

INDONESIA: COUNTDOWN TO ELECTIONS

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INDONESIA: COUNTDOWN TO ELECTIONS

THURSDAY, MARCH 18, 1999

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

The subcommittee met at 10 a.m., in room SD-419, Dirksen Senate Office Building, Hon. Craig Thomas (chairman of the subcommittee) presiding.

Present: Senators Thomas, Hagel, Kerry, and Torricelli.

Senator THOMAS. I will call the subcommittee to order.

I am glad to have the opportunity today to have another informational hearing on Indonesia. Our last hearing was in 1998. It will give us a chance to gauge the present political and economic climate leading up to this June's elections.

I am going to keep my statement brief so we can get on with the witnesses.

Despite growing economic problems and some regional outbreaks of religious and ethnic violence, it is encouraging that Indonesia's Government has stayed the course on its promise of political reform and democratic elections, a development for which I think we should commend the government strongly.

I met last week with Amien Rais, one of a number of the opposition party candidates in the upcoming election, and was pleased that while he had some concerns, he was generally optimistic about the direction things are going and hopes that there will be an open, honest election and that that will set the course in a different direction. I hope he had reason and continues to, as June grows closer, to feel optimistic.

I also hope our Government will underscore to Jakarta the importance of continuing down the path without interruption or deviation and will lend assistance that we can toward that end.

That is not to say, of course, that everything is fine. I continue to be concerned about the sectarian violence in the east, continuing threats to the ethnic Chinese population, and East Timor. While I support settlement of that situation which would give East Timor at least autonomy, we probably need to temper the proposed solution with reality. East Timor is not presently capable of functioning as an independent entity, and to urge its immediate independence from Indonesia, as some do, probably ignores some of the reality. I hope we will continue to urge a solution there.

Finally, the economy, while showing some signs of stabilization, is still certainly in a shambles. I am interested in hearing from the

witnesses as to what their view of the economy is at present and whether adequate measures are being taken by the government to rectify things.

So, I think our purpose here is to try and get some updated information so that we can have a notion of what is going on, maybe more importantly what our role will be in terms of the election and what it is currently in terms of the economy, how Indonesia fits into the whole Asian question.

So, Secretary Roth, so nice to see you. I know you have been on the road and we are glad to have you and appreciate your taking time to come. So, if you will begin, sir.

STATEMENT OF HON. STANLEY O. ROTH, ASSISTANT SECRETARY OF STATE FOR EAST ASIAN AND PACIFIC AFFAIRS

Mr. ROTH. Thank you very much, Mr. Chairman, and let me begin by commending you and the subcommittee. All too often these days, Asian policy seems to be defined as China and Korea and nothing else, and the fact that the subcommittee, under your leadership, has regularly focused attention on Indonesia, one of our most important countries I believe in Southeast Asia, is important, and I think it demonstrates not just to the American people, but to the Indonesian people where these hearings get a lot of coverage, that Indonesia is indeed a high foreign policy priority for the United States and that we do care about what happens there.

Given your desire for information, I have prepared a rather lengthy statement covering many of the topics that you mentioned in your opening remarks, and I do not intend to read it. I will submit it for the record and instead just try to concentrate on a few key points so we can move on to the questions.

Senator THOMAS. We will include it in the record.

Mr. ROTH. Thank you very much.

First, I would like to start with a theme that I have discussed with you before both in hearings and privately which is the complexity of the situation in Indonesia. It really defies a simple up or down, good or bad characterization. I think that what I have tried to emphasize is that there have been a very large number of positive developments in the less than 1 year since President Suharto left office last May, and at the same time, there are a number of very serious, troubling developments that we cannot ignore simply because there have been so many good ones. In my testimony, I try to review them, but you have highlighted a lot of it already in your opening remarks.

I think probably the most positive development has been the openness of the political process. If you go back a year ago and read what was being said at the time of the transition in May, there was enormous skepticism about whether the country would wait for elections, whether the government could keep charge, whether there would not be revolution in the streets, whether there had to be a triumvirate or a snap election or something dramatic like that.

One of the major successes of the Habibie government has been to come up with a credible political process, one that has been accepted by all the major opposition leaders. We have had a proliferation of political parties including, as you mentioned, some of the

major figures. They are all running. There is access to the media. And most importantly, this is going to be the first election in Indonesia since 1955 where we will not know the outcome the day before the election. That is a major development.

So, I think that on the political side we have seen dramatic progress. We have seen, you mentioned, dramatic change with respect to East Timor. The government has come out with two major proposals, one for autonomy, or second, if autonomy is not accepted by the people of East Timor, independence. While this is subject to negotiation, I feel that this is the first time there has been a serious desire by an Indonesian Government to resolve this issue politically, and that is a major step forward.

There has been some progress—and I am being more cautious here—on the military side. We have seen decisions by ABRI, for example, to disassociate itself as a policy tool of the ruling party, to stay neutral during the election. We have seen some efforts—not enough and not fully successful—to account for the past and some of the abuses that took place in Aceh or in Timor or Irian Jaya. General Proboia is in self-imposed exile in Jordan, not committing some of the abuses that his forces were known for before. So, change, not necessarily enough, but change is starting on the military side.

On the economic side, while it would be difficult to express too much optimism, we have to look at where we were a year ago again. Last year we were talking about the Indonesian economy plunging downwards, possibly collapsing. We were talking about estimates of negative 13 to 15 percent growth, concern about the rupiah possibly deteriorating to 20,000. We worried about the possibility of famine. In that sense—and I am defining it in a limited sense—the Government in Indonesia have done better than expected.

In fact, that they avoided a famine, there was some good policy, as well as some food aid to make sure that rice was distributed and subsidies used effectively. The rupiah has at least temporarily stabilized in the 8,000 to 9,000 range, which is not terrific, but better than many had expected. We have found that some of the nightmare scenarios about the growth of poverty and the extent of unemployment were exaggerated and that some of the provinces in particular were doing far better than we had imagined, and that the problems are mostly concentrated on Java and urban areas and probably worse in Jakarta, but not some of the nightmare scenarios we had envisioned.

So, in all these areas, I think there is some good news.

At the same time, your statement again highlighted some of the bad news, and I think I would have to put at the very top of the list the question of the violence that has broken out in so many places in Indonesia. What we are seeing now in Ambon, what we saw earlier in East Java, some of the problems that have happened all around the country are really horrifying reminders that there is a large potential for violence and possibility for escalation. So, I think that is one of the crucial problems that the government still has to deal with more effectively.

Even in some of the areas which I referred to positively, there is a flip side to them. For example, East Timor. If the situation is

not handled carefully and if Indonesia simply walks away from the island, if in fact autonomy is rejected in the U.N. process, there is the prospect that what should be a positive could become a negative and that East Timor could descend into violence. So, we have to watch that situation closely.

I think I have already pointed out the economic challenges. There is a tremendous amount of work that remains to be done in terms of corporate restructuring, debt restructuring, getting the banks up and running again, which they are basically not, and just scrambling back to positive growth. I would say that here most of us have operated on the assumption that no fundamental turnaround in the economy was really going to take place until after they had elections, until after there was a measure of political stability, until after there was a perception of political legitimacy, and only then could the private sector make a judgment about whether it should come back into Indonesia. So, the elections have a crucial impact on the economy as well.

Let me leave this general overview and instead just try to highlight what are the priorities for the administration now on Indonesian policy.

Let me be very clear. Right now my No. 1 priority, the State Department's priority, is the elections. We see the June 7 elections and then the followup period between June and when the constituent assembly meets possibly in November to select the President as being crucial to the fate and future of Indonesia. From our perspective, free and fair elections are a necessary, if not sufficient condition for recovery. If they go well, I think there is a greater chance that the government will be able to deal with the enormous range of problems that Indonesia still faces, ranging from controlling violence to getting the economy started, to playing out the end game on East Timor, and all the other challenges. But if the election is not perceived as legitimate, if it is not perceived as free and fair, then of course there is a possibility that the situation will deteriorate rather than improve.

So, we are putting tremendous priority on the elections themselves. We have highlighted to the Indonesian Government, most recently during Secretary Albright's trip there, the importance of carrying through on the elections, the importance of making sure that there is not violence that would intimidate candidates from running, that would intimidate the campaign, limit access to the media. We highlighted the warning about what is called money politics in Indonesian terms, meaning whether funds would be spent to try to influence the outcome. This is a particular concern in the period after the June 7 election up until when the constituent assembly, or MPR, meets when you are really talking about 700 people selecting the next President and Vice President. This is a period when money politics, as they say, corruption as we would say, could be crucial, and so we are focusing attention on the need for transparency and not allowing money politics to dominate.

Finally, we are trying to help the Indonesians mount an election. There is almost no one alive and in government in Indonesia who participated in organizing a free and fair election before, since the last one was really 1955. Sure, they have had elections in terms of electoral lists and ballot boxes, but they have not had competi-

tion. They have not had to worry about problems of access to the media, good counts, securing the ballots, because they always knew the results in advance. Now they have to worry about these things.

The Indonesian Government, to its credit, has signed an agreement with the UNDP, United Nations Development Program, to oversee international assistance for the electoral program. They have been very clear—and I think correct—that this is not a situation of the international community coming in to run the elections. These are international elections, but Indonesia will allow international help, particularly in the technical assistance side, and it will permit international observers, which I think is a major step forward and very necessary. I expect there will be quite a few observers at this election.

For our part, we are trying to put up what I would call real money to assist on the technical side with the election and we have so far put up approximately \$30 million from the Agency for International Development, and we have been going around the world urging other countries to contribute generously as well. I have been dealing with the Japanese, with the Australians, with the EU, some of the individual European countries to try to make sure that there is a generous contribution because these elections are so important for the future of Indonesia.

