will help replace the roughly 2,000 police lost in the disaster, and further avenues of U.S. assistance should be considered to support the Asean Monitoring Mission, or AMM, that is led by the European Union (EU) and ASEAN countries. Consideration should also be given to resettlement assistance, perhaps through the International Organization of Migration (IOM), which is working closely with the Aceh Reconstruction Authority (BRR).

Beyond these efforts we need to continue to work closely with other donors, principally including the World Bank, which is in charge of donor coordination as well

as the Consultative Group for Indonesia to ensure there is long-term support in that quarter for Aceh.

SEPARATISM: PAPUA

The conflict in Aceh and more recently the peace accord with the GAM have won more publicity in recent years in the West than the challenge Indonesia faces with Papua, nevertheless the Papuan problem could in the end prove more difficult to resolve if it is not managed correctly.

A key fact underlying this conclusion, all too little understood outside Indonesia, is that there are more Melanesians in the eastern islands of Indonesia than in Melanesia itself. Multiethnicity exacerbates the separatist tension that Indonesia is bound and determined to overcome.

The history of Papua's incorporation into Indonesia is unique. A resource rich area with a population of 2.3 million, roughly 40 percent of whom come from other parts of Indonesia. Papua originally remained under the Dutch after Indonesia won its sovereignty in 1949. However, in 1902, partly in response to heavy United States pressure, the Dutch gave up control, the United Nations took over briefly, then Papua became part of Indonesia, with the caveat that there be a confirming act of free choice.

In the event, the act of free choice involved selected tribal leaders who voted unanimously for incorporation, and it has always been controversial. The origins of Papua's incorporation, unfair return of the income from Papuan natural resources and repression of the Papuan people have fueled a separatist movement involving a small number of rag-tag militants, (the OPM), but a far larger group of proindependence, nationalist, and opportunistic supporters. The fact that rival groups claim to speak for all of the people will make final settlement more difficult.

A special autonomy law was passed in 2003 but because of deep-seated mistrust and lack of Papuan capacity, progress toward this sensible goal has been halting at best. Subsequently, the government in Jakarta announced its intention to divide Papua into three parts, but this transparent effort to weaken separatist strength was strongly opposed by the local population, and President Megawati's decree was suspended.

Most recently in June the House of Representatives International Relations Committee inserted language in a State Department authorization bill questioning the circumstances of Papua's integration into Indonesia and this has angered many Indonesians. In a pointed rejoinder, one Indonesian colleague suggested to Stanley Weiss, a long-time observer of Indonesian affairs, that the Indonesian "Parliament revisit the Cherokee Indian Nation's 'integration' with the United States."

The United States has played an important role in the past in trying to help resolve difference over Papua's relationship with Indonesia. As in the case of Aceh, the centerpiece of our position has been to firmly support continued integration of the province within Indonesia. We should just as firmly reiterate that position.

In addition, we should help SBY to move forward toward his announced pledge to negotiate implementation of the existing special autonomy law, with additional provisions as necessary. The United States should provide assistance for development, local government capacity-building and civil society in Papua. Assistance to education should be high on our agenda in Papua as elsewhere in Indonesia. We also need to improve explanations of U.S. administration and congressional positions vis-a-vis Papua in Indonesia where the policy distinctions are not so apparent. The formation of a new United States-Indonesian working party in the Indonesian Parliament (DPR) on September 5, which a USINDO officer attended, as well as a high-level Papua Forum in Indonesia may also provide opportunities for improving mutual understanding on this crucial issue of importance to Indonesian national integrity.

INDONESIA'S MODERATE ISLAM

Despite expressed concerns in some quarters, the weight of evidence supports the conclusion that Islam in Indonesia continues the historical trend and in the main remains moderate. Surveys conducted by the Center for the Study of Islam and Society show a rising level of Islamic consciousness and piety; they do not confirm a concomitant rise in radicalism, according to leading Australian Islamic scholar, Greg Fealy, as well as a large number of other scholars both inside and outside Indonesia.

It is true that substantial percentages of survey respondent appear to support various aspects of shariah law, however, there is little actual practice of extreme forms of shariah in Indonesia and only a small percentage continue to favor shariah police which would be necessary to enforce the law. The PPIM results, says Fealy, are significant in that they show a rising Islamic consciousness and shariah-minded-

ness. They indicate a continuing Islamisation within society and culture. But they do not necessarily show growing or increasingly radical Islamic politics.

Some read disturbing signs in the increased vote for Islamist parties, e.g., the more radical Islamic-oriented parties favoring the introduction of shariah law. The Islamist vote in 1999 was 16 percent and increased in 2004 to 21 percent. But this rise was very largely due to a 5-percent increase in votes for the Justice and Prosperity Party (PKS). And it is generally agreed that the PKS success was largely due in turn to the party's clean image and organizational ability. Most believe it will be very difficult for the PKS to expand its reach further without moderating the more radical religious elements of its platform.

It is useful also to recall that a radical Islamist bloc in the Parliament tried in 2002 to pass legislation to make it compulsory to follow shariah, but found so little support they withdrew it.

In the immediate post-Suharto era there was a rapid spread of radical Islamist groups, but since then the trend has really been in reverse. Violent extremist groups such as Laskar Jihad are now largely defunct, but the Islamic Defenders Front (FPI) and the Indonesian Mujahidin Council (MMI) still attract hardline fringe support. Furthermore, Jemaah Islamiyah, the extremist group linked to al-Qaeda which is responsible for the bombings in Indonesia, continues to exist and its members can be expected to attempt future terrorist acts. No question they are dangerous. It is notable, however, that the bombings that occurred in Bali and at the Marriott Hotel and in front of the Australian Embassy in Jakarta have turned the population at large away from violent extremism.

In sum, the continuing overall moderate nature of Indonesian Islam supports the conclusion that it is and will continue to prove to be fully compatible with Indonesia's nascent democracy. That is decidedly good news. Debate on Islam will continue but that is to be encouraged so that new ideas and political organizations compatible with the view of the diverse Indonesian people can emerge.

To be sure, intra communal conflict caused by political, economic, ethnic, as well as religious differences, will continue and will have to be contained. SBY's government is dedicated, however, to resolving conflict wherever it springs up and to furtherance of a moderate, multireligious, and multiethnic society. These are goals which the United States with its own diverse heritage is in a unique position to understand and to encourage. We should do all we reasonable can to do so.

EDUCATION

USINDO officers have previously testified before Congress about the importance of human resource development to strengthen United States-Indonesian relations. As Indonesian universities undergo the transition toward greater self-sufficiency and less government control, many needs, but also many opportunities for assistance and beneficial relationships, are becoming apparent. In the report of the commission on strengthening United States-Indonesian relations led by George Shultz and Lee Hamilton observed in late 2003, there is a pressing need to restore the close relationships that existed between the educational institutions of our two countries as existed in the 1970s and 1980s when U.S. assistance programs were better funded and centered on a web of university-level collaborations. Reductions in U.S. development assistance, public diplomacy initiatives, and other programs in the 1990s have taken their toll. President Bush's initiative to channel $157 million into basic education over the next 6 years is an excellent start, but U.S. assistance should be expanded to the university level. It is in tertiary education that our country can make strong contributions to Indonesia's continued development.

For the past 2 years, USINDO has been working with the Indonesian Embassy in Washington, the Directorate General of Higher Education of the Ministry of National Education, and a broad spectrum of Indonesian public and private universities on a package of proposals to meet the expressed needs of the tertiary institutions themselves. A conference held in Jakarta in March of this year identified four main initiatives which we are pursuing:

- The creation of up to 40 new Centers of Excellence and 400 new Ph.D.s to improve first-class academic research and teaching capabilities. The U.S. Department of State has committed to train 100 new Ph.D.s in 10 Centers of Excellence under the Fulbright program as part of this Presidential Scholars Initiative. These initial Centers of Excellence, moreover, would be linked with United States counterpart universities to promote faculty and other exchanges. We are also working with the World Bank to enlist other national contributions toward these same objectives, coordinate the program, and sponsor prematriculation training in English and academic skills.

- A new teachers training project, being formulated by joint Indonesian-American consortium led by Ohio State University, is identifying pressing needs to upgrade the skills, including English teaching, of Indonesian university instructors. Current thinking is to point this skills modernization toward the certification of university level teachers.
- A similar project aimed at improving university management is to be developed under a joint consortium arrangement led by the University of Pittsburgh.
- Three initiatives in the educational technology field:
  - Creation of a nationwide and affordable Internet system open to public and private universities to expand research and other capabilities. This project is to be developed under a public-private enterprise umbrella by U.S. and Indonesian technology providers.
  - The development of Indonesia-specific software in the national language by U.S. companies in partnership with Indonesian universities.
  - The establishment of an interactive Web site, hosted by USINDO in cooperation with the University of Indonesia, to facilitate communication and knowledge sharing between researchers and universities on both sides of the Pacific.

USINDO is not a development assistance provider, nor are we highly expert educators, but we are trying to play a project incubation role in order to focus the university communities in both countries on common goals, supported by their respective private sectors. The World Bank and other multilateral institutions, along with U.S. foundations, are potential facilitators of these projects. We are pleased that there is excellent support for these innovative approaches on the Indonesian side, aimed especially at improving the commitment of tertiary institutions to move ahead in highly selective areas.

In conclusion, Madam Chairman, we believe that the advancement of Indonesian higher education and reforging linkages with American colleges and universities offer an excellent opportunity to strengthen the modernist and moderate interests of the coming generations of Indonesians. As a small organization, we, in USINDO, cannot claim too much, but we hope to work with the U.S. Government through Fulbright and USAID programs, as well as with multilateral institutions and other donors to help Indonesian academic institutions to increase their capabilities.

Senator MURKOWSKI. Thank you.

Now we'll move to Dr. Soesastro.

STATEMENT OF HADI SOESASTRO, EXECUTIVE DIRECTOR, CENTRE FOR STRATEGIC AND INTERNATIONAL STUDIES, JAKARTA, INDONESIA

Dr. SOESASTRO. Thank you very much, Madam Chairman. It is certainly a great honor for me to be invited to this hearing.

I would like to focus my remarks on Indonesia's role in ASEAN, the Association of Southeast Asian Nations, and the impact on Indonesia-United States economic relations.

ASEAN, the Association of Southeast Asian Nations, now has 10 members. And it will include all Southeast Asian nations when the newest younger nation in the world, Timor Leste, is ready to join ASEAN, hopefully in the not-too-distant future.

In 1967, ASEAN had only five members, but it was a historic beginning, as it signifies the major change in the foreign policy and international outlook of Indonesia, the region's largest nation. It also signifies the beginning of Southeast Asia as a region of cooperation, peace, and prosperity.

Economic cooperation has been ASEAN's main agenda. But, to be honest, the various cooperation schemes and programs that were introduced in the first 25 years of its existence were quite disappointing. The region's remarkable economic progress was largely due to the adoption of sound and open economic policies by the individual members.

Having said this, however, I do need to add that stability and regional peace that ASEAN helped create in the region have allowed countries in the region to pursue international development efforts. And this, perhaps, has been the greatest contribution that ASEAN has made to the region.

A significant change happened in 1992, when members agreed to achieve greater regional economic integration by forming the so-called AFTA, the ASEAN Free Trade Area, largely in response to increased challenges of globalization.

Indonesia has not exercised economic leadership in ASEAN, as it does not regard itself as a regional economic power. Its leadership was mainly in the political field. Its active involvement in ASEAN in the first place, I believe, demonstrates its willingness to work in the regional structure. And some of us even said that Indonesia had voluntarily put itself within a regional structure. And that, I think, was a main contribution that Indonesia has made politically to regional community-building.

Its leadership has also not been exercised through an assertive posture. It did not attempt to dictate the region's policies, although it had de facto veto power. Instead, its leadership has been exercised in terms of crafting a regional consensus on many important policies for the region.

The financial crisis of 1997 and 1998 virtually put an end to Indonesia's active regional involvement. It was only in 2003, when hosting the ASEAN Summit, that Indonesia again raised its profile. This was done with the encouragement of its neighbors, and it played an active role in formulating new efforts to achieve an ASEAN community, a community with a capital "C," by 2020.

Strengthening of ASEAN was seen as a necessity, since ASEAN was seriously losing its diplomatic clout in the international arena and its effectiveness to global investors. And Indonesia today, having recovered from the crisis and has a government with overwhelming political legitimacy, is in a better position to take a lead.

An important component of the ASEAN community is the ASEAN economic community, which envisages a single market and production base that is internationally competitive and where there is free flow of capital, of goods and services, as well as skilled labor. To realize the ASEAN economic community, members have agreed to accelerate the integration of 11 priority sectors. These efforts will create real opportunities for the expansion of trade and investment between ASEAN and the United States.

In the year 2004, two-way merchandise trade amounted to $136 billion, and the stock of U.S. investments in the region has reached close to 90 billion U.S. dollars. There are still huge untapped opportunities for further promotion of this economic relationship.

At the same time that ASEAN undertakes this ASEAN economic community project, it is also engaged in forming Free Trade Agreements with a number of its main trading partners.

The first agreement that it has concluded is with China, and it is an agreement that involves all ASEAN countries, as a group. The United States and several ASEAN countries have either concluded a Free Trade Agreement, such as Singapore, or are in the process of, or will be negotiating, an FTA under the so-called Enterprise for the ASEAN Initiative. This initiative will help

strengthen overall U.S./ASEAN relations, as well as United States/ Indonesia economic relations.

Indonesia's efforts to strengthen ASEAN, specifically to realizing the ASEAN community, will also strengthen U.S./ASEAN relations, and this will, in turn, have a positive impact on bilateral relations between the United States and Indonesia, particularly in the economic field.

I believe that, in the not-too-distant future, Indonesia will be ready to enter into a Free Trade Agreement with the United States. This is, of course, a major challenge for an economy like Indonesia, but, if designed well, this agreement will be beneficial to both sides.

The impact for Indonesia will not only be in terms of enhancing its market access, but more so, I believe, in terms of improving its competitiveness, because it will continue to undertake economic reforms at home that it will have to undertake under, you know, more or less a binding agreement. It will also make Indonesia more attractive to United States investors.

Finally, Madam Chairman, the United States side, I believe, could assist Indonesia in developing capacity to implement economic reforms and economic institution-building in this globalized world. It is, to me, a major challenge that a nation like Indonesia is facing. And this—today we also heard, from USAID person, that this particular agenda of capacity-building is also being given attention, too.

An Indonesia that is economically stronger and more competitive will be able to provide economic leadership in ASEAN. And this should be in the interest of the United States.

Thank you.

[The prepared statement of Dr. Soesastro follows:]

PREPARED STATEMENT OF DR. HADI SOESASTRO, EXECUTIVE DIRECTOR, CENTRE FOR STRATEGIC AND INTERNATIONAL STUDIES, JAKARTA, INDONESIA, AND VISITING PROFESSOR, COLUMBIA UNIVERSITY, NY

INTRODUCTION

In the latest U.S.-ASEAN Dialogue held in Washington, DC, on 28 June 2005, two major proposals were aired. First, that the idea of a "strategic partnership" between the United States and ASEAN be developed. Second, that an ASEAN-U.S. Summit be held in 2007 to commemorate the 30th anniversary of the dialogue relationship.

U.S.-ASEAN relations have reached a stage of maturity. In 1977, at the first U.S.-ASEAN Dialogue the focus of the meeting was on such functional cooperation areas as commodities, market access, development assistance, operations of multinational corporations, transfer of technology, shipping, energy resources development, and food security. Over the years the nature and direction of the dialogue relationship have changed. In 1988, it was agreed that cooperation projects would be developed on the basis of mutual interests, comparative advantage in the project area and project sustainability. The private sector was drawn in to play a key role in the development of cooperation and networks to facilitate market-driven economic activities.

In 2002, two major initiatives were launched. The first was the so-called ASEAN Cooperation Plan (ACP) to promote cooperation in such areas as information technology, agricultural biotechnology, health, and disaster response. The second was the Enterprise for ASEAN Initiative (EAI) to form a set of bilateral free trade agreements (FTAs) between the United States and interested ASEAN member countries. In the same year, a Joint Declaration for Cooperation to Combat International Terrorism was signed, which subsequently led to the formulation in 2004 of an ASEAN–U.S. Work Plan to Counter Terrorism.

The broadening of the dialogue relationship to political and security issues followed the ending of the cold war. The dialogue addressed the role of the United

States in maintaining stability in the region, as well as nuclear nonproliferation and regional security issues, developments in the Korean Peninsula and the South China Sea. The United States is increasingly engaged with ASEAN in the political and security fields through its active involvement in the ASEAN Regional Forum (ARF). In addition to the so-called ASEAN Post Ministerial Meeting (PMC), which is attended by the U.S. Secretary of State, there are periodic meetings between ASEAN SOM (Senior Officials Meeting) leaders and the U.S. Assistant Secretary of State for East Asia and the Pacific Affairs.

In the economic field, there are regular meetings between ASEAN Economic Ministers and the U.S. Trade Representative, as well as at the level of senior officials. Interactions amongst the private sectors have also increased through the U.S.-ASEAN Business Council.

Economic relations between the United States and ASEAN continue to be vibrant. In 2004, two-way merchandise trade reached $136 billion, and the stock of U.S. investments in the region amounted to $88 billion. There are huge untapped opportunities to further promote this economic relationship. For its part, ASEAN has launched the ASEAN Economic Community (AEC) project that would make the region a single market and production base by 2020. Efforts are being undertaken to accelerate the integration of priority sectors. These will create real opportunities for the expansion of trade and investment between ASEAN and the United States. The U.S. side has pledged to help in the implementation of the Vientiane Action Plan toward the realization of the AEC.

All these seem to suggest that there is a great deal of substance in the relationship between the United States and ASEAN that is worthy of being elevated to becoming a "strategic partnership." The commemoration summit in 2007 could put a seal on the establishment of that elevated partnership between the United States and ASEAN.

INDONESIA'S ROLE IN ASEAN

Strengthening U.S.-ASEAN relations could help strengthen United States-Indonesia relations. But in fact, this also works in the reverse direction. In essence the two relationships tend to reinforce each other. Indonesia's efforts to strengthen ASEAN will in turn help strengthen U.S.-ASEAN relations and this will have a positive impact on the bilateral relationship between the United States and Indonesia, particularly in the economic field.

The regional dimension of bilateral Indonesia-United States economic relations provides an opening for further improvement of that bilateral relationship. For its part, the United States has launched the Enterprise for ASEAN Initiative (EAI) as a vehicle for strengthening trade and investment relations with Southeast Asian nations. This initiative involves the development of TIFAs (Trade and Investment Framework Agreements) and FTAs (Free Trade Agreements) with individual ASEAN countries. The significance of the initiative could go beyond trade and economic relations to strengthen political and strategic relations with the region.

On the ASEAN side it is believed that efforts to promote regional economic cooperation in the wider East Asian and Asia Pacific region are critical to engaging the United States. The APEC (Asia Pacific Economic Cooperation) and East Asian regionalism (ASEAN+3, namely ASEAN plus China, Japan, and South Korea) indeed should be designed to strengthen trans-Pacific economic relations, specifically between the East Asian countries and the United States.

In each of these regional arrangements (or processes), ASEAN has played an important role, in large part as a result of the prevailing political configuration in the region, which is the rivalry between China and Japan. As has often been stated, ASEAN is the least objectionable party in the region to take up a leadership role in regional community building. In APEC, since its inception, ASEAN was to act as a copilot. It has also occupied the driver's seat in the ASEAN+3 process.

ASEAN's future is important to regional arrangements in the East Asian and Pacific region, and critical to promoting the region's relations with the United States.

The prevailing wisdom is that Indonesia is the natural leader of ASEAN. Being the largest country in the region, in terms of its geographic extent and population size, gives Indonesia a predominant position in relation to its neighbors. However, perhaps it is the historical factor that has an equally great significance to Indonesia's position in the Southeast Asian region.

The initiative to form ASEAN was part of a package to end Indonesia's policy of *Konfrontasi* (confrontation) against Malaysia, its immediate neighbor. The creation of ASEAN was to symbolize a radical change in Indonesia's foreign policy orientation, from being a revolutionary force to becoming a responsible member of a re-

gional community. This change in foreign policy orientation had strong domestic source.

Suharto took over the helm of a country that was virtually bankrupt. Rebuilding the economy required a stable and peaceful regional environment. Resources and energies have to be directed to the huge task of national development. The first step was to end the policy of confrontation and to seek ways to improve relations with its neighbors. Beyond this was the idea of creating a stable and peaceful regional order.

The five founding members of ASEAN (Indonesia, Malaysia, Philippines, Singapore, and Thailand in 1967, later joined by Brunei Darussalam in the mid-1980s, and in the late 1990s by Cambodia, Laos, Myanmar/Burma, and Vietnam, known as the newer members) recognized the strategic challenges they faced from within and outside the region. However, it was not easy for countries in the region to adjust to the new developments. Indonesia under Suharto was no longer seen as a threat to its neighbors. Yet, some of the neighbors maintain their military alliances with the major powers, originally as an insurance against possible adventurous acts by Indonesia. Since the establishment of ASEAN, the existing military alliances gradually diminished in their importance, while they were accommodated by Indonesia.

In fact, the region was not free from potential insurgencies as some other Southeast Asian countries, North Vietnam then, were still in a revolutionary mode. The perceived threat posed by another revolutionary force, namely China's Communist Party, was another reason for strengthening the region through a comprehensive security approach. Indonesia introduced its concept of national resilience to the region, and proposed that ASEAN strives to build its regional resilience.

That comprehensive security approach rests on the idea of enhancing regional peace and security through cooperation in the economic and social fields. ASEAN was not meant to be a military pact. In fact, its members refrained from engaging in regional cooperation in matters of defense, so as not to create opposing military and ideological blocs in Southeast Asia. Although the original ASEAN members were anti-Communist in their domestic orientation, they projected to the outside world a nonaligned posture as advocated strongly by Indonesia.

The fall of South Vietnam led to heightened security concerns in ASEAN. Indonesia's Suharto underlined the importance of regional resilience. This meant strengthening regional cooperation and greater efforts to build the national economy. Indonesia maintained open charnels with Hanoi during the Indochina wars. When Vietnam invaded Cambodia, and thereby posed a direct threat to Thailand, ASEAN's policy to support Thailand in opposing Vietnam was adhered to by Indonesia. However, Indonesia believed that it should continue to keep its channels to Hanoi open. This policy was misunderstood in many quarters in ASEAN, but in the end proved to be useful in resolving the conflict politically.

Indonesia's leadership in ASEAN has been mainly in the political field. Its efforts to develop ASEAN have clearly demonstrated its willingness to be involved in a regional structure. Indonesia sees this as the most credible way to gain the confidence of its neighbors. In fact, within this regional structure Indonesia has never thrown its weight around. Its political leadership has not been exercised through an assertive posture, dictating the region's policies. It was exercised in terms of crafting regional consensus on many important issues for the region.

Indonesia has not exercised economic leadership in ASEAN as it does not regard itself as a regional economic power. In the first 25 years of its existence, ASEAN's many economic cooperation programs have been disappointing. It was the changed external environment of the early 1990s that brought about significant change in ASEAN economic cooperation. ASEAN leaders agreed to pursue regional economic integration through the ASEAN Free Trade Area (AFTA). Indonesia's agreement was critical, but Thailand's diplomatic efforts made that possible. Indonesia, until then dubbed "Mr. No" for always tending to say "no" to various economic integration plans, suddenly changed its policy and became "Mr. Go" when agreeing to "go ahead" with AFTA in 1992.

Two years later, when chairing and hosting APEC, Suharto further strengthened this policy by crafting the so-called APEC Bogor goals of "free and open trade and investment in the region" in 2010 for developed APEC members and 2020 for developing APEC members. In an interview, Suharto proposed that the end goal for APEC should be similar to that of AFTA, namely removal of barriers to trade, including reduction of tariffs to 0–5 percent.

This was followed in 1997 by an ASEAN Vision 2020, which envisaged the creation of "a stable, prosperous, and highly competitive ASEAN Economic Region in which there is a free flow of goods, services, and investment, [and] a freer flow of capital. . . ." As the Indonesian economy was growing rapidly in the first half of

the 1990s, Indonesia began to participate actively in economic cooperation activities in ASEAN and APEC.

The financial crisis of 1997/1998 virtually put an end to Indonesia's active regional involvement. Indonesia was the hardest hit by the crisis. It experienced not only an economic and financial crisis, but it came under multiple crises. ASEAN Economic Ministers rightly decided that the ASEAN economies must continue with their open economic policies in order to be able to overcome the crisis. Yet, political leadership in the region turned inward. The Suharto government, having been in place for 32 years, fell. It was replaced by a transition government under Habibie, who was not interested in ASEAN. His successor, Abdurrahman Wahid, wanted to promote a Western Pacific Forum, involving Indonesia, the Philippines, Papua New Guinea, Timor Leste, and Australia, instead of ASEAN.

Megawati was initially also not interested in ASEAN. However, since Indonesia was to host the ASEAN Summit in 2003, she accepted the suggestion that Indonesia should again provide leadership in ASEAN. ASEAN was seriously losing its diplomatic clout in the international arena and it had lost its attractiveness to global investors. The foreign policy community in Indonesia thought that Indonesia's "comparative advantage" lies in providing political rather than economic leadership. It began to air the idea of an ASEAN Security Community to strengthen the region's cohesion. This was aimed at both enhancing regional peace and security and restoring ASEAN's diplomatic power.

In 2002, Singapore Prime Minister Goh Chok Tong, aired the idea of an ASEAN Economic Community. Singapore knew that without active involvement by Indonesia this idea would not fly. Its skillful diplomatic efforts led to the adoption of the idea by Indonesia. Megawati, in her Inaugural ASEAN Lecture in 2003, proposed that ASEAN be built on two pillars, the ASEAN Security Community (ASC) and the ASEAN Economic Community (AEC), which will reinforce each other. In October of that year, when Indonesia organized the ASEAN Summit, it crafted an even more ambitious goal for ASEAN, namely an ASEAN Community in 2020. The ASEAN Community now consists of three pillars, to include an additional one proposed by the Philippines, namely the ASEAN Social and Cultural Community (ASCC).

At the same time, ASEAN embarked on a number of bilateral trade and economic initiatives with China, Japan, India, as well as Australia and New Zealand, which involve the formation of FTAs.

Indonesia's challenge today is to provide leadership to realize the ASEAN Community. The new President, Susilo Bambang Yudhoyono, has been encouraged by many in the region to take this up as Indonesia's responsibility.

Indonesia's leadership will again have to be expressed in terms of building regional consensus. This type of leadership should be distinguished from the kind that is aspired by Singapore or Thailand. Their approach is to move faster than the others and in doing so they hope to force others to follow them. This is the essence of the "2+X" formula that they have introduced in ASEAN. This approach could weaken ASEAN's solidarity that, in fact, is ASEAN's greatest asset. There is also the danger that ASEAN will be pulled into many directions because of its engagement in a number of FTA initiatives, seemingly without a clear strategy of how it will manage this web of FTAs.

ASEAN AND FREE TRADE AGREEMENTS

It all began with the approaches by China. ASEAN on its part initially did not regard free trade areas (FTAs) as a major element in its international economic diplomacy. ASEAN's own economic integration has been the priority since the decision in 1992 to form an ASEAN Free Trade Area (AFTA), which was followed by initiatives in the fields of investment (AIA) and services (AFAS), and a few other measures. Beyond ASEAN, its trade liberalization efforts are directed at the multilateral level, the WTO's Doha Development Agenda. At the regional level, ASEAN members of APEC attempt to continuously improve their Individual Actions Plans (IAPs) under the region's modality of concerted unilateral liberalization toward free and open trade and investment in the region in 2010/2020. The proposal for an East Asia Free Trade Agreement (EAFTA) was presented by an East Asian Vision Group to the ASEAN+3 leaders as a means to realize an East Asian community, but EAFTA is seen as a long-term effort.

In 2001, at the ASEAN-China Summit in Bandar Seri Begawan, China came up with a proposal to establish an ASEAN-China Free Trade Area within 10 years. Within 1 year, at the Summit meeting in Phnom Penh in November 2002, the Heads of State of ASEAN and China were ready to sign a Framework Agreement on Comprehensive Economic Cooperation (CEC), which included an FTA.

There is no doubt that China's proposal essentially was politically motivated, but China and ASEAN both saw the economic significance of the initiative. However, the process appeared to have been driven largely by China. Having participated in a lengthy and difficult process of WTO accession, China has acquired sufficient expertise to negotiate a trade deal. The deal was made attractive for ASEAN with the introduction of an Early Harvest program. China's initiative was immediately followed by a proposal from Japan. This was to be expected as Japan naturally did not want to be left out. Since then ASEAN has been courted by other countries and have entered into an agreement with a few other countries. However, to date there is as yet no ASEAN document that clearly spells out ASEAN's strategy of engagement in FTAs with its trading partners.

ASEAN-China

The ASEAN-China Framework Agreement on CEC contains three elements: Liberalization, facilitation, and economic cooperation. In addition it has a provision on the mechanism to implement the agreement, including a dispute settlement mechanism. The liberalization element covers trade in goods, trade in services, and investment. In the context of liberalization, the agreement provides for special and differential (S&D) treatment and flexibility to the newer ASEAN members as well as flexibility to address sensitive areas.

The Framework Agreement contains an Early Harvest program that covers all products in chapters 01 to 08 at the 8/9 digit level (HS Code): Live animals; meat; fish; diary produce; other animals products; live trees; edible vegetables; and edible fruits and nuts. Products under this program are divided into three categories for tariff reduction and elimination, but tariffs will have to be brought to zero for all three categories within 3 years. However, the program allows for an Exclusion List and different timeframes between the ASEAN–6 (Brunei, Indonesia, Malaysia, Philippines, Singapore, and Thailand) and the CLMV (newer members—Cambodia, Laos, Myanmar, and Vietnam), for whom zero tariffs will be reached in 2010. Initially it was thought that China would offer the Early Harvest program on a non-reciprocal basis, but this turned out not to be the case. Moreover, some agricultural commodities of great interest to ASEAN, such as rice and palm oil, were excluded from the program. Some ASEAN countries (e.g., the Philippines) did not immediately join the program.

Beyond the Early Harvest, tariff reduction and elimination will be pursued along two tracks, the normal track and the sensitive track. Applied MFN tariffs of products listed in the normal track should be gradually reduced or eliminated in accordance with specified schedules and rates over a period from 2005 to 2010 for ASEAN–6 and China, and to 2015 for CLMV. Reduction of tariffs of products in the Sensitive List will be in accordance with mutually agreed end rates and end dates. The number of products in the Sensitive List is subject to a maximum ceiling, also to be mutually agreed upon.

The Framework Agreement was later amended to incorporate the Rules of Origin (ROO) applicable to the products covered under the Early Harvest program. It also included subsequent Early Harvest agreements between some ASEAN members and China, and it clarified the implementation of the provision of the program as well as the terms and conditions for the acceleration of the tariff reduction and elimination through bilateral or multilateral agreements.

The negotiation on the FTA for goods was concluded within a short time. This was a rather ambitious undertaking. Initially the parties could not agree on the maximum number of tariff lines in the sensitive list. However, as political leaders were determined to begin the process of tariff reduction and elimination in 2005, a compromise was struck, and Ministers were able to sign an agreement at the ASEAN Summit in Vientiane in November 2004. This does suggest the importance of setting target dates.

The Agreement on Trade in Goods of the Framework Agreement on CEC, or for short, the ASEAN-China FTA (ACFTA), is only the first portion of a series of agreements to implement the Framework Agreement. At the Vientiane Summit, Ministers also signed an Agreement on Dispute Settlement Mechanism of the Framework Agreement on CEC. They will be followed by an agreement on services, an agreement of investment, and other agreements. It is indeed rather surprising that ASEAN and China were able to produce those two agreements within a short time.

The ACFTA contained the modality for tariff reduction and elimination for tariff lines both in the normal track and the sensitive track. In the normal track there are three sets of schedules. The first applies to ASEAN–6 and China. The implementation will begin on 1 July 2005, when applied MFN tariff rates will be brought down to 20 percent, 15 percent, 10 percent, and 5 percent for tariffs still above 5 percent. By 2007 they will be reduced to 12 percent, 8 percent, and 5 percent, and

by 2009 to 5 percent and 0 percent, and finally by 2010 all rates will become zero. The second schedule applies only to Vietnam, where all tariffs will be brought down to 0 percent in 2015. The third schedule applies to Cambodia, Laos, and Myanmar, where some tariffs will still be higher than in Vietnam's schedule, but from 2011 onward they will be the same.

In addition, agreement was also reached to bring as many tariff lines to the 0–5 percent range. For instance, for ASEAN–6 and China, by 1 January 2007 at least 60 percent of tariff lines placed in the normal track must be reduced to 0–5 percent. However, some "flexibility" is allowed in 2010, whereby up to 150 tariff lines could still have tariffs but should be eliminated not later than 1 January 2012. For the CLMV countries, this flexibility allows for having tariffs on up to 250 tariff lines to be eliminated not later than 1 January 2018.