So, at this point I would say that we are working hard. We are hopeful. The initial signs of good, as you said in your meeting with Amien Rais, the opposition is giving high marks, but we are not home free yet. We have to make sure that the conduct of the election is good, the count is good, and then what happens between the election and the selection of the President and the Vice President later in the year.

Let me turn to the more difficult topic even of violence and what can be done about that. I think it is important to recognize that in one sense there is a profound change in the human rights situation. When we dealt with this in past years, we were generally talking about government-inspired abuses and how do you stop the government from doing these things. Now we are dealing with a more complex situation, but frequently you are seeing trouble break out not inspired by the government or not initiated by the government, but then the military or the police are both called in to try to do something about it.

So, the military is walking a fine line between not wanting to recommit the abuses of the past, which was brutal suppression of dissent, but at the same time needing to maintain law and order to prevent chaos, particularly in the countryside. And they are having difficulty doing it as you have seen now in Ambon where even the deployment of 3,000 or 4,000 troops has not yet been sufficient to end the violence.

But I think for us, one of the priorities that we have been emphasizing is that the government has to make this the highest priority because the violence has the potential to disrupt the elections. It has the potential to disrupt the very social fabric of the Nation after the elections. It has a terrible impact on the economy and foreign investor willingness to come back in. Of course, it is a huge humanitarian problem in its own right and prevents Indonesia

from changing its image as a problem country on the human rights spectrum.

In particular, we have been focusing on the growing perception in Indonesia that a lot the violence is provoked, and that interestingly, now government officials, when you meet with Wiranto, when you meet with Alatas, are telling you that they believe that there is provoked violence and they have to get at the provocations if they are going to get these problems under control. The Secretary stressed to General Wiranto and to Minister Alatas last week the need to go after whomever it is necessary to go after, whomever they believe is provoking this violence. And I should emphasize there is no hard evidence that I can give to you naming individuals. It is in the realm of suspicions, but the growing sense that there is provocation is something that the Indonesian Government has to deal with.

On the economy, I think what we have to see first of all is staying the course between now and the election. As you know, adhering to IMF programs, meeting the conditionality from the World Bank, the ADB, the IMF can sometimes be onerous, and doing these things in the pressure of an election campaign is hard. But, nevertheless, Indonesia cannot go backward in the crucial period between now and the election.

We saw a semi-encouraging development last week with the closing down of 38 banks which badly needed to be done and the restructuring of some other ones, one step in dealing with the banking problem. I say it is semi-encouraging because the decision was delayed and implemented in a fashion which raised some doubts about the government's commitment to it, and it felt that foreign pressure was necessary to ensure that it happened. But, nevertheless, a dramatic step was taken, and it is an indication I think of the type of challenges that will have to be met between now and the election.

Finally, let me just say something about East Timor. Our basic policy position, Mr. Chairman, which I have expressed to you before, is that the administration will accept any outcome that is acceptable to the parties themselves. The reason I emphasize that formula is it is not necessarily as stark a picture as take the autonomy or take independence on January 1, as President Habibie has said, that there is still a negotiation.

There is a possibility that you might have an arrangement either if autonomy is accepted, which most people do not think will happen, but is still possible, or if it is independence, what the Indonesian Government has been proposing is that the East Timor would revert to the old situation that existed prior to its incorporation into Indonesia as the 27th province. It would mean it would revert to U.N. status. The U.N. would have control. Portugal would be the administering country, and then one could negotiate between the U.N. and the Timorese the transition that you referred to, how do you get to independence so that you do not get a desperately poor East Timor incapable of economic self-sufficiency suddenly thrown to the wolves on January 1.

So, we are still in a negotiating phase. It is supposed to resume next month at New York. The Portuguese and Indonesian foreign ministers are due back to meet with Ambassador Marker in New

York hopefully to finalize the text of an autonomy agreement and to finalize the mechanism by which this agreement will be put to the East Timorese people.

In the meantime—and let me stress this point—we have given a tremendous amount of attention both publicly and privately to breaking the cycle of violence on East Timor in the short term. Secretary Albright, in her speech in Jakarta, laid out four points that we think are crucial.

First, we think the need for a political mechanism. There has been lots of talk about reconciliation councils or commissions, proposals from different people, the Human Rights Commission from Shanana Gusmau, from other Timorese leaders, but the need to have a broad-based council or commission in place in the island to bring all the parties together to try to diffuse tensions is important.

Second, the disarming of militias. There has been too much distribution of weapons on East Timor itself, and the fact is that this threatens the ability to implement any agreement. If the fighting gets out of control, it is unlikely that a diplomatic settlement can be implemented. We have stressed to ABRI the need to disarm the militias.

Third, we have called for implementation of a previous Indonesian offer to draw down some of its forces as a confidence-building measure. This is not a total withdrawal, but rather to start withdrawing some of the ABRI units to give confidence to the people on East Timor.

Finally, we have strongly supported an international presence on East Timor as soon as possible as another confidence-building measure to try to reduce the violence.

So, we have been very public in our short-term proposal, even as we await the outcome of the negotiations.

Why do I not stop at that point, Mr. Chairman?

[The prepared statement of Mr. Roth is in the appendix on page 41.]

Senator THOMAS. Thank you, Mr. Secretary.

We have been joined by other members of the committee. Senator Hagel, do you have any comments?

Senator HAGEL. No; I am just here to ask some questions.

Senator THOMAS. Senator Kerry. Thank you, sir.

Senator KERRY. Mr. Chairman, I do have a statement that I would like to share and then turn to the questions. I welcome Secretary Roth here.

This is a major turning point for Indonesia because for the first time in 45 years, the Indonesian people are going to have an opportunity to vote in a national election where the outcome is not preordained, and it is really vital that they have the ability to create credibility in the government. That will be the only way they can achieve order in the economy and make the reforms necessary that are essential to creating that order ultimately and to providing the international community with the confidence it wants and needs in order to proceed forward in terms of the economic support.

I was there a few months ago and was struck by the breakdown that has occurred and the civil disorder that was occurring daily. But at the same time, notwithstanding the skepticism of a lot of people in Indonesia and many in the international community, it

strikes me that President Habibie has responded fundamentally to the call for political change and has adopted a number of reforms that will help open the political process and set the stage for democratic elections.

Anyone now can start a political party, as opposed to the Suharto era when only three parties were allowed to function. More than 100 political parties have registered to compete in the June elections. Civil servants no longer have to vote for the ruling Golkar party. The military's representation in the House of Representatives has been reduced significantly although, I might add, not reduced or eliminated entirely. Seats in the House will be allocated according to the vote percentage won by each party in each province, rather than a winner take all strategy which favored the ruling Golkar party.

So, these are important reforms, but they do not in and of themselves guarantee that the elections are going to produce a legitimate government. That is really, I think, where our task, the international community's task, lies in the next months.

The government, however, has two major responsibilities: to ensure that the problem of violence is dealt with effectively and sensitively, particularly in the light of the way that the military handled protests in the past; and second, to establish the modalities for a free, fair, and open electoral process on the ground. We need to, obviously, respect that this is an election by Indonesians for Indonesians. Neither we nor anyone should assert ourselves in a way that interferes with that concept, but nevertheless, we should also, in my judgment, play an extraordinarily important, constructive role in providing election assistance, expertise, and critical monitoring.

Mr. Chairman, in 1986 I had the privilege on this committee of sharing responsibilities with Senator Lugar to help create an observer mission for the election in the Philippines. President Reagan appointed Senator Lugar and myself and others to that official observer group. I might say that it was our involvement with NAMFREL, the National Movement for Free Elections in the Philippines, that helped create the capacity to make judgments about that election which ultimately resulted in the legitimacy of the transition, let alone the legitimacy that flowed to the Aquino Government.

There was some violence. There was some vote buying, and there was cheating in the election in the Philippines. These could be factors in the Indonesian elections. And so, the presence of domestic and international observers is critical to the establishment of credibility, which we are all seeking, and the outcome in the end.

When I was in Asia, I met with Jose Concepcion of NAMFREL who is involved now, I am gratified to say, in the Indonesian effort. But he warned me that because of the size of Indonesia, the task ahead of them with respect to the monitoring is obviously four or five times larger. So, it is critical for us to guarantee the adequate training and adequate funding and capacity of that monitoring process.

The stakes in Indonesia, I just want to emphasize, are not only high for the Indonesian people, but also for the region. In conversations with Lee Kuan Yew in Singapore and others in the region,

it was very clear that there is the potential for a regional impact if this election is not successful, and that regional impact has many different nuances and overtones, including the capacity for extremism, a fundamentalism of a religious kind, that could have a profound impact on the long-term stability of the region.

So, I thank Secretary Roth for his involvement in this and the administration's awareness of much of what I have just said, which I really wanted to underscore because Indonesia is not automatically on everybody's map except when the IMF and Larry Summers and others are there visiting trying to institute reforms. But what we are engaged in now, in these non-focused days by the media, are just as important as all of those efforts, and we need to understand that as we go forward.

So, I thank you, Mr. Chairman, and I look forward to talking a bit about the election modalities and assistance with the Secretary.

Senator THOMAS. Thank you, Senator Kerry.

I certainly agree with what you have said about the importance of Indonesia in the economic field particularly and in the whole of Asia.

You mentioned one of the high priorities and difficulties was violence. What is the solution? What is the remedy? How do you limit violence?

Mr. ROTH. Well, I think there are several keys. I think one is that they have to find somebody responsible for some of the incidents, whether it is on the government side, people who have shot into crowds in the past, whether it is on the provocation side, someone instigated violence, but people have to be brought to justice. Until there are consequences for engaging in violence in Indonesia, it is going to be very difficult to have a disincentive for people to continue to engage in violence.

Second, the Indonesians—the government in this case needs I think to more aggressively embrace the responsibility for intervening in situations like Ambon where there is violence and trying to put it to a stop. They cannot just sit it out which all too often has been the tendency until it gets out of control. We did not see the government really go in in East Java until almost 200 people had gotten killed. We did not see the government send in troops in Ambon until almost 200 or at least 200 people had been killed, and I think the government needs to deal with these situations better.

Part of the long-term answer—and I emphasize this is not a short-term solution, but part of the long-term answer is the Indonesian Government has to get much better at dealing with violence and with crowd control. As you have probably heard, the police has been a neglected institution in Indonesia. They are part of the military until next year when they will be separated. They have been underfunded, undersized, and basically no training in crowd control. One of the results is that when difficulties break out, you are frequently seeing people shooting into crowds, whether it is at point blank even with rubber bullets, like happened in Atmajaya last November or whether it is with lethal force, as has happened elsewhere. So, there is going to have to be a lot of work I would hope with the support of the international community and the United States to start training Indonesian police how to deal better—

Senator THOMAS. That is sort of a shift away from the military to a civil peacekeeping—

Mr. ROTH. I emphasize in the short term it is simply not going to happen. You cannot buildup and double the police force between now and the election. So, both the military has to do better with crowd control, and as a long-term objective, we have to try to get the police force to be more effective.

Senator THOMAS. What is your impression? Let us assume that there is a relatively fair and transparent election. When I was there, there were people who were very much interested in human rights. They had a human rights commission. I suppose they still do. But there was no rule of law. There was no apparatus. There was no institutional apparatus to carry it out. What makes us think there will be now, for instance, to avoid a Cambodian kind of a thing after this election is over?

Mr. ROTH. Well, I think you have raised a profound problem, and remind me that I did not make a key point, which is that even if we have a good election, which we are all going to work hard for, for the reasons you and Senator Kerry have expressed, this does not mean that on June 8, we check the box and say, Indonesia is done. In fact, what we are doing is hopefully setting the stage for improvement over time, but there still is a staggering range of problems and the one you have flagged is what I would call institution building.

Essentially Indonesia has been left from the Suharto period with very few functional institutions. The national assembly has not been a real parliament. The local parliaments have not been real parliaments. The court system has been completely politicized by Suharto appointments. The military has been placed at over 100,000 people in local governments, retired, and at an abnormal controlling say in the government of the country as a whole. So, you are going to have to really start working on all of these institutions to try to buildup a foundation of what we call civil society—

Senator THOMAS. Is that happening now, or is this all set aside awaiting the election to happen?

Mr. ROTH. I think it would be unfair to say that nothing is happening, but I would not want to mislead you to tell you that we are surging ahead with progress. So much of the attention now is focused, first, on the elections and, second, on the economy. In terms of dealing with some of the institutional problems, it is slower.

But, for example, you now find the debates in the parliament are real. The National Assembly is considering legislation that will have a huge impact on the future of Indonesia. For example, the balance of power between the center, Jakarta, and the provinces, the flow of resources, Java being resource poor, the outer islands being resource rich. In the past the money flowed from the outer islands to Java. Now, the question is, will there be a better distribution of resources?

Will the local governments be given more autonomy?

Will there be mechanisms to correct abuses if the military commits the kind of violations it committed in the past at Aceh and Irian and East Timor?

So, some of this work is starting, but we are at the early stages.

Senator THOMAS. What about the economic hold of the Suharto family? Has that begun to change?

Mr. ROTH. I think that if you look at what happened with the banks last week—your phrase is a good one, begin to change. If you ask me has there been a wholesale dismantlement in what in Indonesia is called KKN and we might call in Philippine terms crony capitalism, the answer is no. At the same time, several of the banks that were shut down were ones that had major Suharto family interests. There has been a statement by the justice minister that they have taken away the passport of one of Suharto's sons and that he is under investigation and they may go after him for corruption. So, some steps have been taken but the issue is far from resolved.

Senator THOMAS. My information is that there are roughly 8 million unemployed early last year and it rose to 20 million. That is pretty marked. You said that is stabilized, would you say, not reduced?

Mr. ROTH. Let me say, first of all, that one should be very careful in using statistics even from the World Bank and the IMF because they have now acknowledged that some of the statistics they were using were overstated. Now the estimate is far lower than the 20 million unemployed.

But there is no doubt that there has been a major increase in unemployment and under-employment, and that it has been worse in the cities. When I travel to Jakarta now, which I do regularly, you see street children out there begging and hustling on the corners in ways that I have not seen since the early 1980's. The impact has been very real.

I would like to tell you that it is stabilized, but with the projection of continued negative growth of 3 percent, which is the estimate of the World Bank or the ADB, I forget, this year, that is not stabilization. That is still on the downward path. I tried to distinguish it from the plunge last year, the 13 or 15 percent, but it is still not positive growth. So, we cannot say it is stabilized yet.

Senator THOMAS. Senator Kerry.

Senator KERRY. Thank you, Mr. Chairman.

Mr. Secretary, would it be your judgment, based on what you have just been saying to the chairman, that you are comfortable that we and the institutions which we support are doing enough?

Mr. ROTH. I do not think there is cause for complacency. I am not personally satisfied that we have checked the box yet in terms of providing enough resources for the election. I would actually hope that the two of you might help me in your contacts with Europeans and the Japanese in particular. It is absolutely baffling that the Europeans spent more on Cambodian election assistance than they are willing to spend in Indonesia when you consider not just the relative importance of the countries, but the relative size of European investments, particularly German and British, in Indonesia. Yet, their contributions have been de minimis. So, we are working very hard with UNDP, which is the coordinating role, to try to regularly assess the election needs and see if we can raise contributions. I am not saying we are there yet.

Senator KERRY. One of the things that I have been questioning is whether we are raising the stakes high enough. Are we pushing

this at a level that sufficiently creates the urgency and gets the decisions that you need?

Mr. ROTH. I would say yes. I think that had it not been for the United States' leadership, we would not have seen the major Japanese contribution that was just announced. We have seen a more than doubling of the Australian contribution. We have seen, although it is inadequate, almost a tripling of the EU contribution. More importantly, we have seen Indonesia accept the concept of international assistance, accept election observers, which is a crucial concept.

All I am trying to suggest is we are not done. This is going to be down to the wire. Every step of the way we are going to have to be on top of this situation. As I said in my statement, this is our No. 1 priority in the administration between now and the selection of the new President.

Senator KERRY. Well, we are a little less than 3 months away from the election. How many polling places are going to be set up?

Mr. ROTH. Well, they will have over 125,000 polling places. What this means, referring to some of the comments you made, is obviously you are not going to have an international observer at anything like the majority of the polling places. So, it is absolutely crucial that two things happen.

First, that the Indonesians themselves train the poll workers as opposed to monitors, the people who run the polling places know what to do, get the counting procedures right. They have just established an election commission last week. So, we have to get those technical procedures down as well as make sure they train these workers.

Then there is the question of observers. Once again, 1,000 observers might swamp Cambodia, but it gets lost in the vastness of Indonesia. So, even if you add the media as de facto observers, we are not going to have observers at most of the polling places. This is why there is a lot of work being done in Indonesia to get Indonesian observers at these polling places, and there is a major effort to organize the students to serve as election observers, and they are talking about mobilizing hundreds of thousands of students. We are trying to support this.

In addition, the parties will have their own observers, and as you probably know from your Philippine experience, that can be a crucial player when the parties report abuses. So, that is another check on the process.

Senator KERRY. The problem is, as you can well understand, that if the parties do not have greater capacity to have observers from neutral and independent entities, you will be flooded with claims that are absolutely unverifiable and you will have an election that is prima facie lacking credibility.

This is why my concern—and I want to state it as clearly as I can today—I do not believe the international community is doing enough to make clear what has to be done in 2^o months to even prepare, let alone monitor. You could have chaos on election day if you have polling places that are only now being established with no modalities for the election by the election commission fundamentally in place.

Mr. ROTH. Yes. I think you are perhaps underestimating the degree of work that has been done in Jakarta by the UNDP working with the Indonesians and with the foreign community. It is not a zero base the way one might think. One can build on the election lists from before, the polling places from before. Even though the polls were bogus because candidates were not allowed to run, the physical infrastructure for elections has happened before, so there is something to build on within Indonesia.

But we cannot be complacent. I could not agree with you more on that.

Senator KERRY. But is the structure sufficient in your judgment for us to be able—again being sensitive about not interfering, but at the same time maximizing the capacity to make the judgment that the staff will be there or to be able to provide assistance and training, for instance?

Certainly the two institutes, the Center for Policy, et cetera, could perhaps take greater roles and so forth.

Mr. ROTH. I am not prepared to tell you that all our concerns have been addressed and that everything is ready for the elections. For example, they have not yet finalized what the counting procedures are and how they secure the ballots, how that proceeds up, which is a crucial step in every electoral process and one where the observers can play a role. All of the decisions are not done and we have a lot of work left. I do not know how to be more transparent than that.

Senator KERRY. Well, let us just look at the money for a moment. The Indonesian Government, I understand, has allocated about \$180 million. Correct?

Mr. ROTH. Right.

Senator KERRY. And we are going to provide about \$30 million?

Mr. ROTH. Yes.

Senator KERRY. And if you add the other countries, there may be another \$60 million coming from other places, somewhere in the vicinity.

Now, will that funding in our judgment be sufficient to cover the needs?

Mr. ROTH. I think we would rather see more, based on experience in other countries, I think I have testified before that there has been an estimate in the Third World that basically \$3 to \$4 per registered voter would be a better outcome, and if you take over 125 million voters, it looks like there are underfunded.