In terms of tariff lines in the sensitive track, the agreement subjects the number of tariff lines to a maximum ceiling. Tariff lines in the sensitive track are further classified into Sensitive List and Highly Sensitive List. For ASEAN–6 and China, the maximum ceiling is 400 tariff lines at the HS 6-digit level and 10 percent of total import value, based on 2001 statistics. The Highly Sensitive List should have not more than 40 percent of the total number of tariff lines in the sensitive track or 100 tariff lines at the HS 6-digit level, whichever is lower. For CLMV, the maximum ceiling is 500 tariff lines. To note, tariff lines at the HS 6-digit level for the ASEAN-6 countries varies between 5,600 (Philippines) and 10,400 (Malaysia). The number of tariff lines in the Sensitive and Highly Sensitive Lists is shown in Table 1. Applied MFN tariff rates in the Sensitive List must be reduced to 20 percent not later than 1 January 2012 and to 0–5 percent not later than 1 January 2018. For CLMV countries, the target dates are 1 January 2015 and 1 January 2020, respectively. In any case, the sensitive track will be reviewed in 2008.

TABLE 1.—ASEAN–CHINA FTA: TARIFF LINES IN SENSITIVE AND HIGHLY SENSITIVE LISTS

[HS 6-digit]

Country	Sensitive	Highly sensitive
Brunei	66	34
Cambodia	350	150
Indonesia	349	50
Lao PR	88	30
Malaysia	272	96
Myanmar	271	0
Philippines	267	77
Singapore	1	1
Thailand	242	100
Vietnam	—	—
China	161	100

The modality for tariff reduction and elimination in this agreement resembles AFTA's CEPT (Common Effective Preferential Tariff) reduction scheme. Experience in AFTA suggests that this modality does result in reductions in accordance with the schedule and, in fact, also brings about acceleration in the reduction and the progressive transfer of tariff lines from the sensitive track to the normal track.

The Rules of Origin (ROO) for the ACFTA as stipulated in the Agreement (Annex 3) are as follows: "A product shall be deemed to be originating if: (i) Not less than 40 percent of its content originates from any Party; or (ii) if the total value of the materials, parts or produce originating from outside of the territory of a Party (i.e., non-ACFTA) does not exceed 60 percent of the FOB value of the product so produced or obtained provided that the final process of the manufacture is performed within the territory of the Party." In addition the Cumulative Rule of Origin applies provided that the aggregate ACFTA content, i.e., full accumulation, applicable among all Parties, on the final product is not less than 40 percent. Also, products that satisfy the Product Specific Rules, i.e., products that have undergone sufficient transformation in a Party, will be treated as originating goods of that Party. The ROO in the ACFTA is also similar to that in AFTA. It is relatively simple and quite liberal. In fact, ACFTA should be commended for this, and perhaps is an example of "best practice" in this regard.

It is also to be noted that the ACFTA explicitly adopts GATT 1994 provisions on national treatment on internal taxation and regulation, transparency, BOP safeguard measures. It also abides to the provisions of the WTO disciplines on, among other things, nontariff measures, technical barriers to trade, sanitary and phyto-

sanitary measures, subsidies and countervailing measures, antidumping measures and intellectual property rights.

The Agreement on Dispute Settlement centers on arbitral proceedings in case consultations fail to settle a dispute. The agreement stipulates the appointment, composition, functions, and proceedings of Arbitral Tribunals. It enters into force on 1 January 2005. How well this mechanism will function will be known only when it is being used. This mechanism is perhaps more straightforward than the one recently adopted by ASEAN as part of its efforts to realize the ASEAN Economic Community. The ASEAN mechanism is yet to be tested as well.

The ACFTA might become a model for other ASEAN FTAs, particularly if the partner country is a developing country. It should be noted that while tariff reduction and elimination are scheduled to be completed in 2010 for the ASEAN-6 and China, and 2015 for the CLMV countries, in the case of the normal track, reduction of tariff lines in the sensitive list (to 0–5 percent) could be extended to 2018 and 2020, respectively. It should be in interest of ASEAN and China to try to accelerate this process. The modality adopted in the agreement can accommodate this. However, political will has to be there for this to happen. It also should be noted that the ACFTA is only the first step in the implementation of the Framework Agreement. Negotiating an agreement in services and investment may prove to be more difficult.

To conclude on a more optimistic note, it may well be that ASEAN's engagement in FTAs with other trading partners could create a kind of competition amongst the various FTAs that might lead to acceleration of their completion.

ASEAN-Japan

In January 2002, during his visit to Singapore, Prime Minister Koizumi of Japan announced Japan's interest to form an Economic Partnership agreement with ASEAN, which might have an FTA component. Japan has completed a bilateral FTA with Singapore, the Japan Singapore Economic Partnership Agreement (JSEPA), which is the first FTA for Japan. Japan also wants to develop FTAs with individual ASEAN countries on a bilateral basis. It was immediately obvious that Japan was reacting to the earlier move by China toward ASEAN that led to the decision in November 2001 to develop an ASEAN-China Comprehensive Economic Cooperation Agreement.

At the ASEAN-Japan Summit in November 2002, in their Joint Declaration the Heads of State/Governments agreed to implement measures for the realization of a Comprehensive Economic Partnership (CEP), including "elements of a possible FTA," which should be completed as soon as possible within 10 years. A committee was established to draft a framework for the realization of an ASEAN-Japan CEP.

In October 2003 in Bali, ASEAN and Japan signed a Framework for Comprehensive Economic Partnership (CEP). Both sides agreed to adhere to the following principles:

(a) The ASEAN-Japan CEP should involve all ASEAN members and include a broad range of sectors focusing on liberalization, facilitation, and cooperation activities;

(b) The integrity, solidarity, and integration of ASEAN will be given consideration in the realization of the ASEAN-Japan CEP;

(c) The agreement should be consistent with the rules and disciplines of the WTO Agreement;

(d) Special and differential treatment should be provided to ASEAN members in recognition of their different levels of economic development, and additional flexibility should be accorded to the newer ASEAN members;

(e) Flexibility should be given to address the sensitive sectors in each ASEAN member and Japan; and

(f) Technical cooperation and capacity-building programs should also be considered.

The above suggests that an ASEAN-Japan CEP will not be too different from ACFTA, except that there will be no Early Harvest program. The Japanese side has insisted that the agreement should be a "single undertaking." The negotiations were scheduled to begin in 2005. It remains to be seen whether such a single undertaking could be negotiated within a reasonable timeframe. Both sides want to realize the agreement by 2012.

An agreement with Japan, being a developed economy, must strictly adhere to Article XXIV of the WTO to cover substantially all trade. There cannot be a long Exclusion List of sensitive items. In contrast, ASEAN and China could avail themselves of the WTO "enabling clause." Nonetheless, they agreed on limiting the so-called sensitive track to 10 percent of total import value. The Japanese side has made it known that in their understanding "substantially all trade" also could mean

at least 90 percent of the value of trade. It should also be closely observed whether the ASEAN-Japan CEP will adopt an equally simple and liberal Rules of Origin (ROO) as in AFTA and ACFTA.

The problem is that Japan already has a bilateral agreement with an ASEAN country, Singapore, which has adopted a ROO that is less liberal than AFTA and ACFTA, and Japan has completed similar agreements with Thailand, the Philippines, and Malaysia. The CEP between ASEAN and Japan signed in Bali stipulated that schedules of liberalization concessions between Japan and individual ASEAN countries that have concluded a bilateral FTA or EPA (Economic Partnership Agreement) will not be renegotiated and will be annexed to the ASEAN-Japan CEP Ageement. Nothing has been said about the ROO.

Japan has adopted a dual strategy in regard to negotiating free trade agreements with ASEAN, namely with ASEAN as a group and selectively with certain ASEAN countries. The strategy is to move faster on the latter. It has been said that the origin of this dual strategy was bureaucratic, in that METI was championing for an agreement with ASEAN while Gaimusho (Ministry of Foreign Affairs) preferred bilateral agreements. MOFA thought that it would be very difficult for Japan to have FTAs with the CLMV countries.

How Japan will handle this problem in the ASEAN-Japan CEP is unclear. It can make use of the S&D principle to provide a longer timeframe for the CLMV countries as in the case of ACFTA. However, since Japan is negotiating bilateral FTAs with most of ASEAN–6, it is likely that the liberalization schedules will be different even amongst ASEAN–6, and that similar agreements with CLMV will be postponed to a later date. The focus of the agreement with CLMV will be initially on facilitation and cooperation. This could suggest that the ASEAN-Japan CEP will essentially be an umbrella agreement for separate FTAs. It is unclear whether this is consistent with the principle of a single undertaking.

In this sense, the agreement with Japan could be different from the agreement with China. In the ACFTA, ASEAN can act as a "hub," but in relation to Japan, ASEAN countries could become "spokes."

ASEAN-India

In 2002 ASEAN and India agreed to enhance economic cooperation and to work toward an ASEAN-India Regional Trade and Investment Area (RTIA). Amongst the ASEAN countries Singapore has been the main promoter of increased economic and trade relations with India.

In October 2003 in Bali the ASEAN and India Heads of State/Governments signed a Framework Agreement on Comprehensive Economic Cooperation (CEO). It entered into force on 1 July 2004. This Framework Agreement is very similar to, and appeared to have been largely inspired by, the ASEAN-China Framework Agreement. It also introduced an Early Harvest program. The Early Harvest program commenced from 1 November 2004, with tariff elimination to be completed by 31 October 2007 for ASEAN-6 and India, and 31 October 2010 for the CLMV countries.

The schedule to liberalization in the normal track will be over a period from: (i) 1 January 2006 to 31 December 2011 for Brunei Darussalam, Indonesia, Malaysia, Singapore and Thailand, and India; (ii) 1 January 2006 to 31 December 2016 for the Philippines and India; and (iii) 1 January 2006 to 31 December 2016 for the CLMV countries. The timeframes for liberalization in the sensitive track have not been specified in the Framework Agreement and will be mutually agreed upon among the Parties.

The ROO negotiation was to be concluded by 31 July 2004, but the deadline has been missed. In fact, the negotiation has been difficult and becomes the main obstacle in the entire process, including the implementation of the Early Harvest. The Indian side has not agreed to adopt ASEAN's simple and liberal ROO, as applied also in the agreement with China, and the ASEAN side has not been willing to compromise on this.

ASEAN-Republic of Korea (ROK)

Until recently, Korea resisted to take part in the bilateral FTA game with ASEAN. Former President Kim Dae-jung was more interested in promoting the East Asia Community idea. His successor, President Roh, also focuses his attention to initiatives in Northeast Asia, where Korea is to be developed as a business hub. In the end, however, Korea felt that it cannot afford to be left behind by the other Northeast Asian (+3) countries.

A Joint Declaration on Comprehensive Cooperation Partnership (CCP) was signed at the summit in Vientiane in November 2004. The establishment of an ASEAN Korea FTA (AKFTA) is seen as "a natural extension of the existing relations as well

as a stepping stone to elevate the ASEAN–ROK relationship to a higher and more comprehensive level."

AKFTA will be similar to other ASEAN FTAs in terms of its comprehensive scope and provision for flexibility to deal with the CLMV countries. The possibility of achieving Early Results will be considered in developing a Framework Agreement. However, the kind of Early Harvest program to be included will not be confined to agricultural products as in the case of the ASEAN-China CEC, but will include manufactured products that are not sensitive to either side. In fact, it might exclude many agricultural products.

The negotiations on AKFTA will commence in early 2005 and be completed within 2 years. While AKFTA was conceived at a much later date than the other FTAs, the intention is to realize it at an earlier date, with a goal of achieving as high a level of liberalization as possible, whereby at least 80 percent of products will have zero tariffs in 2009, and with consideration for S&D treatment and additional flexibility for the CLMV countries.

AKFTA may well be the agreement that will drive other FTAs to accelerate their implementation. This could substantiate the point that was made earlier.

AFTA–CER

A linkage between AFTA and CER (Closer Economic Relations between Australia and New Zealand) was established as early as September 1995. This led to the establishment of a High Level Task Force on an AFTA–CER FTA. The Task Force report, "The Angkor Agenda," was presented to Ministers from ASEAN, Australia, and New Zealand on 6 October 2000 in Chiang Mai (Thailand).

It should be noted that the idea of an AFTA–CER FTA was proposed at an earlier date than the ASEAN-China FTA. The AFTA–CER FTA discussions failed to lead to an agreement. The ASEAN side was not ready to embark on this initiative. It was also not launched at a summit level. Perhaps it was an idea whose time had not arrived. There were sensitivities on the part of ASEAN to engage in a narrow FTA. The ASEAN side demanded that Australia and New Zealand undertake some facilitation and development cooperation efforts as a prerequisite for the negotiation.

In September 2001 the two sides revisited the idea of promoting closer economic relations and endorsed a new Framework for AFTA–CER Closer Economic Partnership (CEP). In September 2002, a Ministerial Declaration on the AFTA–CER CEP was signed. The CEP is regarded as a building block for greater economic integration. The fields of cooperation under the CEP will be broadened to include, but not limited to, promoting and facilitating trade and investment, capacity-building, new economy issues, and other areas of cooperation.

However, since relations between Australia and some ASEAN countries were rather cool, not much was happening in terms of implementing the CEP agreement. It was only in Vientiane in November 2004 at the ASEAN-Australia and New Zealand Commemorative Summit that the Leaders revived the idea of an FTA between ASEAN and Australia and New Zealand. The Joint Declaration of the Leaders announced the launching of negotiations on an FTA, to commence in early 2005 and to be completed within 2 years, as is the case of the ASEAN-Korea FTA.

The Annex to the Joint Declaration stipulates the guiding principles for negotiating an FTA. The FTA will be comprehensive in scope. All barriers to trade in goods, services, and investment will be progressively eliminated. It should build on members' commitments in the WTO. It also will have a provision of flexibility as in the other ASEAN FTAs. The hope is that the FTA will be fully implemented within 10 years.

The U.S. "Enterprise for ASEAN Initiative"

During the APEC meeting in Mexico in 2002, President Bush announced the Enterprise for ASEAN Initiative (EAI). This initiative is aimed at strengthening U.S. economic and politico-security relations with Southeast Asia. It has often been interpreted as an initiative to support the U.S. fight against global terrorism.

The initiative is to develop FTAs between the United States and selective ASEAN countries. The United States already concluded an FTA with Singapore. ASEAN countries that have concluded a TIFA (trade and investment facilitation agreement) with the United States are eligible. Brunei Darussalam, Indonesia, Malaysia, the Philippines, Thailand, and Vietnam now have such agreements with the United States.

Thailand is already negotiating with the United States, and approaches have been made with Indonesia, the Philippines, and Malaysia. The United States is also negotiating FTAs with other countries and subregional groupings in other parts of the world. It will only negotiate with a country that it regards ready to make significant commitments. In the case of Indonesia, for instance, the United States has put some

conditionalities, which include the resolution of current trade disputes involving chicken legs exports from the United States and the strengthening of intellectual property protection in Indonesia, especially in relation to optical disks.

It remains to be seen in how far the second Bush administration, and the new USTR, will put their priority on ASEAN. An agreement with the United States will bring about more wide-ranging reforms domestically in the ASEAN countries. The United States will also put greater emphasis on services liberalization. However, U.S. ROO tends to be rather restrictive, especially in such areas as textiles and clothing.

Implications for ASEAN and East Asia

ASEAN has a huge agenda. Its priority is to deepen economic integration amongst its 10 members. This is a major undertaking in view of the big differences in levels of economic development and economic openness. In 2003, at the summit in Bali, ASEAN leaders agreed to establish an ASEAN Economic Community (AEC) by 2020. In line with the ASEAN Vision 2020, it is envisaged that the AEC will be a single market and production base with free flow of goods, services, investments, capital, and skilled labor. The AEC remains vaguely defined. ASEAN officials have opted for a pragmatic approach, essentially moving on a sectoral basis. Eleven priority sectors have been selected for fast-track integration. The 11 sectors are: Wood-based products, automotives, rubber-based products, textiles and apparels, agro-based products, fisheries, electronics, e-ASEAN, healthcare, air travel, and tourism. A roadmap has been drawn for each sector.

At the same time that ASEAN undertakes its AEC project, it is engaged in forming FTAs with a number of trading partners as briefly described above. Two immediate issues confront ASEAN. First, can these FTAs be completed before ASEAN realizes the AEC? In terms of the plan (intention), ASEAN-Korea FTA will be completed in 2009, ASEAN-China in 2010, ASEAN-India in 2011, and ASEAN-Japan in 2012, all with some built-in "flexibility," allowing for some countries or some sectors to move slower. However, the AEC is scheduled for completion by 2020. This means that ASEAN members must try to accelerate the implementation of their AEC initiatives. At least the fast-track sectors should be fully liberalized by 2010.