This is one of the reasons why we are still working on trying to get more funding. I have been trying to organize an international pledging conference because I think that could increase the pressure for countries to contribute more generously and focus the attention on the elections.

Senator KERRY. Well, I really want to just underscore—I know the red light is on and I will not abuse it, but I just want to underscore that there was a huge concern in this Nation when the economic implosion took place. There are large economic stakes in this. Japan has enormous investments there. We have been raising a hue and cry about Japanese recovery being essential to America's sustained economic growth. If Indonesia implodes politically, then the values that Japan's banks, many of which we know are fun-

damentally bankrupt, are relying on to be sustained and to re-value, which is the way they are trying to work out of this, is going to tumble. That can have serious implications on larger world economic interests.

The only way Indonesia will be able to make the economic recovery sufficient to meet the standards of the IMF, World Bank, and others is to have a credible government, and the only way they will have a credible government is to have a credible election. So, this is larger than just an election, and I think it is critical for our allies and for us to really understand that and push the envelope on this a little bit.

I must say, Mr. Chairman, I am glad you had the hearing today. I raised this subject with staff several weeks ago and began a process of trying to examine what we might be able to do to leverage this. We will work with you, Mr. Secretary, as much as we can, but I think it has got to be put on the front burner more than it is now. I am not criticizing. I am just saying I think that you need some help and lift from others in the administration and that we need to be there too.

Mr. ROTH. Well, I share your sentiments. We have established an elections working group within the State Department, pulling in some of the other agencies, precisely to give it the kind of priority that you are talking about and to look at these issues on a regular basis. You have virtually used the talking points that I have used with the Japanese about what the stakes are in this election. In fairness to Japan, I should indicate that they have been extremely generous on the economic side in terms of the assistance they are providing under the Miazawa initiative.

They turn around and say, it is nice, United States, that you are spending \$30 million on elections, but we have put forward billions of dollars on the economic side, to which I say that is great, keep doing it. But the elections matter and all this economic assistance will not be well utilized or have the conditions to succeed if the elections do not turn out right. So, do not be penny wise and pound foolish. But the more you can reinforce that message in your own contacts with Japan and other members of the international community, the better.

Senator THOMAS. How about Australia? They are right handy and very much involved. Do they participate?

Mr. ROTH. They are extremely involved. They are also extremely modest on the economic side. They have talked about something roughly in the nature of \$10 million U.S. They have a little flexibility and that represents almost a doubling. I have personally spoken to the Foreign Minister, Mr. Downer, several times about their contribution.

Senator THOMAS. Senator Hagel.

Senator HAGEL. Mr. Chairman, thank you.

Mr. Secretary, welcome.

Mr. ROTH. Thank you.

Senator HAGEL. I wanted to ask first a question regarding progress on negotiations between the Indonesian Government and independent American power companies. You know. You have been involved in this, and I appreciate very much the good work you

have done and your staff. What can you tell us about those negotiations? Are we making progress?

As you know, many are perilously close to default, and I, like all of us, am somewhat disappointed that we have not gotten the Indonesian Government to respond more effectively and positively on dealing with these issues.

Mr. ROTH. I will provide you a more detailed answer for the record so that you can fully get at the issues you are talking about. But let me first set the framework.

Obviously, there is a massive problem based on the fact that certain contracts were made, decisions were made based on projections of a growing Indonesia with surging power demands. With the onset of the financial crisis and the setbacks to the Indonesian economy, obviously the power demands plummeted and they were left with economic projects that had their underpinnings pulled out from them so that it became necessary to figure out how to deal with the problem that they did not need this capacity that had been agreed upon.

Having said that, the Indonesian Government—my impression—and the companies have not met the time tables for negotiations to try to work out the agreements. The American power companies have been—my impression—quite reasonable in recognizing that there is a problem and that changes have to be made, but they need to work out the debt and they need to work out the contracts. And the deadlines have not been met.

So, we continue to press the Indonesian Government. I have. I have been meeting with Mission Energy and other companies to try to deal with some of the more critical contracts. But I do not have an up-to-the-minute update for you, so let me get that for the record on where we are this week.

Senator HAGEL. Is this an issue that has been raised with the various political candidates?

Mr. ROTH. I do not know. I would have to inquire. I doubt it. I think it is more likely to have been with the ongoing government because there is some time urgency to it. We do not want this to wait until the new President is selected in November.

Senator HAGEL. Well, that is right, but at the same time, Senator Kerry's point is a good one. The fact is markets respond to confidence, and what Senator Kerry and Senator Thomas said is exactly right. Whoever inherits the mantle there in Indonesia next to govern in the lead is still going to be dealing with these problems, and I think it would be in the best interest of all of us to, on a parallel track, bring these issues up with the candidates, realizing that the current government has to deal with them. But at the same time, I doubt if there is going to be any scenario that we could envision now that would have all these issues resolved before the elections. I think it is smart for us to be dealing with all candidates and all leaders on all tracks on this issue.

Mr. ROTH. I will pass that suggestion on to Ambassador Roy.

Senator HAGEL. Thank you.

You mentioned IMF in your statement. You mentioned that all the political candidates, others, are helping develop some kind of a structure dealing with the economic challenges. You talk about

the political figures have indicated their intention to continue with the IMF program in a new government.

Give us a little more detail on where we are with IMF programs in Indonesia.

Mr. ROTH. Well, I think what one would have to say is it has been an uneven course, rather than perfect trajectory. There has been difficulty implementing various parts of the IMF program.

For example, because of the economic retraction that took place, the Indonesian Government was having difficulty spending money, developing projects, and so there was some sense that the IMF tranches were perhaps overly generous in light of the actual budget needs of Indonesia. So, there had to be some discussion of what Indonesia could realistically spend, its absorptive capacity.

Second, there has been a huge issue of what is called transparency, but obviously relates to the corruption of the past regime. The international banks, for very obvious reasons, given some of the mistakes made in the past, have been anxious and they want to be sure that whatever assistance they give does not end up in projects that do not meet common sense standards on corruption. So, there have been problems not just with the IMF but with the World Bank and with the ADB about how do you ensure that these transparency standards are met.

Third, a lot of this has gotten caught up in election politics. There is, unfortunately, from my perspective a raging debate in Indonesia, particularly in the now-free press, as to whether any assistance from the international community between now and the elections is de facto tilting toward the government. I personally view that as ridiculous. The notion that we should not be helping the poor with social safety net programs or the people who are unemployed as a result of the crisis because someone might see this as a plug for the government strikes me as almost immoral. But, nevertheless, there is this political debate that we have to be sensitive that the international community is not seen as intervening.

Then, finally, there has been uneven implementation of policy. You could get more on this from Treasury, and I will submit to you a more detailed answer for the record. But just look at the way the recent bank issue was handled. They missed the initial deadline, raised concerns that there was favoritism toward the one bank, one crony in particular. Even though they ultimately came up with a fairly ambitious program, the way it was done was a mixed picture rather than an unclarified success. So, this is going to still be a struggle to insist on the implementation of the conditionality between now and the election.

Senator HAGEL. Is it your opinion that Indonesia is making progress regarding such things as transparency, dealing with crony capitalism? Are they not just moving in the right direction, but in fact is there progress being made under the Habibie Government?

Mr. ROTH. I think one would have to say some but not enough. We need more. But one cannot give them a perfect report card at this point. I tried to indicate earlier, for example, three of the banks that were closed had Suharto family ties and children associated with them. That is a plus, but there has not been a full accounting for all the corruption of the past or prosecution of past cases. The IMF, the ADB, and the World Bank still spend a lot of

time negotiating transparency and controls and conditionality in their agreements. We are not over the hump on this yet.

Senator HAGEL. Mr. Secretary, thank you.

Thank you, Mr. Chairman.

Senator THOMAS. Thank you, sir.

We are getting a little jammed up on time. Let me ask you one question which I suspect will have a simple answer.

You mentioned something about oversight in Timor. Are we susceptible to sending troops into East Timor?

Mr. ROTH. I think it is way premature to talk about troops in East Timor. When the Secretary was in Indonesia, for example, she met, amongst her many meetings, with Shanana Gusmau, one of the leading Timorese leaders, and he said he saw no need for PKO, or peacekeeping troops, that he thought an unarmed Timorese police force with a little assistance from international police forces could handle this. We are dealing with a very small place with a population of under 800,000 people. We are not talking about a country with millions of people spread out over vast distances.

But a lot of this is going to relate to what I mentioned to you before. If ABRI, the Indonesian military, take steps to disarm some of these militia, if you have a reconciliation council on the ground, if you had a partial withdrawal of troops to diffuse some of the current tension, if you have international presence—and it can be things like the Red Cross, the Human Rights Commission, as well as Ambassador Marker who will have to have a presence there in terms of the U.N. implementing the plan for autonomy or elections—all of this could reduce the need for any type of international presence. So, a lot is going to depend on what happens now, and that is why we are pushing so aggressively to try to break this cycle of violence so that we will not have to end up with the hard choices about PKO.

Senator THOMAS. I hope so. That is beginning to be sort of a heavy burden to be having peacekeeping operations everywhere in the world.

In any event, thank you, Mr. Secretary. We appreciate it very much.

Mr. ROTH. Thank you, Mr. Chairman.

Senator THOMAS. So, gentlemen on panel two, if you will come forward, we will try and move quickly here. Mr. Edward Masters, President, United States-Indonesia Society; Ms. Sidney Jones, Director, Human Rights Watch, Asia Division; and Mike Gadbaw, Chairman, U.S.-Indonesia Business Committee.

Mr. Masters, if you would care to go ahead, sir, we will put your full statement in the record, each of you. Whatever you would like to say would be fine.

**STATEMENT OF HON. EDWARD E. MASTERS, PRESIDENT,
UNITED STATES-INDONESIA SOCIETY, WASHINGTON, DC**

Mr. MASTERS. Thank you very much, Mr. Chairman. I first want to say I am delighted to be back again. It was just a year ago this week that I had the opportunity to meet with this committee previously.

At that time things were much worse in Indonesia than they are now. It was an economic basket case. There were major questions

at that point about the survivability of the country and certainly of the government. The Suharto Government since did fall, and has been replaced, and we have seen significant progress since then. I want to associate myself with Assistant Secretary Stanley Roth's comments on that progress, but I will not repeat much of what he said.

I particularly want to associate myself with his comments on the economic progress. While there are still problems and there have been missteps and while the bank restructuring and the rescheduling of the private sector debt have been unduly delayed, there has been progress on other aspects of the economic sector.

What I want to focus on today, if I may, is the political side, and particularly the way the government has set itself up for these very important June elections.

As you know, Mr. Chairman, there were three critical laws that were put before the parliament, first on the conduct of elections, second on the formation of parties, and finally on the composition of the parliament and the People's Consultative Assembly, the latter being the body that elects the President and the Vice President. There was concern that this was too much to put on the plate at one time for a country that had no recent experience with an open political system.

But to everyone's great surprise and delight, the Indonesian parliament on January 28 did pass laws that were very constructive in these three areas despite some lingering problems, and I will talk about those problems.

Three critical issues threatened to derail these laws governing the elections. One was the role of civil servants. In the past civil servants joined a party, largely the government party, Golkar. There are 4.1 million civil servants. They and their friends and families were a significant element right down to the grass roots level. The new legislation provides that civil servants could not and would not be members of a party or officials of a party, and if they did so, they would be dismissed from the civil service. That is a major step forward, and contrary to earlier expectations was not a solution that Golkar wanted.

The second controversial issue was the number of seats for the military. The pressures on that ranged from 0 to 50 or 60 reserved seats. The compromise solution was that the military will have 38. The good news is this is less than the 75 they used to have, but the bad news is that there are any at all. I will come back to that in a minute.

The final issue was the size of the electoral districts, a rather complicated, technical issue, but I think one that was resolved quite satisfactorily.

The result has been a set of laws and principles which serve as a viable basis for free elections, starting on 7 June. These laws have been accepted by all of the major players and all of the major political parties, and I think this is a very constructive development.

A further sign of the moderation of the parties is the fact that the major parties accept panchasila. Panchasila is important because that is the buzzword to avoid mention of an Islamic state. Adherence to panchasila means that, in effect, you favor a non-Is-

lamic, a non-religious based state, and all of the major parties have accepted that.

There have been a number of other good developments so far. Let me tick them off briefly.

First, universal suffrage. All Indonesians over 17 and those who are married under 17 have the right to vote. No discrimination.

Second, the composition of the electoral commission has been a surprise and a joy to many observers. There was concern that this group would be dominated by the government. That is not the case. The government representatives who have been appointed include a number of figures who have credibility, including Buyung Nasution, a well-known human rights advocate.

Third, I think is the matter that I mentioned before, civil servants are banned from participation.

Fourth, limits on financial contributions. Now, that may be observed in the breach, but at least there is a regulation now which restricts financial contributions. This will certainly be helpful.

There are several continued problem areas. I mentioned one earlier, the fact that the military still have seats. They have 38 seats. That is 7.5 percent of the total membership, and that puts them in an important swing position.

There are other problems that I think have been identified before, but basically the legislation is good. I think it provides the basis, with adequate monitoring and with adequate outside support—and I want to strongly endorse the previous comments about the need for further U.S. support—for a credible election, which will set the basis for further steps in both the political and economic fields.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Masters is in the appendix on page 37.]

Senator THOMAS. Thank you very much.

Ms. Jones.

**STATEMENT OF SIDNEY JONES, EXECUTIVE DIRECTOR,
HUMAN RIGHTS WATCH, ASIA DIVISION, WASHINGTON, DC**

Ms. JONES. Thank you very much.

I guess I take a somewhat bleaker perspective because I have just come back from Indonesia, and I spent most of my time outside Jakarta. I was in Ambon in eastern Indonesia where the communal violence is virtually a civil war. I was in Aceh in the northern tip of Sumatra, which is also the target of major military operations, and I was in south Sumatra briefly where there are major problems between farmers and commercial agriculture there.

My impression was that, yes, while the election is important, it would be a real mistake to place so much emphasis on the election that it somehow seems as though this is going to be the key to solving all of Indonesia's problems because when you get outside of Jakarta, the other kinds of problems and the grievances are so deep and so pronounced that the elections—they are not irrelevant, but they are clearly not going to make a major difference in the outcome or the resolution of those problems. I would like to list a couple of the issues that are a major issue.

One of them is and continues to be the dominance of the military. It is not so much a question of whether there are 38 seats left or how long it is going to take to remove the military from power, but there are some very immediate issues that in the short term are making things worse.

One is that the military has decided that, in an effort to provide security for the elections, it has created this civilian militia called wanra, which is being set up all over the country. The United States, quite rightly, has opposed these militias. But in a place where you have got communal violence and sectarian violence breaking out all over the country, what is happening is that the people who are volunteering for this civilian militia are people who are either ethnically distinct from the population more generally so that in Aceh where you have these major operations taking place, the people volunteering for the civilian militia are transmigrants from outside from Aceh against whom there is already resentment.

In East Timor, the people who were volunteering for the civil militias are people who are pro-integration, therefore building in immediate tension with the pro-independence people in East Timor.

In Jakarta, last November when there was a civilian militia, the people who joined the civilian militia were people who were a priori opposed to the students so that you built in a clash.

This notion that a civilian militia is going to provide peace or security during the elections is not only wrong, it is completely counterproductive, and what we may see is more violence with these people on the streets who have been armed with sticks and trained by the military.

Second, there are a couple of other problems that the military continues to almost promote. One of them is it continues to see all social unrest and civil unrest as being almost tantamount to insurgency. This is not an army that has been trained in any kind of ordinary law and order functions. It has been trained in counter-insurgency, seeing the people as the enemy. So, I wholeheartedly agree with the need to place more emphasis on the police rather than the military, but that is not going to happen for a while even though the army has agreed that the police should be separated from the army in terms of the overall armed forces.

At a time when Indonesia should be moving away from reliance on the military, in fact what this civil unrest is doing is creating pressure to create more regional military commands. Right now there are 10 KODAM's, which are the largest division of the army, each of which has about 700 personnel. Now what we are seeing is that there has been a creation of a new KODAM in Aceh where there has been this trouble since December. You are seeing a demand for a new KODAM in Ambon as a way of dealing with the unrest, and it is as though at a time when more than ever Indonesia should be relying on civilian institutions, the pressure is for expanding the role of the armed forces.

Also, it is the case that you have got a real problem within the military of all of these officers who have no place to go. One of the rationales for creating more of these divisional military commands is that you create slots for officers to get promoted to, and there has got to be some way of addressing this structural problem within the military.

A fourth issue is that the military itself and some senior officers have very deep suspicions about political reform. So, you get these comments by the military—and I put some in the testimony—where they are asked why they did not take any action when this communal violence broke out in Ambon, and their response was, well, this is the reform era. We cannot just arrest people the way we used to. So, it is almost a way of using reform as the pretext for inaction or saying, see, things were better and you were safer under the old system.

Let me just say very quickly on East Timor I would strongly endorse much of what Assistant Secretary Roth said, but there is going to be a ballot mechanism and there is going to be a real problem with different factions in East Timor. You have these militias that have been equipped and armed by the Indonesian military, pro-integration militias, but you also have violence that has come from the other side, from the pro-independence side to the point where large numbers of refugees are fleeing East Timor, people who are non-Timorese or people who have somehow been collaborating with or working with the Indonesian Government. So, in order to avoid a major outbreak of civil unrest immediately, what you need to have is some kind of international police presence there as soon as possible and anything the United States can do to facilitate that would be great.

I would like to just mention the fact that you do have other centrifugal tendencies in Indonesia, and the fact that East Timor is moving toward independence has given a new life to independence movements in other parts of Indonesia, which is not to say that there is not a dynamic of its own in places like Aceh and Irian Jaya. But for the first time, their demands for a referendum now in Aceh, which there never were before—and that is not going to go away with a credible election and a free and fair election and so on. That demand for some kind of separate status I think is going to continue.

We are also seeing a hundred leaders from Irian Jaya go to President Habibie and present local aspirations for independence just last February 27. We are seeing perhaps growing support in the South Maluccas in Ambon for a separate state from the Christians who feel threatened now in Ambon. We are even beginning to hear hints about a free Borneo republic in Kalimantan. This is not to suggest that Indonesia is going to disintegrate overnight, but unless those regional grievances are addressed and addressed very soon, there is going to be a major problem for any new government and it is going to last well beyond the elections.

I would just like to say finally the ethnic Chinese question has not been resolved at all. The government has made no progress toward revoking or repealing legislation which discriminates against the ethnic Chinese. It has not implemented any of the recommendations of the joint fact finding mission that was set up to investigate the riots in May 1998, and unless and until the ethnic Chinese feel as though they can be secure and safe in Indonesia, not only are you going to have real problems restoring the economy, but you are also going to have many, many more political asylum applications in the United States.

Thank you very much.

[The prepared statement of Ms. Jones is in the appendix on page 34.]

Senator HAGEL [presiding]. Ms. Jones, thank you.
Mr. Gadbow.