The second issue regards the need for ASEAN to develop a common framework for its extra regional cooperation, particularly in forming FTAs. A common framework would make it easier for the various FTAs (or RTAs—regional trading arrangements) to become building blocks for, or to be amalgamated into, wider regional arrangements. More importantly, in so doing ASEAN can become a "hub" to drive the process in East Asia through the ASEAN+1 agreements. In addition, a common framework can help reduce tensions between ASEAN members. As some ASEAN members (e.g., Singapore) have moved faster in developing FTAs, there is an additional, practical reason for having a common framework. The Singapore-New Zealand FTA has been referred to as a model for nonrestrictive ROO. Bilateral FTAs involving ASEAN members should have harmonized ROOs along lines of Singapore-New Zealand.

Finally, for ASEAN to become a production base, it also needs to minimize business transaction costs by having similar rules and schedules of tariff reduction to ensure use of most efficient supplier. Most important in this regard is the Rules of Origin (ROO), which constitute one of the elements of a common framework. Restrictive ROO constrains sourcing of inputs. New ROO can also change sourcing decisions away from use of inputs from existing partners. In essence, a common ROO can facilitate the spread of full cumulation and the development of regional production networks. In its FTA with the United States, Singapore has introduced two new approaches in calculating ROO that takes into account regional production networks. The first is the principle of outward processing that recognizes manufacturing chains and outsourcing. The second is the so-called Integrated Sourcing Initiative (ISI), allowing parts and components produced in Singapore's neighboring countries as coming from Singapore, but this is limited to certain nonsensitive items only (IT components and medical devices).

Beyond trade in goods, a common framework also needs to be developed for services and investment, and perhaps also competition policy and IPR. Many of these elements form an integral part of the AEC project. This is a tall order, and ASEAN needs leadership in realizing this objective.

INDONESIA-UNITED STATES RELATIONS

In assuming a leadership role in ASEAN, should Indonesia be actively engaged in forming bilateral FTAs with ASEAN's main trading partners? This issue might have become less relevant now as ASEAN as a group has formed FTAs or is negotiating FTAs with a number of countries, China, Korea, India, and with the CER

countries (Australia and New Zealand). In regard to Japan and the United States, Indonesia has no other option than to go bilaterally.

Indonesia has extensive economic and trade relations with these two countries. An FTA with these countries would have a major impact, not only in terms of enhancing Indonesia's market access but also in terms of improving its competitiveness due to the economic reforms that it will have to undertake in implementing such binding agreement. The other objective is to increase the country's attractiveness to international investors, especially from the countries with which it has formed an FTA. Furthermore, the agreement could strengthen political and overall relationship with the partner country.

Concluding an FTA with Japan, and especially with the United States, will be more difficult than with other countries as the coverage will likely be wider and the commitments will have to be deeper since it will encompass not only cross-border issues but many "behind the border" issues, including domestic regulations.

In the domestic arena, efforts need to be made to gain better understanding of which sectors will benefit most from the FTAs and which ones will be adversely affected by them. The latter will help the government devise necessary measures to lessen the negative impacts of the FTAs. Equally important are efforts to build capacity, especially of the bureaucracy that will be involved in implementing the agreements. The United States can provide valuable assistance here, perhaps to be undertaken under the United States-Indonesia Trade and Investment Framework Agreement (TIFA) signed in 1997. Domestic adjustments and reforms will have to be undertaken continuously, and perhaps they need to be properly sequenced. It is often the case that bilateral or regional FTAs help promote domestic reforms.

An agreement with the United States could have the greatest effect on Indonesia's reform agenda. If properly designed, this will be highly valuable for Indonesia. An Indonesia that is economically stronger and more competitive will be able to provide economic leadership in ASEAN in the efforts to create a single market and a production base in 2020, if not earlier. It should be in the interest of the United States to see the emergence of a strong and economically integrated ASEAN region.

Senator MURKOWSKI. Thank you.

And we will now go to Mr. Randy Martin, with the Mercy Corps.

STATEMENT OF RANDY MARTIN, DIRECTOR, GLOBAL EMERGENCY OPERATIONS, MERCY CORPS, WASHINGTON, DC

Mr. MARTIN. Madam Chairman, thank you very much for the invitation and the opportunity to share Mercy Corps' perceptions and impressions on our progress on recovery in Indonesia.

I think we all remember very vividly the impact of the tsunami last December 26, which wrought incredible devastation to a broad swath of South Asia. The world responded very quickly and very generously with life-saving assistance on an unprecedented scale. InterAction, which I think you know is an American consortium of 160 American NGOs, put out a report last June indicating that 60 American nongovernmental organizations responded to the tsunami. Together, they raised $1.5 billion in funds and spent a quarter of a billion dollars in the first 90 days, alone. So, it was just an incredible response from the NGO community and from the American people.

The Indonesian Province of Aceh was particularly devastated, and which was compounded there by not just the tsunami, but the earthquake, of course, which preceded it.

In Aceh, there were 128,000 deaths and displacement of over half a million people. There were 7 militaries and roughly 300 national and international NGOs that responded, some 2,000 expatriates flooded into Aceh to provide assistance to the Indonesian Government and to the people of Aceh.

Eight months later, we are well past the emergency needs of those early days and weeks. We are now embarked on the very challenging work of reconstruction, though without the benefit of

the world's focused attention, which has now moved on to new crises here and abroad. Therefore, from the very onset, I want to applaud this committee for its commitment to monitoring this critical process and encourage you to keep doing so.

I'll talk a bit about the NGOs' response in Aceh. But, as Mr. Kunder, before me—from USAID, before me—pointed out, it's really important to underscore that the progress in Indonesia has really been led by Indonesian—by the Acehenese communities. It's—when we are doing our best work as NGOs, we are catalyzing, we are supporting, the work of those communities. And we are very, very impressed by the leadership and the courage that we've seen coming out of those communities.

A visitor to Banda Aceh, right now and for the first time, may be struck by the amount of work that's still left to be done. There are still tens of thousands of people living in temporary shelters and in plywood barracks, which are really horrendous. There are still—although children are in school, the schools are temporary, health facilities are temporary and of poor quality. There is a lot of work left to be done.

Rapid-onset disasters—I think we're finding from our own experience in the gulf—rapid-onset disasters of this proportion destroy not only lots and lots of property and displace thousands of people, but they also destroy the very institutions and structure that are put in place to respond to emergencies.

Militaries—the military did, really, an outstanding job in its initial response in Aceh. They have substantial logistics capacity, but they are enormously expensive and don't have the expertise or time horizons necessarily—necessary to mobilize communities for long-term reconstruction.

Private contractors, likewise, are unlikely to bring community-development expertise, multiple funding sources, or the long-term commitment needed to sustain reconstruction.

Thus, the role of humanitarian NGOs, with our experience, our broad base of resources, and our commitment to the long term, it's very important to fill the gap.

The problem is, as I described, the local institutions to coordinate a response are not there. And I'm here to tell you, in the early days in Aceh, it was a real circus. It was a very, very difficult time to coordinate. If you can imagine 300 NGOs, 2,000 expatriates, NGOs with different funding bases, with different objectives, with staff who had never been there before, all arriving at the same time, without a coordinating mechanism in place. It was a real challenge.

But, despite that, I think we've done really well to put one together. And, for that, my hat's off to the United Nations Office for Coordination of Humanitarian Assistance, OCHA. They, in the early days, assembled a Humanitarian Information Center, which, in turn, registered these NGOs, took records on where they were working, what their resources were, mapped that out, and handed it back out to the NGO community so that we could coordinate our activities better together.

The United Nations also put together the Interagency Standing Committee, which actually existed before the tsunami. It coordinates the activities of the various U.N.-family organizations with the activities of the NGOs and the government.

So, I think, with these instruments in place, our efforts became far more coordinated as time has moved on.

So, despite the extraordinary level of destruction wrought by the tsunami and the challenges of mobilizing NGOs and coordinating them, I think we've made an awful lot of progress.

Over half a million people have received monthly food rations. Over 90 percent of students have returned to schools. Moreover, despite the dire predictions that we heard, there has not been a major outbreak of disease.

NGOs and international organizations have slated over 60,000 houses for reconstruction, and now we're working with the authorities on land-ownership issues and construction designs, which will help mitigate the kind of damage that we saw, should there be another tsunami.

Almost a hundred agencies are working to rehabilitate 1,500 damaged schools. Over 100,000 individuals supporting family members, totaling over 500,000, have received assistance to restart livelihoods.

For Mercy Corps' part, we, alone, have injected over $10 million into Aceh over the last 8 months through our programs. We provided cash-for-work opportunities for over 26,000 people in 93 villages. We supported the return of over 46,000 individuals, through cash grants, to communities for quick-impact projects restoring basic infrastructure. In 66 villages, we have funded the restoration of cultural and social institutions, benefiting another 77,000 people.

I think right now we're in the process of shifting gears, of moving away from the immediate cash-for-work direct-cash programs that we saw in the relief phase, and we're focusing more on economic development and in restarting local markets.

Already out of time.

Clearly, I think you've seen—you can see, a lot has been accomplished. We still have a long way to go. If I may, quickly, four very brief recommendations:

First, as Mr.—as the presentation from USAID, before, indicated, we think it's very, very important to support local government and to work through local government institutions.

Second, we think it's very important to support community-led initiatives. Communities must be leading the recovery. Not NGOs. And it's not that they just participate in it. They must be at the head of it. We can't just count houses as a measure of our success. The process is very, very important.

Third, it's very important that we support the peace agreement between the Government of Indonesia and the Free Aceh Movement. Disasters create opportunities, and one of the ones that came out of this disaster was the silver lining of the peace agreement with the Free Aceh Movement. Fifty percent of peace agreements fail on the implementation. It's very, very important that we look at implementation of tsunami recovery as part and parcel of this peace process. We have to look at them together.

Finally, it's very important that we remain mindful of long-term recoveries—recovery needs. That means that we have to be developmental in our approach. It feels great to hand things out, but it's very, very important that we see that communities are engaged in the process of their own reconstruction.

And I think part of that, also, is doing exactly what this committee is doing, and that's to continue to insist on excellence and to continue to monitor progress well into the future.

So, in closing, I just want to say I think it's essential that we sustain our commitment to recovery in an area of the world impacted not only by a devastating natural disaster, but also by years of civil war. We encourage you to keep checking in with us on progress. Mercy Corps greatly appreciates the continuing interest of this community in the work of nongovernmental organizations in this effort, even as our interest is drawn away to respond to new crises here and overseas.

Thank you very much.

[The prepared statement of Mr. Martin follows:]

PREPARED STATEMENT OF RANDY MARTIN, DIRECTOR, GLOBAL EMERGENCY OPERATIONS, MERCY CORPS, WASHINGTON, DC

Mr. Chairman and committee members, thank you very much for inviting Mercy Corps to share our impressions and thoughts on the current recovery activities in Indonesia. As we remember all too vividly, the tsunami of December 26, 2004, was horribly destructive to a broad swathe of South Asia. Stunned by the images, the world quickly responded with immediate life-saving assistance on an unprecedented scale. An InterAction study released in June found that 60 American InterAction-member NGOs responded to the Asian tsunami, raising nearly $1.5 billion and spending a quarter of a billion dollars in the first 90 days alone.[1]

The Indonesian province of Aceh was particularly devastated with the compounded impact of the earthquake and resulting tsunami. The Acehnese suffered 128,000 deaths and the displacement of over 500,000 people. Seven militaries and roughly 300 national and international nongovernmental organizations—including 2,000 expatriates—have worked alongside the Indonesian Government and people to respond to this humanitarian crisis of extraordinary proportions.

Eight months later, we are well past the emergency needs of those early days and weeks. We are now embarked on the very challenging work of reconstruction, though without the benefit of the world's focused attention—which has moved on to new crises here and abroad. Therefore, from the onset, I want to applaud this committee for its commitment, to monitoring this critical process of rebuilding—and encourage you to keep doing so.

THE NGO RESPONSE IN ACEH

I've been asked to comment on, summarize, and provide an update on United States-based NGO activity in Indonesia, including Mercy Corps' work, which I am pleased to address. However, I would also note that in our experience the primary accomplishments are the result of communities coming together to chart their recovery. When we are most effective as an INGO[2], we are primarily catalyzing and supporting the great strength and resiliency of these communities. Our teams on the ground continue to be inspired and moved by the great courage, dedication, and problem-solving approach of the many community leaders with whom we have worked.

To visitors arriving in Banda Aceh now and for the first time, one may be struck by the amount of work still to be done. However, I submit that there has indeed been substantial progress in Aceh over these past 8 months. Significant challenges remain, but many of the toughest hurdles have been surmounted and we are collectively now poised for the long and hard work of rebuilding. Let me speak to some of the challenges we have overcome.

In rapid-onset disasters of this proportion, communities suffer not only from the massive destruction of property and loss of lives, but they also lose the very institutions and structures that were put in place to respond to emergencies. Militaries have substantial logistics capacity, but are enormously expensive and do not have the expertise or time horizons necessary to mobilize communities for long-term re-

[1] For detailed information on the tsunami-related activities of American NGOs during the first 90 days of the response, see "InterAction Member Tsunami Response Accountability Report; A Guide to Humanitarian and Development Efforts of InterAction Members in Tsunami-Affect Areas": InterAction; June, 2005.

[2] INGO: International Non-Governmental Organizations.

construction. Private contractors, likewise, are unlikely to bring community development expertise, multiple funding sources, or the long-term commitment needed to sustain reconstruction. The role of humanitarian NGOs—our experience, our broad base of resources, and our commitment to the long term—is thus essential to fill the gap.

However, in the aftermath of such destruction, indigenous capacity to coordinate the outside assistance being offered is dramatically undermined. Despite this challenge, the humanitarian community managed to construct serviceable coordination functions early on in the crisis. Taking the lead in coordination, the United Nations Office for Coordination of Humanitarian Affairs set up a Humanitarian Information Center (HIC) in Banda Aceh at which NGOs registered, indicating their intervention plans and resources, which were in turn mapped by the HIC. A variety of general and sector specific coordination meetings were established. The United Nations ran regular meetings of the Inter-Agency Standing Committee (IASC) to coordinate the efforts of the various U.N. agencies with the efforts of the NGOs and governments.[3] These efforts were instrumental to bringing the aid effort together in the early days.

Given the extraordinary level of devastation wrought by the tsunami, the progress has been substantial: Over 500,000 people have received monthly food rations and over 90 percent of students have returned to local schools. Moreover, despite dire predictions, there have been no major outbreaks of disease. NGOs and international organizations have slated over 60,000 houses for reconstruction and, working with local authorities, have begun the arduous of task of clarifying land ownership, developing appropriate designs to "build back better" and have initiated the long process of rebuilding. Almost 100 agencies are working to rebuild or rehabilitate 1,500 damaged schools. Over 100,000 individuals, supporting family members totaling over 500,000 persons, have received assistance to restart their livelihoods.

Mercy Corps alone has injected over $10 million into the local economy through our programming. We have provided cash-for-work opportunities to over 26,000 people in 93 villages. We have supported the return of over 46,000 individuals through cash grants to communities for quick impact projects and by restoring basic infrastructure. In 66 villages we have funded the restoration of cultural, social, and religious institutions benefiting over 77,000 individuals. This support has been critical in restoring the social fabric of local communities that is so critical to recovery after such a disaster.

On February 10, 2005, Mercy Corps President Nancy Lindborg—having recently returned from Banda Aceh—testified before this committee about "Tsunami Response: Lessons Learned." In mid-August, Ms. Lindborg returned to Banda Aceh to observe firsthand the progress made in restoring peoples' lives, livelihoods, and hope. In January, she had reported that survivors of the crises still appeared ashen in shock; that over 2 miles of the coastal belt were nothing but the remains of debris-strewn villages and roads, and that economic activity had all but ground to a halt. By August, she witnessed that most of the debris had been cleared and new houses were being built; children had returned to school; normal village social life was returning and local markets were again thriving. Unless someone had visited Aceh in January they could not put into perspective how much progress has actually been made.

During her trip in August, Ms. Lindborg revisited the village of Tibang, which she had gone to during her January trip. In January, the village was waist-high in debris, most houses and buildings were destroyed and the village was devastated not only by the destruction of its infrastructure, but at the loss of several hundred residents killed and the remainder displaced. Since then the debris and rubble have been cleared, new houses are being built, regular community meetings are held to discuss local issues and priorities, and the village has erected a bulletin board providing detailed plans and commitments from various international and local NGOs. Mercy Corps is working with the local community to restore shrimp ponds, which was their primary source of income prior to the tsunami, and we are working with Habit for Humanity to rebuild 300 houses by December.

More recently, as Mercy Corps has been phasing out of cash-for-work and direct cash projects, we have begun focusing on economic development and restarting local markets. Mercy Corps has assisted over 5,200 people, including fishermen and farmers, to restore their livelihoods and we are working with local banks on a loan guarantee program to allow entrepreneurs to access credit to restart their businesses. The first client of this program has been able to restart a fiberglass production facil-

[3] For more information on NGO coordination in Aceh, see "A Review of NGO Coordination in Aceh Post Earthquake/Tsunami"; International Council of Voluntary Agencies (ICVA); April 8, 2005.

ity that employs eight people and whose main work is in replacing destroyed fishing boats.

It is a tribute to the people of Banda Aceh and to the international community that so much has been done to restore the sense of vitality, purpose, and hope among the local population. However, given the enormity of the destruction there remain serious challenges in the months and years ahead. Though rebuilding communities never happens as fast as we would like, those of us in the thick of it—those of us who witnessed ground zero on day one—are very proud of what we have managed to accomplish in just 8 months.

As we look ahead, I would like to leave you with four recommendations:

1. We must support government capacity for rebuilding

The Badan Rehabilitasi dan Reconstruksi [4] (BRR)—the lead Indonesian body overseeing rehabilitation and reconstruction—is now well established and beginning implementation of its formidable task. The BRR provides a vehicle to cut through bureaucratic redtape and move reconstruction forward. Of particular importance is that the highly regarded director of the BRR is based in Banda Aceh and reports directly to Indonesian President Yudhoyono. However, attention must remain on ensuring that BRR has sufficient resources—both human and financial—to fulfill its mandate.

Under the Government Implementation Plan for Aceh Development—rebuilding and improving government capacity is a critical goal. There are many challenges in working with the local government—weaknesses both on the part of the government and on the part of INGOs. The goverment has limited capacity to assess, implement, and monitor projects of the size and scope that are required. It lacks knowledge of humanitarian principles and the working practices of the international humanitarian response community, which hampers partnering and coordination with these important actors. Finally, the government is too often challenged by internal corruption and bureaucratic inefficiency. NGOs, for their part, often fail to coordinate and communicate effectively with the government, or to channel their resources to support government guidelines and priorities.

The local government needs to be supported through initiatives that build the skills and facilities of the local government. For their part, the INGOs need to be encouraged to partner with and support local government initiatives—encouragement which could be provided by the donor community. We are seeing a more proactive government emerge as it gains the experience and expertise to address the challenges.

One specific area that the BRR needs focused support and capacity-building in is in determining land ownership, resolving land conflict issues, and developing a system for arbitrating conflicting claims to parcels of land. This has emerged as a key issue due to the loss of government records during the tsunami. It is one of the primary impediments to more timely reconstruction of housing.

2. We must continue support for community-led initiatives

In Mercy Corps' experience throughout the world, local communities can and should be leading their own recovery and reconstruction efforts—not merely participating or, even worse, standing by as outsiders do the planning and implementation. Leadership and engagement of local communities in the design and implementation of recovery programs are essential not only to achieve the desired impact of recovery efforts and their sustainability, but also to strengthen capacities and role in civil society. Rebuilding infrastructure such as houses, schools, and clinics is important, but by encouraging active local leadership in these efforts we will ensure that these facilities are maintained far beyond the presence of international NGOs and donors and that the impact moves beyond the physical infrastructure to building a better society.

While a considerable amount of resources have gone toward the physical rehabilitation requirements, it is still critical to emphasize the development of the knowledge, skills, and abilities of local communities to fully engage in the reconstruction process. This requires developing community capacity to link and work with local government actors, improving availability of services and empowering communities to demand access to them, and improving community access to information for decisionmaking.

A clear example of supporting community-led initiatives is Mercy Corps' work providing cash grants to villages that allow village councils to use these financial resources to best address local issues which they themselves have identified. In one

[4] Badan Rehabilitasi dan Reconstruksi translates as "body for rehabilitation and reconstruction."

village outside of Banda Aceh, the village voted to use their cash grant to create a small scale brick factory that not only contributed to reconstruction needs, but also generated local employment.

3. We must strongly support the peace agreement between the Government of Indonesia and the Free Aceh Movement

Disasters often create opportunities. Prior to the tsunami, Aceh had been locked in a civil conflict between the Government of Indonesia and the Free Aceh Movement (GAM) which remained seemingly insoluble after nearly 30 years of struggle which has taken thousands of lives. The tsunami's silver lining is that it brought the international attention that motivated a political solution to the conflict. An agreement has been signed, and the initial stages of implementation have moved forward in an encouraging manner, but as with all such accords, continued international attention and support of this peace agreement are essential. It is essential that the tsunami recovery reflect the needs for peace dividends and reconciliation. I urge that progress on the implementation of the peace agreement be looked at as part and parcel of recovery in Aceh.

4. Remain mindful of the long-term recovery needs

Eight months after the tsunami, efforts to rebuild and rehabilitate the affected areas in Aceh are still in their early stages, and a satisfactory physical and economic recovery may take five additional years or more to complete. Indeed, even though the dire emergency created by the tsunami has largely stabilized, much of the affected population is still in need of basic necessities like adequate shelter, food, clean water, and access to medical care.

The importance and urgency of this work can overshadow the need for long-term strategies to strengthen civic structures and civil society values and practices that are indispensable to making reconstruction efforts sustainable. This can be true even when the need for long-term programming that addresses the roots of the problems facing Acehnese society is generally agreed on. One of the reasons for this is a lack of resources and a natural reluctance to allocate funds and energy toward activities that do not produce rapid, tangible results while more urgent and salient needs abound. It is essential, however, that despite these pressures we remain cognizant that long-term development requires a different approach than emergency relief in recovery. Relief and recovery strategies made in an environment of severe and acute need may not always lead to effective plans for sustainability years down the road. Furthermore, transitioning to a long-term mindset can be difficult. The daily gratifications that come from tangibles like clearing debris, fixing schools, and planting acres of rice are not easily traded in for the long, complicated, and often delicate tasks of strengthening the civic values and institutions that ensure sustainable solutions.

In closing, let me reiterate the importance of a long-term commitment to recovery in an area of the world impacted not only by a devastating natural disaster, but also by years of civil strife. We encourage you to keep checking in with us on progress. Mercy Corps greatly appreciates the continuing interest of this committee in the work of Non-Governmental Organizations in this effort—even as we are drawn to respond to new crises in our own country and around the world.

Senator MURKOWSKI. Thank you. And I appreciate the very specific recommendations that you have given and would certainly agree that every effort that we make to make sure that we are working from the bottom up, working with the people in the communities, those—the residents, the local folks, we can be assured of greater success.

I'm told that I now have 2 minutes remaining until our next vote, and we do have two votes. So, I am going to bring this hearing to a close.

I do have some questions that I had intended to direct to all three of you, and, as I am going to have to excuse myself, I would like to just be able to present them to you, in writing, and would await your response.

Senator MURKOWSKI. Ambassador Cleveland, one—the one that I wanted to ask you—and I'll just give you a heads-up—is—given where you've been and what you've seen and your comments about the new president and what we are seeing out of this administra-

tion is, What's Indonesia going to look like in the year 2020? Where are we going to be?

And, you know, right now we're talking, Mr. Martin, about the very—responding to the very immediate needs after a huge catastrophe, but we recognize that we've had a very distinguished panel, immediately preceding you, talking about some very significant opportunities in the future, the relationship between Indonesia and this country and how we can really see some positive and good things coming.

So, I'd be curious to know your response. And certainly if either one of you would like to jump in on that question, even though it might be not directed to you, we'd appreciate that, as well.

With that, gentlemen, thank you for your time. Thank you for your insight and for all you do for us. We appreciate it a great deal.

Thank you.

[Whereupon, at 3:40 p.m., the hearing was adjourned.]

ADDITIONAL QUESTIONS AND ANSWERS SUBMITTED FOR THE RECORD

RESPONSES OF HON. PAUL M. CLEVELAND TO QUESTIONS SUBMITTED BY SENATOR LISA MURKOWSKI

Question. Ambassador Cleveland, given the events over the past few years, where do you see Indonesia in 2020?

Answer. Indonesia has made extraordinary strides in locking in democracy. It would have been hard to envision a decade ago that the Suharto regime would have been ousted, pretty much peacefully; there would have been peaceful transitions of power to three administrations; fully democratic elections could have been held in 1999 and 2004; the military (TNI) would have been removed from civil positions and the legislature; the devolution of power to local governments would occur; and a new, democratic constitution would be implemented. Indonesia's progress has been exceptional. All observers should give major credit to the resilience and intrinsically democratic instincts of the Indonesian people.

Looking ahead, there are trouble spots, mainly relating to extreme Islam and religious confrontation, but the future mainly is positive:

- Democracy, fundamental freedoms and respect for human rights should be fully entrenched by 2020. Popular expression through local governmental institutions, combined with greater social equity and civic responsibility, should be well developed.
- With the wise application of government policy and power, religious tolerance as provided for under Indonesia's Constitution likewise should be firmly established. Accomplishing this, however, will require enormous efforts to improve Indonesia's educational system, as well as bolster mainstream religious organizations of all faiths and stop violent extremism when it appears.
- Indonesian national integrity, and the continued incorporation of the critical regions of Aceh and Papua, will be maintained as an important element of regional harmony and stability. Increased respect for human rights in the performance of government, stronger civil society, and an effective, though culturally appropriate, accounting for past abuses should occur, but there will be a need for more progress.
- Indonesia should be more deeply integrated into the ASEAN regional economy as a web of free trade agreements (FTAs), including with the United States, promotes market harmonization, access, and trade-related investment flows. If the United States shows leadership in promoting trade and economic integration in the Asia-Pacific region as a whole, Indonesia can be expected to be the most dynamic player in Southeast Asia.
- Indonesia has maintained a good record in macroeconomic management. Given current modest population growth, substantial inroads into poverty and unemployment can be made. Unfortunately, corruption and bureaucratic inefficiency will continue to stunt overall growth rates, although on a declining scale.

- With increased investment and participation by U.S. energy companies, Indonesia can reassume its position as a net energy exporter and substantial provider of mineral resources to the global economy.
- In foreign relations, Indonesia should again be an effective contributor in regional political, security, and economic affairs; interlocking functionally based "communities" in Southeast Asia and East Asia will recognize Indonesia as the natural, constructive leader and force for regional cooperation.

There are other aspects of Indonesia's role in the Asia region which should be congenial to United States interests. Above all, the United States at this point of time should give Indonesia the emphasis it deserves as an important regional actor, the world's third largest democracy and the world's most populous Muslim nation.

Question. In your testimony, you state that Indonesia has become an increasingly important counterweight to China's spreading influence in the region. Yet we are also seeing China and Indonesia sign investment agreements worth tens of billions of dollars. Could you elaborate on where Indonesia has been a moderating force on China's influence?

Answer. First of all, if as we believe, Indonesia continues the substantial political and economic progress described above, it will avoid becoming a soft, potentially disintegrating nation where China and possibly India could "fish in troubled waters."

To the extent that Indonesia has had a historical record of seeking to blunt Chinese chauvinism in Southeast Asia, it has been a brake on Chinese political aspirations. Our assessment is that a strong Indonesia will maintain its skepticism of PRC political objectives in the region and would react strongly to any inappropriate behavior, especially toward exploitation of its overseas Chinese population. Since the fall of Suharto, Indonesia has made great strides to fully dignify the role of its ethnic Chinese citizens. Special identification cards, tax regulations, limitations on the use of the Chinese language, restrictions on Chinese language education and other discriminatory measures have been eliminated since President Habibie's time. These have been positive measures to deprive the PRC of a base of sympathy and support among Indonesia's ethnic Chinese population.

The ultimate total value of Chinese projects in Indonesia cannot be predicted as it is well known that trade and investment agreements with Beijing are rarely realized to the full extent. Nevertheless, the Yudhoyono government is canvassing strenuously for additional foreign investment, particularly in infrastructure, as an essential element of its economic growth and job creation strategy. China has been included in this effort to attract greater investment, along with the United States, Japan, Australia, and Europe. PRC interest has been shown in energy resource development and power generation. Jakarta also has made an effort to attract Indonesian Chinese capital that moved offshore during the Asian financial crisis of 1997, some of which is in the PRC and Hong Kong. If Chinese investment is transparent and Chinese companies play by accepted international rules, their participation in the Indonesian economy can be constructive and complementary.

Question. Ambassador Cleveland, you spent some time in Indonesia, but you also served as Ambassador to Malaysia. What has been the traditional relationship between Indonesia and Malaysia, especially given the need for cooperation for security maintenance in the Strait of Malacca?

Answer. Indonesia had a troubled cross-strait relationship with the Federation of Malaya under Confrontation *(Konfrontasi)* during the time of President Sukarno; there also was an active cross-border insurgency in Kalimantan that exacerbated political tensions. Under Suharto, confrontation gave way to cooperation and ASEAN has served over the years to harmonize Indonesian and Malaysian interests as well as to build a habit of working together, including in law enforcement, traffic separation, and other matters relating to the Malacca Strait. At the same time, the relationship has not been trouble free. In recent years, the forced repatriation of Indonesian laborers in Malaysia has created difficulties and mistrust between the two neighbors. This year competing claims for territorial waters in the resource-rich Ambalat area off East Kalimantan and Sabah resulted in saber-rattling and public outbursts of jingoism. Malaysia also has strongly defended its sovereign rights vis-a-vis international cooperation in Southeast Asian maritime security.

Yet the outlook is more positive as a good dialogue, with more frequent personal contact, is emerging between Prime Minister Abdullah Badawi and President Yudhoyono. However, totally satisfactory accommodations have not been reached on the labor and territorial disputes. Malaysia has come forward with an international technological monitoring proposal for the Southeast Asian sealanes which is somewhat analogous to Singapore's "horizon scanning" concept and which promises to upgrade regional cooperation and joint operations with Indonesia in maritime pa-

trolling and enforcement. According to reports, Malaysia welcomes U.S. assistance to Indonesia to improve Indonesian navy and police maritime patrolling capabilities, as well as immigration and law enforcement. Overall we see a modest pattern of cooperation developing, one that the United States can support with the cooperation of other regional partners such as Japan and South Korea.

Question. For American businesses looking to invest in Indonesia, how would you assess the country's resources, including its human resources—literacy and public access to schools?

Answer. Indonesia continues to have strong potential for major development of natural resources, especially oil, natural gas and mining, which can serve to attract near-term investment and serve as an engine of growth and job creation. As part of its proinvestment outlook, the Yudhoyono administration is endeavoring to overhaul government bureaucratic machinery and state-owned enterprises (SOEs) in these sectors. Unquestionably, major U.S. investors would respond positively to actions by the Yudhoyono government to open up new opportunities for natural resource investment and to overcome regulatory, tax, and other factors constraining new investment.

Education, both in cost and quality, unquestionably is a prime national concern; together with basic health care, it is an important determinant of Indonesian competitiveness as an investment venue. Indonesia's literacy rate of 88 percent is high among developing nations, but especially since the 1997 financial crisis national expenditures on education have slipped badly to the point that, among Southeast Asian nations, on a per capita basis Indonesia ranks above only Myanmar (Burma) and Laos. While the Yudhoyono government is addressing the growing educational gap by increasing budgetary expenditures by 12 percent this year, there is a long way to go to meet the constitutionally mandated target of 20 percent of the annual national budget, much less to boost the quality of education up to acceptable regional and world standards.

At the same time, experience has shown that the Indonesian workforce is eminently trainable. For example, at the Batam Industrial Zone near Singapore, Indonesian workers perform very well in highly sophisticated industrial and high-tech operations. This is also true of other industrial enclaves as Indonesia's white-collar workforce has proven to be highly talented. Yet with the addition of an estimated 9 million new entrants into the workforce each year, the challenge of meeting basic educational needs and providing higher level skills training and academic experiences is tremendous.

For these reasons, as well as to support moderation, democracy, and religious tolerance among the vast majority of the population, the report of the U.S. National Commission on U.S.-Indonesian Relations, chaired by George Shultz and Lee Hamilton, in late 2004 recommended the creation of a bilateral "Partnership for Human Resource Development" to spur additional U.S. and other assistance in education, especially to local schools (including Islamic educational institutions) and at the university level aimed at producing new Ph.D.s and restoring collaborative linkages with American universities.