**STATEMENT OF R. MICHAEL GADBAW, CHAIRMAN, U.S.-
INDONESIA BUSINESS COMMITTEE, WASHINGTON, DC**

Mr. GADBAW. Thank you very much, Mr. Chairman and Senators. I am pleased to be here on behalf of the U.S.-Indonesia Business Committee of the U.S.-ASEAN Business Council. The U.S.-ASEAN Business Council is a private, nonprofit organization. It is made up of some 400 U.S. companies. We are all dedicated to expanding trade and investment between the United States and the member countries of the Association of Southeast Asian Nations.

I was in Indonesia just 3 weeks ago leading a delegation of U.S. business representatives committed to standing by Indonesia during these difficult times. Ours was a confidence-building and information-gathering mission. In the week we spent there, our group met with a broad cross section of government officials and private sector representatives. We met with representatives of the political parties, members of the Indonesian press, representatives of the Indonesian NGO community, World Bank officials, and the Japanese business community in Jakarta.

While I have been to Indonesia a number of times, I came away from the visit with a strong sense that Indonesia is a large, complicated country that is undergoing profound social, political, and economic change. One cannot escape a sense of historical moment in recognizing that the world's fourth most populous country is undergoing a political transition to a more open, democratic political system. At the same time, business practices and instruments of governance that have been in place for decades are now under persistent, largely constructive assault.

On our visit to Indonesia, we encountered reform in every discussion, from President Habibie and the Minister of Mines and Energy to our meetings with those unconnected with the current government.

The committee's message to our friends in Indonesia has been consistent: A commitment to free, transparent, and efficient markets must be a part of any viable reform agenda. It is essential to draw the political leadership and other influential sectors of the body politic out on these issues. If left isolated, we are concerned that they will develop positions that are not only less amenable to international business, but untenable in the long run.

To this end, we have institutionalized a similar engagement of the Indonesian private sector. Long before the onset of the economic crisis, we worked with our Indonesian counterparts to improve the business environment in areas as varied as tax reform, customs reform, and distribution liberalization. The crisis has encouraged us to redouble our efforts to engage them even more broadly.

Indonesia has made an impressive number of commitments over the past 2 years to reform its economy and has had most of its promises, albeit in a somewhat halting and incomplete manner, fulfilled. Its progress on economic reform has been periodically ap-

proved by the IMF following extensive reviews. In their totality, these reforms promise to transform the way business is done in Indonesia. However, consistent engagement is required of international financial institutions, foreign donors, and the international business community to see that they are implemented faithfully.

Beyond reinforcing my impressions about the overwhelming needs of the reform process, our discussions in Indonesia gave us a better perspective on the current economic climate. The impression one has from the U.S. media coverage is that the country is devastated, an economic basket case with as much as 100 million people descending into poverty. It is a very difficult time there, no doubt. However, there is much more resiliency in the Indonesian economy than has been generally portrayed.

In a report prepared for the World Bank, surveys of conditions in the country indicate that poverty is not as severe as some have assumed. Before the crisis, the incidence of poverty was approximately 11 percent, down, I should note, from 70 percent 30 years ago. It is now at around 14 percent according to this report. The crisis has hit hardest urban areas, Java, and those whose income is in the upper half of the nation's earners. The effects elsewhere have been less severe. In fact, in some areas such as Sulawesi, the economy has actually benefited from drops in the value of the rupiah.

Prior to the crisis, Indonesia's economy averaged 7 percent growth for 25 years. It had created a middle class conservatively estimated at 20 million, a larger population than that of all Australia. To be certain, some of this remarkable growth was unsound. But a great deal of it was attributable and is attributable to Indonesia's integration into the global economy, conscious diversification, the strengths of the Indonesian people, and Indonesia's other natural resources. Structural economic reform carried out to its designated end and political stability will once again permit Indonesia to make the most of its national assets. Speaking on behalf of the U.S.-Indonesia Business Committee of the ASEAN Business Council, I am confident of this.

Let me close by thanking you, Mr. Chairman, for the timeliness of this hearing and for your own long-term commitment to the region. This next several months are crucial in Indonesia. They may very well determine its future for decades to come. I am honored to be part of this subcommittee's assessment. Thank you.

[The prepared statement of Mr. Gadbaw is in the appendix on page 31.]

Senator HAGEL. Mr. Gadbaw, thank you, and to all our witnesses, thank you very much.

As you know, we have a rollcall vote on and the chairman will be back momentarily. Let me ask my colleagues if they would like to get a question in before they go vote. Senator Kerry.

Senator KERRY. I would like to get a quick question in.

Ms. Jones, I appreciate the problems that you have laid out, but I am a little perplexed to be honest with you. The things you call for and the things you would like to achieve, which we are well aware of, need a government to be able to achieve them. I assume

you do not believe that the Habibie Government is in a position to do any of these things pre-election.

Ms. JONES. No. As I say, I do think the election is critical, but I think one of the things that is striking about going outside Jakarta is how low the expectations are about this election. They almost see it as a dry run for the year 2004. I think if you realize that there are now 48 approved parties and that none of those parties have any skilled or experienced personnel, you do realize that a lot is not going to change after the votes are counted. I think that it is just important to be realistic about what the elections are going to achieve.

Senator KERRY. Well, a lot less is going to happen if they do not have a good election.

Ms. JONES. Absolutely. I agree totally.

Senator KERRY. So, it is the precondition.

Ms. JONES. It is a precondition.

Senator KERRY. The precondition.

Ms. JONES. A precondition.

Senator KERRY. Well, when you say a precondition, tell me what you think can happen if you have a failed election.

Ms. JONES. Well, I do not think anything can happen if you have a failed election, but I think that it is not as simple—

Senator KERRY. If nothing can happen if you do not have a good election, it is the precondition.

Ms. JONES. OK, sir.

Senator KERRY. Well, I am simply saying that because you seem to want to try to minimize the impact of the election or the importance of it.

Ms. JONES. It is not that I want to minimize, but what I want to say is that it is not a guarantee of—

Senator KERRY. Well, I agree with that.

Ms. JONES. OK.

Senator KERRY. I could not agree with you more. Whoever gets elected has an enormous set of challenges, as do we, to try to pull things together beyond that, but there is no prayer of doing any of that. All of the things you have cited, the unrest in the countryside, the disintegration, the increased movements for independence, et cetera, et cetera, will only be exacerbated if you have a continued economic down slide and a government without legitimacy.

Ms. JONES. That is true. I was trying to convey almost the mood of places like Ambon now where it really is a situation where they do not feel the elections matter. We do and I think it is important, but it is important to realize that the buzz about the elections in Jakarta does not filter down.

Senator KERRY. Fair enough. That is a very good point, and I think it is a very important point for the committee because in many ways you are underscoring the alarm bells that I am trying to ring, that we need to make sure it does filter down and to find ways to give some—what am I saying—the gravitas, some tentacles to the election so that the results can be stronger.

Ms. JONES. Can I just say there is one other issue, though, which is that part of the dangers of this communal unrest is that the election campaign itself is going to be marred I think by communal issues. That is another thing just to keep in mind, that the election

campaign itself can be a divisive procedure as much as a unifying one.

Senator KERRY. It can be. I do not disagree with that, and that is the risk that the international community needs to probably try to face up to now and squarely, but the alternatives are even bleaker.

Ms. JONES. That is true.

Senator KERRY. So, I think we need to keep our eye focused on what we can achieve, and it is a difficult road. These are difficult roads in a lot of countries. Managing democracy and beginning to move into changed governments is not without its growing pains. But the key here is for us to maximize their capacity to begin at a good beginning and to make it happen. I think that is what is so key.

Mr. Chairman, thank you.

Senator THOMAS [resumes Chair]. Thank you, sir.

Senator, welcome, nice to have you here.

Senator TORRICELLI. Thank you very much. I am very pleased to be on the subcommittee, and look forward very much to working with the members.

I regret, Mr. Masters and Ms. Jones, that I missed your testimony, but I have or will read both.

I wanted to ask, given the enormous economic dislocations and political pressures and now the precedent of East Timor, are there any other fissures, multiple fissures, that threaten national unity in Indonesia of which we should be aware, that there are internal tensions arising that we should anticipate future problems?

Ms. JONES. I mentioned in my testimony that there are very strong independence movements both in Irian Jaya and in Aceh, and while they each have their own dynamic, I think that the progress toward East Timorese independence has affected both places.

Senator TORRICELLI. How has it affected it?

Ms. JONES. For example, where there never used to be a call for a referendum on the political status of Aceh, there is now a very strong movement building, and it started with students and it has now moved into the political parties in Aceh itself.

People told me that the one thing that could counteract that move toward a referendum was the prosecution of even a single officer for abuses that took place during the major military operations there in the early 1990's. There is a direct correlation between the frustrations over nothing happening to address those abuses and the move toward political independence. I think it is important to recognize that.

Mr. MASTERS. Could I make a comment, Senator?

Senator TORRICELLI. Yes.

Mr. MASTERS. Thank you very much.

These fissures have appeared very dramatically, and they have surprised many of us who have followed Indonesia for a number of years. We used to say that Indonesia had a remarkable record of religious tolerance, of integrating several of the world's major religions. That seems not to be the case. There are now serious Christian/Muslim problems and also there are problems on the ethnic

side, not only the Chinese, which is a longstanding problem, but also among other ethnic groups as well.

I attribute this to the serious economic pressures on the country. The breakdown of the economy, the rise in unemployment, and more importantly probably underemployment, have released built-up tensions within the society that were dormant during the days of 7 or 8 percent annual economic growth.