Responding to basic education needs, USAID is providing $157 million in assistance over 6 years to improve the quality of teaching in primary and secondary schools, schools management, computer literacy, and school-to-work transition. USINDO, for its part, is concentrating on four initiatives in higher education: Establishment of a Presidential Scholars program, with a major U.S. Fulbright program component and World Bank and other donor contributions, which would turn out 400 new Ph.D.s in 5–7 years to teach and perform research in 40 centers of excellence; a joint consortium to improve teacher education in public and private universities; another bilateral consortium to focus on university management needs; and three initiatives utilizing state-of-the-art educational technology to create a nationwide university Internet system, develop Indonesia-specific educational software, and establish an interactive Web site to facilitate communications between United States and Indonesian universities.

U.S. Government Public Diplomacy also has an important role in terms of expansion of the regular Fulbright program and educational exchanges, the promotion of new ideas through expanded International Visitors programs, sending prominent educators, technologists, and experts to Indonesia, and reaching out to elements of Indonesian society, especially Muslim political, social, and educational opinion-makers, to strengthen mainstream religious practice against the small violent radical minority.

U.S. assistance in these key areas should be increased at least two-fold above current levels, among other things to address urgent public health requirements, most prominently the threat of an avian flu pandemic. Clean water and HIV/AIDS cam-

paigns also deserve increased U.S. and donor support. Working together through the Consultative Group for Indonesia (CGI) led by the World Bank, concerted donor efforts in education and public health could within a decade create a healthier and better educated workforce that would enable Indonesia to keep pace with other countries in the region to develop its economic and industrial base and attract major new foreign investment.

Question. Given the problems you note with corruption in Indonesia, how is this impacting on foreign investment? We have seen China's willingness to invest in places like Zimbabwe and Sudan while ignoring concerns from the international community. Are Chinese companies playing a role in helping to reduce corruption in Indonesia?

Answer. There is no indication that investment from the People's Republic of China has an impact on the Yudhoyono government's anticorruption campaign. Most Chinese investment is state supported, if not directly from SOEs, hence it largely reflects Beijing's policy interests encapsulated in the PRC's "smiling diplomacy" toward Southeast Asia of the past 6 years or so. Furthermore, Chinese investment is not constrained by national policies such as the U.S. Foreign Corrupt Practices Act; "rules of the road" on transparency and good conduct in OECD and other international agreements. Moreover, Chinese investors know how to "go along to get along" in Indonesian and Southeast Asian business circles.

It is unquestionable that Chinese investment in Indonesia is increasing. Securing energy supplies is one clear interest, but also Chinese manufacturers are opening up shop to produce consumer and other goods. Open investment from China improves Indonesia's overall inflow of foreign direct investment (FDI) and generates employment as it does elsewhere in Southeast Asia. As with other investment partners, the Yudhoyono government has sought to attract greater Chinese capital but evidently there is a more cautious approach today than under the government of former President Megawati Sukarnoputri when several questionable transactions involving favoritism were concluded. The recent appointment of a seasoned political military affairs veteran, retired General Sudradjat, a former Defense Attaché in Washington, as Ambassador to China indicates a more careful approach in Jakarta's dealings with Beijing.

Question. Sticking with corruption, up until the mid-1970s, Hong Kong faced rampant corruption, permeating almost every area of people's lives. In 1974, after widespread public discontent, the Independent Commission Against Corruption was enacted—an event that is rated as the sixth most important event in Hong Kong's 150-year history—and Hong Kong has since turned into a model for anticorruption. Is the public frustration in Indonesia regarding corruption at a high enough level to support a similar government agency?

Answer. The Hong Kong model to countering corruption is certainly to be emulated in international practice. But Hong Kong is small. The Yudhoyono government faces a much more amorphous and geographically wide-ranging problem. Nevertheless, it has breathed new life into Indonesia's statutorily independent Anti-Corruption Commission (KPK), legislatively authorized in 2002, and a new Anti-Corruption Court has been established. The President was able to garner a better than 60 percent popular mandate in the Presidential runoff election in September 2004 because of his strong stance against corruption and in favor of improved government performance. Moreover, he underscored his 2004 election campaign pledge to contain corruption by issuing Presidential Decree No. 11/2005 which authorized a new 51 member ministerial-level Coordinating Team for Corruption Eradication. All Ministers and senior officials in the Presidency had to sign anticorruption pledges when the new government took office in late 2004 and an assets disclosure procedure is in place.

President Yudhoyono has given strong impetus to the anticorruption campaign by sanctioning investigations into the National Election Commission, Bank Mandiri, Bank Indonesia, and other financial institutions, and he has given the Supreme Audit Agency (akin to the U.S. GAO) sweeping powers to track nonbudgeted spending in state-owned enterprises (SOEs), including the Garuda national airline, Telkom, and the social security agency. President Yudhoyono has also supported investigations into at least 57 high officials, including the former governor of Aceh (now jailed), other governors, legislators, mayors, and other officials for alleged misuses of public funds. As recently observed by a respected consulting firm, Van Zorge and Heffernan, the President "is still seen to be clean and is widely viewed both domestically and internationally as a leader with scrupulous ethics and unassailable integrity."

All this does not mean, however, that problems of malfeasance in government have been solved. Far from it. It will be a long, tough slog with setbacks. But, under the Yudhoyono administration, there is promise that the situation is improving and that gains in transparency and integrity in government will be achieved in the next few years.

Question. What can we in Congress be doing to help our fellow legislators in the Indonesian Parliament increase their influence and capabilities?

Answer. USINDO has supported efforts to promote closer relations and understanding between the United States and Indonesian legislative branches. For a number of years young Indonesians have served as Congressional Fellows under international exchange programs but, with the further development of Indonesian democracy and the important issues before our two countries, enhanced interchange is recommended.

The U.S. Congress can provide support to moderate members of the Indonesian Parliament (DPR) and enhance their influence by continuing to bolster the bilateral relationship across a wide range of common interests and programs: Restoration of a full and complete defense relationship; conditions and incentives for U.S. investment in Indonesia; promotion of a more open and robust bilateral trade; and continuing U.S. Government support for assistance to the Indonesian education system.

We would urge a continued expansion of the bicameral U.S. Congress Indonesia Caucus which currently has 24 members: 22 from the House and 2 from the Senate. We would further suggest that the caucus develop a close relationship with its new counterpart in the Indonesian Parliament, the Indonesia-United States Working Group. Nineteen members of the DPR have joined this group, which is led by strong supporters of improved United States-Indonesian relations, and it is expected that they will propose initiatives to establish a variety of ties with the U.S. caucus.

Additionally, we suggest that the Congress organize periodic CODEL visits to Indonesia and that members agree to appointment requests by Indonesian parliamentarians during their visits to Washington. Meetings with members of the DPR's Commission I (committee on foreign and defense affairs) would be quite productive and appropriate to address pressing issues, including military-to-military relations, Aceh and Papua.

Finally, we applaud the initiative of the House International Relations Committee to establish a Democratic Assistance Commission to support the legislatures of emerging democracies. A House staff delegation recently visited Jakarta and the DPR is reportedly under serious consideration for inclusion in this new program. Specific interests to be served through a closer relationship between the Congress and the DPR are legislative research and drafting, constituent services, budget and measures to reduce reliance of the DPR on the executive for its routine operations and support, and strengthening DPR relations with civil society organizations, including those concerned with human rights.

RESPONSES OF DR. HADI SOESASTRO TO QUESTIONS SUBMITTED BY SENATOR LISA MURKOWSKI

Question. Dr. Soesastro, given the events over the past few years, where do you see Indonesia in 2020?

Answer. Over the past few years Indonesia underwent a remarkable process of democratic transition. It can be said that the process has been successful because the people are ready for it. In 2004 the people enthusiastically went to the voting booths to exercise their sovereign right. They voted out a government that in their view did not deliver and reduced their support for political parties that they regard as being insensitive to their aspirations. If this enthusiasm can be sustained, by 2020 Indonesia could indeed become the fourth largest, consolidated democracy in the world. This is of great value to the global community of democracies as Indonesia is a country with the largest Muslim population.

It needs to be recognized, however, that the process of democratic consolidation in the country is still rather fragile. People's expectations are high, but the institutions to support the democratization process are still weak. There is the risk of people's disillusionment should not be ignored. The democratization process cannot be taken for granted. Development and strengthening of political institutions should be given priority in the country's agenda. Education also plays a critical role in strengthening the democratization process. The global community of democracies, including the United States, could extend a helping hand.

Question. Your testimony indicates that Indonesia feels a sense of commitment to ensure the success of ASEAN. Have the United States efforts in signing bilateral

FTAs with Singapore and Australia, along with our current negotiations with Thailand helped or hindered ASEAN's growth and what is the view of the FTAs in Indonesia?

Answer. To Indonesia, the success of ASEAN is important for Indonesia's own development, because a peaceful and prosperous regional environment will directly benefit Indonesia. Indonesia supports any effort by ASEAN's partners, including the United States, to strengthen relations and cooperation with ASEAN as a group and with individual ASEAN countries. Strengthening relations and cooperation between the United States and ASEAN can take many forms. Concluding bilateral free trade agreements (FTAs) is only one initiative that could contribute to deepening the overall relationship. However, in drafting such bilateral FTAs, the United States should give duly consideration to their impacts on the region as a whole because FTAs are by their nature discriminatory. The U.S.-Singapore FTA has included some provisions, albeit limited, that could bring some positive impact on Singapore's neighbors, particularly Indonesia. The so-called Integrated Sourcing Initiative, allowing some products that are produced in Singapore's immediate neighbors to enter the U.S. market as if they were produced in Singapore is an innovation and should be expanded in its implementation.

In Indonesia's view, the United States should increase its efforts to strengthen trade and economic relations with all ASEAN countries, with some in the form of FTAs and with others perhaps mainly through enhanced Trade and Investment Framework Agreements (TIFAs). All these relations could contribute not only to increasing trade and economic relations with the United States but in particular will help sustain domestic economic reforms and the strengthening of markets in the ASEAN countries.

Question. How is Indonesia managing the numerous ASEAN FTAs (China, Japan, Korea, India) with its own domestic issues?

Answer. Indonesia's main challenge is to be able to manage the development of a very few sectors that are seen as highly sensitive politically. Since the introduction of the ASEAN Free Trade Area (AFTA) in 1993, Indonesia has done away and greatly reduce many of its trade barriers, tariffs in particular, but also a number of nontariff barriers. It is important to note that in line with the reduction of the AFTA preferential tariffs, the overall (MFN—most favored nation) tariffs have also come down. Thus, the conclusion of the FTA with China, a highly competitive economy, requires less painful adjustments, although it remains challenging. If Indonesia can manage this rather well, it is likely that it will also be able to do so with Japan, Korea, and India.

Only a very few manufacturing sectors in Indonesia continue to receive some protection, and they are also no longer excessive. The more difficult area is agriculture because it affects the livelihood of a large number of low-income people. This is not a major problem in ASEAN's FTA with Japan and Korea that have very high-cost agricultural production. It could be a major problem for Indonesia with the United States, as already exemplified now in the U.S. exports of chicken legs to Indonesia.

Question. Do you see a difference in the promotion of Indonesia's interests regionally from the authoritarian rule of Suharto to a more representative government today? Is Indonesia looking to expand its influence in the region to promote its views?

Answer. During Suharto's rule, Indonesia played an active role in ASEAN as a de facto leader. It is perhaps of interest to note that while domestically the government was rather authoritarian, it was quite democratic in the interaction with its ASEAN neighbors. In fact, Indonesia has exercised a kind of leadership through building consensus. This posture had a lot to do with the origin of, and rationale for, the regional cooperation arrangement: Indonesia's genuine intention to become part of a peaceful regional order.

Following the financial crisis of 1997/98 and Suharto's fall, the succeeding governments were preoccupied with domestic problems and gave little attention to ASEAN and regional cooperation. This began to change since the end of 2003 when Indonesia hosted the ASEAN Summit and was eager to craft a new agreement for ASEAN that would give it a new stimulus and life: The realization of an ASEAN Community. The present government of President Susilo Bambang Yudhoyono gives greater attention to ASEAN and Indonesia's role in it. The government has stressed the importance of political development, including democratization in the region, and the role of civil society and the people in regional community building. This has been stated explicitly in the concept of the ASEAN Security Community that was originally proposed by Indonesia, and was further stressed at the recent ASEAN Lecture of President Susilo Bambang Yudhoyono on 8 August 2005.

Question. Dr. Soesatro, in my State of Alaska, there are 20 different types of languages spoken by Native Alaskans. In Indonesia, there are more than 250, not to mention many religious, ethnicities, and cultures. For Indonesia to move forward economically, what considerations must it make with regard to this fact?

Answer. It is most fortunate that Indonesia's founding fathers were enlightened to have adopted a common language for the very diverse communities, the Indonesian language (Bahasa Indonesia) that is derived from the Malay language, the language of a small ethnic group in the country but has become the lingua franca since the beginning of the 20th century, rather than the language of the majority (Javanese). The Indonesian language has become a strong uniting factor. The nation has also adopted the wisdom of "unity in diversity" that values inclusiveness, plurality, and tolerance.

It needs to be recognized, however, that these ideals have been—and perhaps will be increasingly—under threat. The threat has come from a growing sense of parochialism and primordial sentiments, and especially religious fanatism and fundamentalism.

In regard to the former, the nation has tried to deal with and to overcome it by introducing greater regional autonomy under a more just and equitable decentralized system. This has been done in recognition of the highly centralized system of government in the past. The decentralization project, implemented since 2001, is also seen as part and parcel of the democratization process. There are many challenges in the implementation of decentralization but overall it has been a success. In June 2005, a system of direct election of local governments has been put in place, and the 200 or so local elections did proceed without major problems.

On the latter, it is a much more complicated problem for the nation to deal with. There cannot be a scheme to accommodate religious or other extremism in the governance of the nation. Indonesians are puzzled by the motivation of such groups to create so much damage to the country. Home grown terrorists have also become susceptible to the mobilization by international terrorist groups. Both national and international efforts will be necessary to deal with this problem.

Overcoming these problems will be important for Indonesia to move forward economically. Without a secure and stable environment Indonesia cannot expect international investors to come.

Question. Could you comment on the oil subsidy issue in Indonesia? What is the impact this has on economic growth and foreign direct investment in Indonesia?

Answer. Fuel subsidies have been given for a long time. Over the years there have been efforts to rationalize these subsidies. Until the recent increases in international oil prices, gasoline was no longer subsidized. On the other hand, kerosene—regarded as a fuel for the poor—continues to be heavily subsidized. Some other types of fuel, such as diesel oil, are also subsidized. These subsidies are paid from the budget. With the recent increases in the price of oil, the burden to the budget has increased dramatically. If prices are not adjusted, the government will have to allocate about 30 percent of the budget for fuel subsidies. This cannot be sustained and justified. However, it has always been a politically difficult problem for the government to take back what it has given to the people, and specifically since the people regards it as their right to receive the subsidy.

While subsidies can be a legitimate instrument for social policy, the problem with the fuel subsidies is that most of it has not been received by the groups in the society—the low-income people—that are the target of the policy. Differential pricing can never be successfully administered. In addition, the low prices have also led to smuggling of fuel to neighboring countries.

Despite protests, on 1 October 2005 the government has raised fuel prices by an average of 130 percent. This has been the highest increase ever. This was a brave decision, and aroused a lot of criticisms. However, the government has justified it on the basis that the highly distorted prices are economically unhealthy, and that one-shot increase will be better than a series of price increases that could lead to excessive price adjustments each time.

The immediate impact on the economy of this price shock will be an increase in inflation. However, if managed well by the monetary authority, the inflationary impact can be checked. In the medium and longer term, fuel prices that are more aligned with international prices will result in a healthier economy. International investors have also welcomed this decision. This is immediately shown by the firming up of the currency and increase in stock prices.

Question. How is the transportation infrastructure in Indonesia? How does this hinder economic development?

Answer. The transportation infrastructure in Indonesia today has become a major obstacle for economic development and growth. It is in a condition that discourages investors. Since the financial crisis in 1997/98, there has been no major infrastructure development project in the country.

The government is faced with a serious resource constraint to undertake large infrastructure projects but the investment environment has not been conducive to private, national, and international, investment in infrastructure.

At the beginning of 2005, the new government organized an infrastructure summit to offer a large number of infrastructure projects to private investors. There was great interest on the part of international investors, but the process has been slow. The government needs to put in place regulations that would provide greater certainty. Unless this is done, it will be difficult to expect great improvements in the country's infrastructure, and in turn a return to higher economic rates of growth that will be necessary to create sufficient employment.

RESPONSES OF RANDY MARTIN TO QUESTIONS SUBMITTED BY SENATOR LISA MURKOWSKI

Question. Mercy Corps has done a remarkable fundraising for tsunami relief. What has the NGO/relief community learned from this incident in terms of fundraising and gaining awareness of the issue? How has Katrina affected the tsunami response?

Answer. I don't believe the tsunami has taught us any lessons, but rather emphatically confirmed what we already knew.

First, that the American public is incredibly generous when confronted with catastrophic disasters, particularly natural disasters that receive overwhelming media coverage. The tsunami was the worst natural disaster in recent times, and, not surprisingly, it elicited the largest public response in terms of dollars donated. Mercy Corps raised $31 million in private funds—more than ten times the previous disaster record of $3.3 million for Kosovo in 1999. Katrina confirmed this lesson when Mercy Corps raised $7.2 million (and counting) despite our relative inexperience in domestic disaster response.

A second lesson of the tsunami is that donors tend to give very quickly and usually to the largest, best-known agencies, not necessarily the ones with ongoing on-the-ground operations in countries affected by the tsunami. The American Red Cross dwarfed all other U.S. charities in funds raised for the tsunami and indeed was the virtual default charity for many donors, especially Fortune 500 corporations. Many corporate donors, even large private donors do little to research into the organizations that they are giving to. The desire to provide help quickly—as well the need to publicly demonstrate this concern to stakeholders—leads to impulsive decisions-based brand-name perceptions rather than true needs on the ground and capacity to deliver results.

A key lesson for mid-sized groups like Mercy Corps is to proactively engage large corporate and foundation donors before disasters strike to make the case for diversifying funding among several groups. Groups like the Bill & Melinda Gates Foundation have long practiced this methodology during disasters, recognizing that different groups bring different core skills to the table.

Another lesson is the rise of Internet commerce during disasters—not only organization's own Web site, but also third party entities like Network for Good, which collect funds on behalf of many charities, and also e-commerce giants like Amazon, which collected tens of millions of dollars on behalf of the Red Cross. The rise of e-commerce during disasters is reducing the costs of fundraising, but even more important, it is increasing the speed of response by giving disaster response planners more money, more quickly, enabling more robust initial responses. For example, in the first 5 days after the Pakistan earthquake, Mercy Corps raised $525,000—funds that are immediately available to spend. In the pre-Internet era, a direct mail piece would just be dropping by Day 5, and the first gifts would be arriving days after that. The faster flow of funds takes the "how much money will we raise" guesswork out of the equation, leading to more aggressive responses in the field.

As for the second part of the question—whether Hurricane Katrina has affected the tsunami response—the answer for us is "no." We have raised $2.2 million for tsunami relief in FY06 (that is, since July 1), but most of it was from large donors who had funds remaining. The general public response has tapered off well before Hurricane Katrina came on the scene. Beyond fundraising, the response to Hurricane Katrina also has not affected our programs or operations in Indonesia or the 34 other countries we work in around the world. We found the existing systems and

staff we had in place for international response were well positioned to deal with the issues in responding to Hurricane Katrina.

Question. How has the transition from relief to reconstruction been? Has the threat of terrorism been an issue in your experience?

Answer. In Mercy Corps' experience the transition from relief to development is not a linear process easily captured on a timeline. That being said, reconstruction is moving forward in Banda Aceh with significant accomplishments in terms of meeting people's basic needs, restoring livelihoods and markets, and in general creating a better economic atmosphere.

One area that needs continued attention and support is in the physical reconstruction, particularly of the estimated 120,000 houses that were damaged or destroyed by the earthquake and subsequent tsunami. The current rainy season in Indonesia is posing great difficulties for some families who are living in temporary quarters or in inadequate shelters. The United Nations and the International Federation of the Red Cross and Red Crescent Societies have recently taken on the need in increasing support for these families.

In terms of the threat of terrorism, Mercy Corps like many organizations were concerned by initial press reports in the post-tsunami period about the influx of radical or violent groups moving into Aceh. However, Mercy Corps' team on the ground has not reported any concerns or issues regarding these groups. In fact, Mercy Corps, through its work in over 40 local religious and social institutions including mosques, boarding schools, and orphanages, has received an overwhelmingly warm welcome by local religious and social leaders.

Question. In Alaska fishing is a way of life and plays an important part in our communities and our economy. Hurricane Katrina has caused major damage to those fishing communities on the gulf coast. Has Mercy Corps focused on fishing communities in Indonesia?

Answer. Mercy Corps believes that economic revitalization is key in achieving a long-term, sustainable recovery of Aceh. Realizing the importance of fishing as a source of income for many tsunami-affected communities, Mercy Corps started supporting the recovery of this sector in early January 2005. Mercy Corps is working in more than 21 fishing communities on the west coast of Aceh, in the area of Meulaboh in the district of Aceh Barat.

The fishing program is holistic in focusing on the complete fishing market chain:

- In the boat repair program, 142 damaged boats have been transported back to sea in cash-for-work projects since January 2005. Of these 142 boats, 138 have been fully repaired and 135 are back at sea with a full complement of fishing kits and engines.
- 213 cash grants have been provided to sampan (canoe) fishermen to commission local production of canoes and nets, a further 253 sampan grants are being processed, along with grants to fish vendors and processors (dryers, salters) to support the restart of their businesses. Further projects focus on supporting cage fishing and fish pond revitalization.
- Mercy Corps has provided a mobile ice machine to make ice available locally to preserve catch.
- Future projects will include: Building docks, landing stations (jetty), fish markets, auction houses, and workshops.

For all fishing activities, Mercy Corps closely collaborates with the DKP (Indonesian Ministry of Fisheries) and the Panglima Laut (Acehnese Fishermen's Association). Capacity-building and institutional support is provided and given to both of these institutions and several smaller local fishermen associations, and further training for fishermen and technical support is provided through coordination with the Center for Research for Coastal and Marine Management (CRCMM) of the Bogor Agricultural University (IPB).

Responses of Deputy Assistant Secretary Eric G. John to Questions Submitted by Senator Russ Feingold

Question. As you know, I have worked for several years now to ensure that justice is done in the case of the ambush that occurred in Timika in August 2002, killing one Indonesian citizen, two Americans, and wounding several others. Please provide an update on the status of the case. Do you have a sense of why Indonesia has issued no indictments and made no arrests?

Answer. The Indonesian Government continues to support achieving justice in this case, as does our Government. When President Yudhoyono visited the United

States in May 2005, he personally met with Mrs. Patsy Spier, widow of one of the murdered Americans, to convey his concern. The Indonesian National Police (INP) and the Indonesian military (TNI) also continue to work closely with the FBI in pursuing the investigation. With INP and TNI support, the FBI deployed to Papua in August. The FBI is currently evaluating further investigative options, and plans on returning to Papua again in the near future.

The Indonesians have not yet issued an indictment because the procedures of their legal system dictate that an indictment is not prepared until after a suspect is arrested and the police transfers his/her case to prosecutors. For a charge of murder, the police have 60 days after making an arrest to prepare a dossier on the accused and present it to the prosecutors. The prosecutors then have 50 days to prepare the indictment and present it to a court of law. The act of presenting the case before the court constitutes an indictment under Indonesian law. No arrests have been made because the main suspect, Antonius Wamang, is in hiding, and investigators are still working to identify other possible accomplices. We continue to make Wamang, and any other suspects' apprehension, a priority and closely monitor the investigation's progress.

Question. What steps have been taken thus far by the Indonesian Government to alter longstanding arrangements whereby the TNI engages in its own, sometimes quite lucrative, private sector interests? What are the major barriers to eliminating this practice, which is clearly an obstacle to professionalization of the military?

Answer. In September 2004, the Indonesian Parliament passed a law requiring the government to take over the military's business interests over a 5-year period. During this time, the defense budget is to be increased to make up for the lost business revenue. The Indonesian Defense Ministry has begun the transfer process, and the military's Supreme Commander has publicly stated that he supports the divestment. In addition, the government and the legislature are exploring the future adoption of legislation to place the TNI under the authority of the Minister of Defense.

The single most significant barrier to eliminating this practice is the present inability of the Indonesian Government to provide a defense budget, which makes up for the lost revenue and is adequate for Indonesia's legitimate defense needs. Nonetheless, President Yudhoyono has publicly called for the need to increase the defense budget. The recent Government of Indonesia decision to substantially reduce fuel subsidies removes some pressure from the government budget and could allow increased expenditures on defense, education, and health.

Question. As you know, Munir Said Thaib, a prominent Indonesian human rights activist, was murdered last year, and his killers have not been held accountable for their crime. A Presidential Fact-Finding Team was established to look into this case and this team reportedly implicated senior intelligence officers in the Munir murder. But the team's key recommendations and findings have been ignored by the Indonesian police and attorney general's office, the team's final report has not been made public, and the Indonesian Government has gone so far as to investigate members of the Fact Finding Team for defamation. This case calls the Indonesian commitment to the rule of law into serious question. What steps have been taken by the administration to encourage a transparent, law-governed investigation and prosecution of the Munir murder case?

Answer. I share your concern about this case. For that reason, when I first visited Indonesia this summer, I met with NGO representatives who had worked with Munir to hear their views and assure them of U.S. Government attention to this murder. During meetings with Indonesian Government officials on that trip, I impressed them that we view the pursuit of justice in this case as a critical issue.

The administration has followed this case closely from the beginning. Upon news of his death last year, we released a press statement expressing our shock and sadness, acknowledging Munir's status as an internationally respected human rights activist, and stating our hope that the investigation would reveal the facts about the circumstances surrounding his death.

As the investigation began, our Embassy met quickly with the Indonesian police investigating the case and communicated our interest in seeing justice for Munir's death to the highest levels in the Indonesian Government, including to President Yudhoyono. Ambassador Pascoe met early on with Munir's widow, Suciwati, and members of the fact finding team established by President Yudhoyono. Embassy officials have followed closely developments in both the police investigation and fact finding team, and Embassy efforts continue. Under Secretary Dobrianksy met earlier this summer with Suciwati in Washington, and other State Department officials have met with NGOs to discuss the ongoing case.

We believe that it is essential for the Indonesian Government to pursue a thorough investigation and seek justice in this case. A credible investigation and related prosecutions would demonstrate to the world that Indonesia seeks accountability for this horrendous crime. We noted the President's appointment and support for the fact finding team as a positive step. It would not be appropriate for me to comment on the details of the current trial of one suspect, Pollycarpus, or the ongoing police investigation, but we continue to closely monitor both.

Question. I applaud the peace accord for Aceh, and commend the negotiators on this important achievement. Certainly, the United States and the rest of the international community should be strong partners in supporting this peace, and carefully and fairly monitoring the implementation of the accord. But this agreement does not address the disarmament of government-backed militias in the regions. This seems a rather glaring omission. How should this issue be addressed?

Answer. The ultimate aims of the Aceh peace agreement Memorandum of Understanding (MOU) are to end the longstanding conflict between the Indonesian Government and the separatist Free Aceh Movement (GAM) and to create the circumstances for successful political and economic development that will tie Aceh in more closely with the rest of the country. The MOU is comprehensive, and contains provisions to address security, political, and economic issues. The success of the security provisions of the MOU is essential for the political and economic provisions of the agreement to be implemented.

As stipulated in the MOU, GAM has already begun to turn in weapons in parallel with TNI troop withdrawals. This process is to occur in four stages and conclude by December 31, 2005. Initial progress has been excellent and, although incidents have occurred, the overall level of violence in the province has decreased. I observed a constructive attitude of engagement on the part of the Indonesian Armed Forces and GAM during my just-completed trip to Aceh. The Aceh Monitoring Mission's role is commendable. Although weapons will no doubt remain in the hands of some individuals and groups, violence in Aceh is increasingly being delegitimized.

We intend to support several key aspects of MOU implementation with U.S. funding, including public information campaigns, public dialogues, technical assistance and capacity-building for key provincial/local government offices charged with MOU implementation, and assistance related to the reintegration of GAM excombatants into mainstream society. In coordination with other key donors and partners, USAID plans to support community-based development programs in villages that are accepting the reintegration of amnestied political prisoners and demobilized GAM fighters, and those villages which have been identified as a highly conflict-affected community. In addition, at the Indonesian Government's request, during the first week in October 2005, we plan to broaden our existing International Narcotics and Law Enforcement (INL) Indonesian police reform assistance program to include civil disturbance management and human rights police training in Aceh. The police are in the process of taking over security duties in the province from the military, and this training will help to ensure that in doing so they are properly trained and sensitized to human rights issues. Finally, USAID is now disbursing $700,000 for public information campaigns and a further $125,000 for technical assistance and capacity-building.

Question. When I met with Indonesia's Defense Minister earlier this year, I was shocked to hear him assert that Jemaah Islamiya is not a terrorist organization, and that to think otherwise was to be misinformed. Is this the official position of the Indonesian Government? How can Indonesia be a strong partner in combating terrorism if its most senior officials fail to acknowledge the problem in the first place?

Answer. While the Government of Indonesia has not officially banned Jemaah Islamiya (JI), it has exhibited regional leadership in counterterrorism by arresting and prosecuting al-Qaeda linked members of JI. Furthermore, it continues to strengthen its law enforcement and judiciary personnel to bring terrorists to justice. Most recently, two JI terrorists were sentenced to death for their participation in the bombing of the Australian Embassy in Jakarta. President Yudhoyono continues to make public statements on the importance of a strong counterterrorism agenda. The Government of Indonesia is currently in the process of establishing a coordinating agency to focus on its counterterrorism agenda. President Yudhoyono is also committed to rejecting any links between terrorism and religion and does so by promoting an interfaith dialogue and engaging in outreach to religious moderates. We will keep working with the Government of Indonesia to address the threat of JI in the region and within Indonesia's borders. In order to work with us on this impor-

tant goal, Indonesia must also continue focusing on strengthening its capacity to pursue and bring terrorists to justice.

Question. Overall, what is your sense of how the Indonesian people view U.S. efforts to fight terrorism around the world? Do the Indonesian people have the impression that the United States is hostile to Islam?

Answer. Under the leadership of President Yudhoyono, Indonesia is making substantial progress in its democratic transition. While the majority of Indonesia's people are Muslims, it is a multireligious society that strives to maintain religious freedom and promote interfaith dialogue. During President Yudhoyono's May visit to Washington, he and President Bush underscored their strong commitment to fight terrorism and agreed that it threatens the people of both nations and undermines international peace and security. The two leaders rejected any link between terrorism and religion and pledged to continue to work closely at the bilateral, regional, and global levels to combat terror. While some groups in Indonesia have been critical of U.S. efforts to fight terrorism around the world, the views of the Indonesian people are changing as our relationship with Indonesia becomes stronger. Following the tsunami disaster, the compassion of ordinary American citizens and the private sector, combined with prompt government action and cooperation, has significantly changed the way Indonesians view the United States. The President's Education Initiative and our diverse assistance also help to change Indonesians' perceptions.

According to post-tsunami polls conducted by the nonprofit/nonpartisan organization Terror Free Tomorrow, 65 percent of Indonesians are now "more favorable" to the United States because of the American response to the tsunami, with the highest percentage among people under 30. A separate poll conducted by the Pew Global Attitudes Project in Indonesia reports that nearly 80 percent of Indonesians say that donations gave them a more favorable view of the United States. We hope that our continued cooperation on tsunami-reconstruction efforts and other shared goals will strengthen these favorable views and help us in our efforts to combat terrorism.

RESPONSES OF HON. JAMES R. KUNDER TO QUESTIONS SUBMITTED BY SENATOR RUSS FEINGOLD

Question. It seems to be that the emergence of a strong civil society that demands good governance is vital to the success of the peace agreement in Aceh. What kind of assistance is the United States providing to strengthen civil society in Aceh? What about other international donors?

Answer. USAID has a long history of supporting civil society organizations (CSOs) in Indonesia. The USAID Civil Society Strengthening Project (CSSP) provided capacity-building assistance to more than 100 CSOs in Indonesia, including at least 6 that are Aceh-based. Under CSSP, USAID's assistance strengthened the ability of CSOs to analyze and advocate for policy reforms and their implementation; improved CSOs' management, administration, and planning capabilities; and enhanced CSOs' financial self-reliance.

USAID has utilized a small grants program to support a number of CSOs in Aceh since 2000 through its Support for Peaceful Democratization program and its predecessor. Prior to the tsunami, this assistance was mainly to CSOs advocating for human rights, transparency and accountability, and peace and reconciliation. Since the tsunami, USAID has provided small grants to CSOs to become involved in humanitarian response, recovery, and now peace-building.