I would take as an example Ambon, a quiet, idyllic, area. I was there 3 years ago, and a number of young men came up to us in the bazaar and wanted to walk along with us talk. They were nice young fellows. So, we asked them, what are you doing? Well, they said, we are not doing anything. We found out they graduated from high school 3 or 4 years before. They have never had a job. That is what we might call a floating mass in Ambon, further aggravated by economic stringency, that is contributing to the violence and to the disruption in society.

I do not buy the idea that there is some third force or hidden hand or Suharto family or whatever orchestrating this violence. I think it comes much more from local circumstances.

Senator TORRICELLI. I only have 6 minutes left, so I am going to have to run in a minute here on this vote.

But would you predict, without having to identify areas, that if the economic and political strains continue, are we likely to see other problems of national unity in the decade ahead? Are there other natural fissures there?

Mr. MASTERS. I would certainly expect that, Senator, yes. It is incumbent on the Indonesian Government to move much more directly and more effectively in redressing the center-regional relationship, both on the financial and the power-sharing sides. They need to get on with that very quickly, or they are going to have more difficulty.

I do not share the view expressed earlier that there is a major problem in either Irian Jaya or Aceh, but there could be if they do not move quickly to cope with it.

Senator TORRICELLI. Thank you very much.

Thank you, Mr. Chairman.

Senator THOMAS. Thank you.

Just a couple more questions, if you do not mind.

What would you say, maybe each of you, what do you think are the most serious threats to the credibility of the election?

Mr. MASTERS. Well, I guess I have to kick off on that, Mr. Chairman.

I would say maybe it is money politics. The mechanisms that have been set up are reasonably good. There are still some of the implementing regulations that have to be made, but the system looks reasonable. As I say, it has been accepted by all of the major players and all of the major parties.

But in carrying out the elections, although there are restrictions—and that is one of the good things in the election legislation—on individual and corporate campaign contributions, there are probably also ways around those limits. As we have said before, there are several hundred thousand polling places. It is a huge number. They are not all going to be monitored effectively. So, I

think that there is real danger that money will talk and that that will in some areas perhaps discredit the outcome of the elections.

Senator THOMAS. They have campaign finance, though.

Mr. MASTERS. They have campaign finance, yes, sir.

Senator THOMAS. Ms. Jones?

Ms. JONES. I think there are two questions. One is that the election law itself is so incredibly complex that it will be difficult to explain even in the most sophisticated voter education program what exactly the mechanism is for selecting people. Right now the voter education tends to be you have a right to vote, which is important.

But I commend to you this report by NDI on the new legal framework for elections in Indonesia, and I could not understand what the process was. All the more difficult is going to be to explain this on a nationwide basis, and the chances for people being elected with the majority of the votes not getting a seat is quite high. So, that is one issue.

The second issue is what happens between the parliamentary elections and the selection of the President afterwards because you could get a vote which was legal and fair but not accepted as credible by the Indonesian population.

Senator THOMAS. Mr. Gadbow.

Mr. GADBAW. I think there are two things. There is the process of the election and the result of the election.

I think on the process side, it is impressive to me that so many of the key opposition figures agree that the process that is being followed does provide the basis for a free and fair election. The government appears to be committed to that, and so I think on that score it is critical that that be followed through on, but notwithstanding the obvious difficulties of an election in a big, complicated country like this, anyone who has watched the elections in other countries like India know these are difficult, often very messy affairs.

Second, the results. I think in the end the credibility of the process will, in fact, be judged by whether it produces a government that can effectively govern this country in a very, very difficult time, and it is clear that there will be some kind of significant change that takes place. There may very well be a new form of coalition politics. That would be a profound change for Indonesia and how those forces will converge, choose a single leader, and how that leader will be able to pull together all of the competing interests in the end I think will be the real key to people's perception of whether this was a credible process.

Senator THOMAS. What is the basic difference between the system—how was Suharto selected? Is it the difference in the composition on the House of Representatives?

Mr. MASTERS. Suharto was rubber-stamped, let us say, by the People's Consultative Assembly which under the constitution has the responsibility every 5 years to elect the President and the Vice President.

Senator THOMAS. What keeps that from happening this time?

Mr. MASTERS. Now there is a much more open political system. One problem is that the MPR, the People's Consultative Assembly, is not scheduled to meet until November. I hope the timetable is moved up because there is too much of a time lag there after the

June 7 parliamentary elections before the MPR will meet and elect the President and Vice President.

Ms. JONES. But the difference is that Suharto was sort of re-selected every time by the lackey parliament, the DPR, plus 500 other appointed people that he put in place. Now you will have an elected parliament, plus these other appointed seats have not only been reduced, but they are going to be drawn from elected officials at the local level. So, it is a more representative body.

Senator THOMAS. What about U.S. investment, mining and oil production and so on? Has it gone on pretty much unimpeded?

Mr. GADBAW. I would not say it has gone on completely unimpeded. I think much of the natural resource investments are being maintained, and it is clear that that is critical to sustaining the economy to the degree that it is being sustained. But I think looked at more broadly, there are an awful lot of companies that are in a wait-and-see mode that view this as an important transition period and that are, in fact, waiting to see the results of this—

Senator THOMAS. The present one like Freeport and so on have continued on?

Mr. GADBAW. That is right. Yes, that is correct.

Senator THOMAS. Ms. Jones, I have the impression—I should not get impressions—that you sort of lean toward independence of Timor. Did you say that?

Ms. JONES. I did not say I think it is going to happen.

Senator THOMAS. Do you think that is a reasonable thing to happen?

Ms. JONES. I think it is beyond the point of no return now.

Senator THOMAS. Do you? You cannot help but be a little worried about the fact that around the world there are lots of countries wanting independence that perhaps do not have the basis for remaining independent and sustaining themselves in an economic world.

Ms. JONES. Yes. I think, though, if you look at the very small states of the South Pacific and some of the states of the Caribbean, there are certainly some states that started out with the same disadvantages that East Timor will start out with. But I do think there is going to be an enormous—

Senator THOMAS. That is why we have a supplementary budget going on.

Ms. JONES. May you add to it.

Senator THOMAS. Well, I appreciate it very much. It is an interesting thing certainly. As we have said earlier and all of you have said, it is important to our overall future in Asia besides trying to help stabilize democracies around the world. So, we appreciate very much your being here and look forward to continuing to talk with you.

Mr. MASTERS. Thank you, Mr. Chairman.

Senator THOMAS. Thank you very much.

The committee is adjourned.

[Whereupon, at 11:38 a.m., the subcommittee was adjourned.]

APPENDIX

RESPONSES OF ASSISTANT SECRETARY ROTH TO QUESTIONS SUBMITTED BY SENATOR FEINGOLD

Question 1. The current situation is highly complex and the process to determine East Timor's future status is fraught with potential problems. What is your assessment of Jakarta's agreement to a direct ballot? Do you believe that this will adequately represent the desires of the East Timorese people?

Answer. We welcome Jakarta's agreement May 5 to allow a direct ballot consultation of the East Timorese people on autonomy. The UN has begun to establish a presence in East Timor to prepare for and conduct the consultation vote on August 8. We remain deeply concerned about the security situation and continuing unrestrained violent activities by armed civilian militias. It will be critical for the Indonesian Government to take adequate security measures to ensure that the UN, backed by the international community, can assess the desires of the people of East Timor on autonomy in a vote that will not be biased by fear and intimidation.

Question 2. Even if the principle of a direct ballot is a laudable one, there remain many questions about the mechanics of the process. Do you believe that it is possible to carry out a vote that will be internationally recognized as fair and broadly accepted by the people of East Timor as credible? How would you address the difficult issue of determining voter eligibility?

Answer. As noted, the UN has begun to move personnel to East Timor to prepare for the consultation to determine the views of the people of East Timor. The UN is considering the issue of voter eligibility, including eligibility of East Timorese in exile. We have encouraged the parties to the UN proposal to ensure that the process of resolving the issue of voter eligibility is transparent so that we and other interested observers can judge the fairness of the arrangements.

Question 3. The possibility of violence in conjunction with a ballot is of considerable concern for both the wellbeing of the people of East Timor and for the viability of the process. What information do you have on the reports that the Indonesian Government may have armed from 7,000 to 10,000 supporters of continued integration with Indonesia? What can be done to limit the prospects for violence during, and after, the balloting?

Answer. We are concerned about possible violence in connection with the ballot and have called on all parties to adopt measures to reduce tensions and promote a climate conducive to a peaceful vote. Indonesia has overall responsibility for security for the UN mission and for protection of all East Timorese and others in the territory. We are not satisfied with steps taken to date and have strongly urged the Indonesian Government and military to reverse its policy of providing arms to civilian militias and to collect weapons already distributed. We have supported initiatives for dialogue between East Timorese factions, for cease-fire arrangements, and for Indonesian Government confidence-building measures, including reduction of troop levels.

Question 4. One way to help ensure an environment conducive to a fair balloting process would be for the Government of Indonesia to release East Timorese who have been arrested for their political beliefs. What can the United States, or the international community, do to encourage Indonesia to continue on this path?

Answer. We have frequently raised the issue of releasing East Timorese and other political prisoners with Indonesian Government officials. Secretary Albright did so during her March 4-5 visit to Indonesia; other U.S. officials and representatives of other concerned nations have frequently reinforced the message. We welcomed as a positive step the move by the Indonesian Government to arrange a "house arrest" status for Xanana Gusmao that enabled him to play a more active role in East Timor's transition. We will continue to urge the Indonesian Government to release him fully and allow his return to East Timor before the August 8 consultation vote.

Question 5. In her testimony last month, Secretary Albright stated that she was supportive of UN action on East Timor and that she would be speaking with UN Secretary General Annan to determine what would be the most helpful things the U.S. could do. She indicated at that time that discussions on the nature of an international presence had not “gelled” yet. In that context, I would be interested in your views on what the likely United Nations role might be, either during a ballot process or in the follow-on transition period? Have plans started to take form yet at the UN? Has the Secretary spoken to Secretary General Annan about this issue?