In support of the peace process, many CSOs will be involved in public information campaigns, peace-building initiatives and support to the local elections in Aceh. USAID also supports CSOs that are advocating for transparency and accountability in Aceh.

More generally, USAID's support for Tsunami Recovery and Reconstruction programs in Aceh will include targeted assistance to women-led nongovernmental organizations or CSOs, community mapping programs being implemented by an Indonesian CSO (an essential first step toward shelter reconstruction), and anti-trafficking programs that will directly support CSO activities. USAID's livelihood restoration programs will include participation by producer cooperatives, another form of Acehnese CSO.

USAID is also providing critical support to strengthen local governance in Aceh, building on our successes with these types of programs throughout Indonesia. In addition to direct technical assistance and training for city and district governments in Aceh (kota and kabupaten), our local governance programs emphasize transparency and public participation in government decisionmaking. CSOs play a crit-

ical role by demanding good governance and are important partners for USAID in all of our local governance programs.

In these programs USAID is collaborating with a number of international donors. The European Union, acting through the European Commission, is directly engaged in supporting the implementation of the peace agreement, first through support for the Aceh Monitoring Mission and then through planned assistance for reintegration of former Free Aceh Movement combatants and political prisoners. The World Bank-managed Multi-donor Trust Fund for Aceh and Nias is considering support to a United Nations Development Program activity that will provide over $10 million for capacity-building and small grant support for CSOs in Aceh.

Question. I have been struck by how often some of the most alarming and militant forces in Indonesian society point to official corruption as a primary grievance. Please describe the scope and scale of anticorruption assistance the United States currently provides to Indonesia.

Answer. Corruption is a serious obstacle to Indonesia's continued economic, democratic, and social development. A lack of transparency and consistency in the interpretation and application of laws and regulations raises concerns about corrupt practices and discourages investment necessary to create jobs and stimulate economic growth.

In the day-to-day lives of the Indonesian people, an informal "envelope" system of payoffs to government employees undermines the rule of law and makes government services much more expensive to secure. A lack of adequate controls over public procurement, although now beginning to be addressed by the Government and international lending institutions, robs the public purse of funding desperately needed for public goods and services.

President Susilo Bambang Yudhoyono's willingness to undertake difficult reforms provides the U.S. Government with a unique window of opportunity to support his efforts at tackling corruption, instituting justice sector reforms, and continuing with the overall democratic reform process. USAID is viewed as a leader in supporting Indonesia's democratic reform process and strengthening national and local democratic institutions.

Given the breadth and depth of these problems in Indonesia, USAID's program addresses issues of corruption in the economy, the political and judicial systems; in the control of natural resources; and in the operations of government by focusing on the specific challenges of governance that must be addressed in each of these areas.

Through our Economic Growth work, USAID promotes economic governance, including combating corruption and financial crime. Streamlining business registration by consolidating the required permits and licenses within a single office reduces the opportunity and incidence of corruption at local levels. USAID is also assisting local, provincial, and national governments to evaluate regulatory impacts. This helps separate those levies that have fiscal merit from those that are introduced for "rent-seeking" and corrupt purposes. Other USAID activities target the enterprise and agriculture sectors.

Because the adjudication and enforcement of law has been fraught with inefficiency and corruption, USAID's Economic Growth Program has designed a major Judicial Reform initiative that targets the Commercial Court and the Anti-corruption Court. The Commercial Court currently adjudicates Bankruptcy and Intellectual Property Rights cases only. In addition to bolstering judicial capacity to adjudicate such cases and improving court management and administration, USAID will work with the Supreme Court to expand the authorities of the Commercial Court to hear a broader range of the increasingly complex commercial cases. Otherwise, cases related to sophisticated financial and contract law are heard by District Courts that are ill-equipped to adjudicate such matters.

Assistance in establishing and strengthening the Anti-corruption Court is among the several initiatives designed to combat corruption and financial crime directly. Strengthening the processes, practices, and competencies of the Anti-corruption Court will result in improved adjudication of such cases.

USAID is also implementing a major "Financial Crimes Prevention Project" (FCPP) that targets major Government of Indonesia (GOI) institutions associated with anticorruption/antifinancial crimes activities. Under FCPP, USAID helped the GOI establish the Financial Intelligence Unit, the primary unit that tracks financial transactions to detect and prevent financial crime. In less than 1 year, compliance, cooperation, and convictions have all increased. In February 2005, Indonesia was removed from the Financial Action Task Force international blacklist that it had been on since 2001. Going forward, USAID will also provide capacity-building assistance to the Corruption Eradication Commission, the Supreme Audit Commission, the At-

torney General's Office, and the Inspector General in the Ministry of Finance. Together, these institutions comprise the front line of Indonesia's efforts to combat corruption and financial crime.

USAID's Democratic and Decentralized Governance Program works with both governmental institutions and nongovernmental actors on preventing corruption, creating a more accountable and transparent governance environment, and increasing public oversight of government. For example, USAID is (a) working with national, regional, and local-level Parliaments to address transparency in governance and to equip these legislative bodies with the appropriate tools to develop sound policies and regulations; (b) training local governments in participatory planning, performance-based budgeting, civil service reform and improved access to services; and (c) strengthening civil society organizations including universities, political parties, NGOs, business associations, labor organizations, and the media to advocate for transparency and accountability in government and legislative procedures, as well as to provide public oversight to governmental operations.

Building on the first direct Presidential election in 2004, the expansion of direct elections to the provincial and local levels in 2005 was a critical next step in increasing accountability in government. USAID's programs have provided training to regional election commissions in eight provinces, including Aceh, on adopting a model code for local elections, formulating voter information strategies, and addressing problems of voter registration. USAID is also working on key legislative issues such as the Draft Freedom of Information Act, the Draft Criminal Code, the Codification of Election Laws, and other important anticorruption legislation. Finally, USAID is finalizing the design of a new long-term Rule of Law/Justice Sector Reform activity which will provide direct assistance to the Supreme Court, the Commission on Anti-Corruption, and the Attorney General's Office in their efforts to strengthen the public's trust in these governmental bodies. The program will work with these institutions to improve transparency, efficiency, and access to justice.

Other USAID programs, such as Basic Education, Basic Human Services and Healthy Ecosystems include important good governance components that contribute to anticorruption efforts at the district level.

RESPONSES OF DEPUTY ASSISTANT SECRETARY OF STATE ERIC G. JOHN TO QUESTIONS SUBMITTED BY SENATOR BARACK OBAMA

Question. We all know that the Indonesian military is the pivotal institution in the country. In short, it really is the only truly national institution that is capable of holding the far-flung archipelago nation together.

The history of the TNI is checkered, to say the least—full of corruption, human rights abuses and so forth. Many of these problems exist today, and I believe the Indonesian military simply must make progress in reforming if Indonesia is to move to the next stage of development and modernization.

Credible estimates suggest that somewhere between 50 to 70 percent of the Indonesian military budget is self-generated, which is a huge problem for obvious reasons concerning corruption, transparency, and civilian control.

Has the Indonesian Government recognized this problem? What steps are they taking to deal with this issue? Do they have the resources to fund the Indonesian military at appropriate levels—if outside funds are cut off?

Answer. The Indonesian Government recognizes the problems associated with having its military procure much if not the majority of its own fimding. In September 2004, the Indonesian Parliament passed a law requiring the government to take over the military's business interests over a 5-year period. During this time, the defense budget is to increase to make up for the lost revenue. The Indonesian Defense Ministry has begun the transfer process, and the military's Supreme Commander has publicly stated that he supports the divestment.

As part of this process, the Indonesian Government needs to determine how it will provide the resources to fund the military at appropriate levels. This will require prioritization of the national budget, a difficult task given that the country has only recently recovered from the Asian economic and financial crisis, has not yet achieved economic growth rates sufficient to accommodate its burgeoning population, and has many other pressing demands for budget resources, including tsunami reconstruction, improving education, maintaining public health programs, and decreasing fuel subsidies. Nonetheless, President Yudhoyono has spoken publicly about the need to increase government financing of the military.

Question. The strategic location of Indonesia is critical. One of the major reasons why, is that an estimated 30 percent of the world's shipping and 50 percent of the world's oil pass through the Strait of Malacca—this is a critical chokepoint.

In the past, there have been concerns about piracy, as well as terrorist activity, in this area. As a result, Indonesia is working with Malaysia, Singapore, and Thailand to enhance the security of the strait.

What is the U.S. assessment of these efforts? What else can be done to bolster security in this key area?

Followup: I understand that there are regional sensitivities that augur against an overly direct U.S. role in this issue, but is there anything else we should be doing—either on a bilateral or multilateral basis—to improve security?

Answer. The United States is pleased with the efforts of Indonesia, Malaysia, Singapore, and Thailand to improve security in the Strait of Malacca. The littoral states have increased and coordinated their maritime patrolling efforts, and have launched new initiatives such as the aerial surveillance "Eyes in the Sky" program of joint patrol flights. On September 7–8, 2005, Indonesia hosted a meeting of the International Maritime Organization (IMO) devoted to examining ways in which the littoral and user states could further cooperate to enhance safety, environmental protection, and maritime security in the strait. Participants (including the United States) agreed to hold follow-on meetings designed to further clarify requirements of the littoral states and opportunities for user states to donate maritime security assistance. Possible contributions might include and aerial patrol platforms, surveillance equipment, and command and control systems.

The United States respects the sovereignty of the littoral nations, and is committed to working together bilaterally, multilaterally, and through the appropriate international organizations to achieve our mutual objective of improved maritime security in this key area.

Question. There is no question that Chinese influence is on the rise in Southeast Asia, and the relationship between China and Indonesia is no exception. One concrete example of this is that the two nations just signed of a series of agreements worth $20 billion in an effort to triple bilateral trade to $30 billion over the next few years.

In my view, it does not have to be a zero-sum game between U.S. and Chinese influence in the region. And, I don't think that we want to get into a situation—certainly not at this point—where we are forcing nations to pick sides.

Having said that, believe that we have to effectively manage this issue with focused diplomacy, senior level attention, and other instruments of U.S. power.

What is the United States doing to deal with this emerging issue in the region?

Answer. China's emergence in Southeast Asia is an important issue for the United States and the world. As China's influence grows, we are taking a multifaceted approach to deepening and strengthening our relationships in the region, while working to ensure that China's growing influence does not come at the expense of our national interests. We do this through bilateral and multilateral engagement with the countries in the region as well as through direct dialogue with Chinese officials.

The United States is using multilateral fora such as the Association of Southeast Asian Nations (ASEAN), the Asia-Pacific Economic Cooperation (APEC), and the ASEAN Regional Forum, to open markets and deepen our political and economic linkages with the countries in Southeast Asia. These activities demonstrate our commitment to the region and also help create opportunities for American business. One example of this is the development of the ASEAN Enhanced Partnership. This arrangement will ensure that our relations with the region are on par with those of other Asian countries such as Japan and China. ASEAN's eagerness to develop the Enhanced Partnership is evidence of the value the region places on its relationship with the United States. We are also working through APEC to promote free trade and through the ASEAN Regional Forum to enhance our security relationships with countries in the region.

In parallel with our multilateral engagement efforts, we are advancing our bilateral ties with the countries in the region. We have concluded a bilateral free trade agreement with Singapore and are currently negotiating a free trade agreement with Thailand. The United States is also seeking other partners with whom we may establish similar agreements. Free trade areas help enhance our economic relationships in the region and create opportunities for U.S. commercial interests.

We are also seeking ways to work with China to ensure that its increased involvement in the region does not come at the expense of open markets and transparency. Deputy Secretary Zoellick has addressed these issues with Chinese officials during the ongoing Senior Dialogue and Under Secretary for Global Affairs Dobriansky has sought to enhance cooperation with Chinese officials via the Global Issues Forum.

Finally, it is important to note that America's role in the Southeast Asia is increasing at the same time China is deepening its involvement in the region. Through our alliance relationships, our participation in regional fora, and the access we provide to markets, the United States plays and will continue to play an essential role in the Southeast Asian region.

Question. I have been following the situation in Aceh quite closely and actually offered an amendment to the Foreign Assistance Authorization Act, which was accepted by Chairman Lugar, concerning the situation in that part of Indonesia.

The recent progress between the GAM and the Indonesian Government has certainly been encouraging in recent weeks. There was more good news today as the BBC reported that the GAM has started to give up some of its weapons, deepening the peace process.

Don't get me wrong: There is still a long way to go and the peace deal could fall apart with little or no warning.

However, suppose for a moment the deal holds and is implemented. Is this model—cessation of hostilities, disarmament, a pullback of Indonesian troops, Aceh-based political parties, and certain forms of amnesty—a model that can be replicated in other parts of Indonesia?

Answer. In early October, I traveled to Aceh and met with the Aceh Monitoring Mission, the Indonesian Armed Forces, and representatives of the Free Aceh Movement (GAM), and I agree with you that the situation is encouraging. The first phase of weapons turnover and Armed Forces withdrawal went well, and I noted a constructive spirit of engagement in Aceh. I also agree with you that the peace agreement could face difficulties. Our intent is to support the reintegration process and remain engaged to help support this hopeful and historic process.

The conflict in Aceh is similar to conflict in other regions of Indonesia but also differs in some important respects. Consequently, aspects of the Aceh agreement may not apply to other regions. In Papua, for example, unlike the GAM, the separatist group Free West Papua Movement (OPM) consists of various tribal groups with distinct languages from different areas of that vast region and is a smaller and less organized group of poorly armed independence fighters. Additionally, the concept of locally based political parties is still very controversial in Indonesia and will need to be discussed further within the context of the country's burgeoning democracy, civil society, and free press. Nevertheless, the agreement's overall shape and comprehensiveness, in that it covers security, political, economic, and human rights issues, is something that could be useful elsewhere.

Grievances in both Aceh and Papua raise similar issues of economic development, political participation, and serious human rights abuses. To address these issues, President Yudhoyono has vowed to implement fully the 2001 Special Autonomy Law in Papua and has begun an effort to do so. We support him in this effort and have long encouraged the Indonesian Government to fully implement this law.

One factor that has influenced the early success of the peace agreement in Aceh is the opening up of the province to journalists, aid workers, and human rights organizations. This has led to increased international attention on Aceh, and both the Indonesian Government and the GAM now better understand that the international community supports Indonesia's territorial integrity and a peaceful end to the long-standing conflict there. In addition to fully implementing Special Autonomy, we believe the Indonesian Government should open Papua in the same manner and we continue to urge them to do so.

Question. In my view, one of the things that we need more in Southeast Asia is time, attention, and visits from senior U.S. officials. More time is something of which senior U.S. policymakers don't have vast amounts.

I was pleased to see that one of Deputy Secretary Zoellick's first foreign trips was to Southeast Asia, including a stop in Indonesia. But, I don't believe that Secretary Rice has yet traveled to the region, and more needs to be done.

It is understandable that the senior policymakers in Washington are often consumed with other parts of Asia—Japan, North Korea, China. But, how do we address this problem of trying to get this part of the world higher up on the agenda?

Answer. I agree with you that it is important that Southeast Asia receive sustained attention from our government. We are engaging with the governments in the region on both a bilateral and multilateral basis. The latter is important because of the increasing importance of ASEAN for governments in South East Asia. We discuss a range of issues with Southeast Asian countries, including economic development, regional security, and counterterrorism, and, most recently, combating Avian Influenza.

On the bilateral side, we work for close relations with Southeast Asian nations. To that end, Indonesian President Susilo Bambang Yudhoyono paid an official visit to Washington in May and met with President Bush, Secretary Rice, and several other Cabinet members. President Yudhoyono was also seated next to President Bush at the U.N. Secretary General's luncheon in New York recently. In addition, the Secretary visited Thailand on July 11, in part to review our tsunami recovery assistance. I have taken two trips to the region since June to establish working relations with a range of senior officials, most recently in Vietnam, Malaysia, and Indonesia.

On the multilateral side, Deputy Secretary Zoellick participated in the annual ASEAN Regional Forum Meetings in Vientiane in July. The Secretary met with ASEAN senior officials in Washington this summer and hosted a meeting in New York for ASEAN Foreign Ministers. Additionally, in September we had discussions with several Southeast Asian Foreign Ministers who traveled to Washington after the U.N. General Assembly for meetings. Secretary Leavitt, Under Secretary of State Dobrianksy, and Under Secretary of State Hughes are planning travel to Southeast Asia this fall. This fall, the United States is hosting the main working-level gathering of the ASEAN Regional Forum in Honolulu.

Congressional interest in Southeast Asia is also important. Here in the State Department and at our Embassies and consulates in the region, we encourage Members of Congress and staff to travel to Southeast Asia to experience its dynamism firsthand, and we will assist such travel in any way we can, including briefing Members or staff before they travel.