Answer. The UN has begun to establish a presence in East Timor, a goal we support. The UN will continue to play an important role at every stage in East Timor’s transition to autonomy or separation. These include: conducting the “direct ballot” consultation with the East Timorese on August 8, ensuring monitoring of measures to reduce the potential for violence, and responding to humanitarian needs. If East Timor transitions to separation from Indonesia, the UN role will be especially important in focusing international support for the long-term viability and stability of the territory.

Question 6. More specifically, can you assess the prospects for the UN establishing a human rights monitoring presence in Dili? Was this discussed during Secretary Albright’s visit to Jakarta?

Answer. There is a growing international consensus for a UN presence established in Dili to monitor the human rights situation, among other tasks. Secretary Albright raised the issue with all her key Indonesian Government and military interlocutors while in Jakarta in early March, stressing that we support such a monitoring presence and believe that it would strengthen the GOF’s credibility as well.

Question 7. During her testimony in March, Secretary Albright mentioned that the Administration would be focussing particular attention on selected countries that were on the verge of crossing the line to democracy and would be helping them get there. The Secretary included Indonesia in that group, and I understand the Administration is contributing \$30 million to help conduct and monitor its elections. Could you outline for me in more detail what the Administration envisions for U.S. involvement in the election process?

Answer. The Administration strongly believes that free and fair elections in June are essential if Indonesia is to emerge as quickly as possible from its current political and economic crisis. The international community is marshalling considerable technical assistance under UNDP coordination to help Indonesia prepare for these elections.

Bilaterally, the U.S. has been working since August 1998 to support elections as part of a broader program to develop civic and community institutions. The U.S. has committed \$30 million in development assistance to election support in the form of voter education, technical assistance to the interim National Election Commission, programs to train election monitors, and election administration. USAID is implementing these programs through grants to U.S. and Indonesian NGOs. The U.S. will also support a joint effort by NDI and the Carter Center to field an 80-member team to observe the election.

Question 8. Do you know what specific arrangements are being prepared either by domestic Indonesian groups or international observers to monitor these elections?

Answer. The Indonesian General Election Commission (KPU) is in charge of organizing Indonesia’s preparations for all aspects of the June 7 elections, including monitoring. Monitoring refers not only to observing the polls on the day of the election but an evaluation of the entire election process, from selection of political parties to voter registration to evaluating the results of the election.

There are over 100 Indonesian organizations planning to monitor the election. The three largest groups, UNFREL, the Rector’s Forum, and KIPP, are coordinating their efforts to avoid overlaps and to establish common approaches. Between half and three-quarters of the monitors will be students, with NGOs and trade unions also playing significant roles.

KIPP (The Independent Commission for Election Monitoring) has branches in 23 of Indonesia’s 27 provinces, and has recruited 40,000 of the 60,000 volunteers it expects to serve as monitors. UNFREL (the University Network for a Free and Fair Election) includes students and faculty from more than 100 universities and claims to have more than 150,000 volunteers. The Rector’s Forum is organized by senior lecturers from 120 universities and expects to train 40,000 monitors by the election. The three groups hope to monitor 60-70 percent of the country’s 200,000 polling stations. The international community is helping to train monitors.

The Indonesian Government has welcomed the presence of international observers for the elections. Australia, the EU, and Japan have all signaled their intention to send official observer missions. USAID is funding an 80-member observer team led

jointly by the National Democratic Institute (NDI) and the Carter Center. The team will include both Republican and Democratic members.

Question 9. In addition to separatist violence in East Timor, Aceh, and Irian Jaya, Indonesia has seen an increase in sectarian violence between Christians and Muslims in Ambon. How can the Indonesian Government stem the tide of violence and create an atmosphere conducive to free, fair elections without resorting to the practices of its authoritarian past?

Answer. This is one of the key questions facing the Indonesian Government as the country prepares for the June elections. Security forces must act to prevent violence before it occurs and to respond quickly and decisively to stop violence from spreading once it has begun. At the same time, security forces must carry out their duties responsibly and with due respect for the human rights of the Indonesian people. In addition, when human rights abuses are committed, the perpetrators must be apprehended and brought to justice.

Question 10. Could you provide us with your assessment of the electoral field? Do any of the opposition candidates appear to be viable options?

Answer. The Indonesian parliament enacted a new election law at the end of January that provides the basis for the June 7 parliamentary elections. All major political parties seem prepared to participate in the June elections under these rules.

This election will be significantly different than past elections. This will be the first election in over 40 years for which the outcome will not be known beforehand. In the past, only the government party GOLKAR and two government-sanctioned opposition parties were allowed to participate. In contrast, forty-eight parties have met the requirements to participate in the June elections. All of these parties are free to campaign, and will have access to the broadcast media. Five to seven of these parties are expected to attract significant national support.

A credible parliamentary election will probably not result in any one party having a majority. A coalition-building process will then begin which will determine the relative strengths of various players in the new legislature.

Question 11. The Indonesian armed forces have been cited for numerous abuses of civil and political rights under the Suharto and Habibie regimes. What is the Administration's position on proposals to grant immunity to certain officers for abuses committed during either the Habibie or Suharto eras? Do you see this as integral to restoring the credibility of the armed forces prior to, and following, the elections?

Answer. While we are unaware of any formal proposals to grant immunity to certain officers for abuses, we are deeply concerned about the continuing problem of impunity and lack of accountability of Indonesian security forces responsible for abuses during both the Soeharto and the Habibie eras. We have repeatedly urged the Government of Indonesia to investigate past abuses, identify the perpetrators, and move swiftly to bring them to justice. This would be the most effective way to restore the credibility of the armed forces.

Question 12. What joint training of the army is the Pentagon currently engaged in? Does it involve KOPASSUS units? What is the process for considering the involvement of particular army units in joint training, and how is the embassy assessing whether or not they have engaged in serious human rights abuses?

Answer. U.S. military training with the Indonesian military in Indonesia is currently restricted to humanitarian, engineering, and medical activities. A mobile team also recently provided training in human rights awareness and civil military relations. There currently is no training in lethal military skills available to the Indonesian military from U.S. sources. We have also had a small E-IMET program for Indonesia in recent years. E-IMET training is restricted to human rights awareness, civil-military relations, justice, and defense resource management topics. This does not involve KOPASSUS units. We carefully monitor all training programs to ensure that they comply with all legislative restrictions on security assistance and training, and that such programs are in full accord with our human rights objectives in Indonesia.

PREPARED STATEMENT OF R. MICHAEL GADBAW

I am pleased to be here on behalf of the US-Indonesia Business Committee of the US-ASEAN Business Council. The US-ASEAN Business Council is a private, non-profit organization which works to expand trade and investment between the US and the member countries of the Association of South East Asian Nations (ASEAN). It is made up of more than 400 US companies. The US-Indonesia Committee, of which I am the chairman, is comprised of Council member companies specifically

interested in Indonesia. The companies represent sectors as diverse as oil, mining, energy, manufacturing, agriculture, apparel, high technology and financial services.

I was in Indonesia just three weeks ago leading a delegation of US business representatives committed to standing by Indonesia during these difficult times. Our delegation was made up of 10 members of our committee. Among the companies represented were General Electric Company, Pennzoil-Quaker State, Enron International, New York Life International, J. Ray McDermott, ARCO, Raytheon, Eli Lilly, Cigna International, and Cargill.

Ours was a confidence-building and information gathering mission. We wanted to demonstrate with our presence that American companies are engaged and not running from the economic distress. Any of you who are familiar with the charge that American companies lack long-term vision, and the contrasting image of our competitors in Japan, know how important this message is. We also wanted to get a firsthand feel for some of the questions that have brought us here today. In the week we spent there, our group met with a broad cross section of public officials and private sector representatives.

We met President Habibie, the Minister of Mines and Energy, the State Minister for the Empowerment of State-Owned Enterprises, the Minister for Small Business and Cooperatives, and the Finance Minister. We also met with many Indonesians from the private sector, including individuals representing small and medium sized enterprises. We met with representatives of the political parties, members of the Indonesian press and representatives of the Indonesian NGO community. We had an extensive discussion with World Bank officials and compared notes with representatives of the Japanese business community in Jakarta. The Committee has since supplemented this effort by meeting with prominent opposition leader and Chairman of the National Mandate Party (PAN) Amien Rais during his recent visit to Washington.

While I have been to Indonesia a number of times, I came away from this visit with a strong sense that Indonesia is a large, complicated country that is undergoing profound social, political and economic change. One cannot escape a sense of historical moment in recognizing that the world's most populous country is undergoing a political transition to a more open, democratic political system. At the same time, business practices and instruments of governance that have been in place for decades are now under persistent, largely constructive assault. Economic reforms are being implemented which challenge fundamental social relationships in a country where national unity is in constant tension with ethnic and linguistic pluralism.

On our visit to Indonesia, we encountered reform in every discussion.

President Habibie, himself the target of quite a few reformers, from students in the streets to his major political opponents, stressed to us unsolicited the importance of reform. In a 90-minute meeting with our group, he emphasized the importance of "clean, fair, and open" elections. Commenting indirectly on the cultural change in governance, he drew fine distinctions between the conduct of government in the Suharto-era and the operation of his own government during this new democratic age. He expressed to us his belief that foreign companies are "national assets," and he underscored the government's commitment to creating effective anti-trust and bankruptcy regimes. He also volunteered that Indonesian laws should be based on the UN Convention on Human Rights.

In the course of a brief conversation, the President touched on the sweep of massive reforms currently underway, and even then he could not address them all.

Minister of State for the Empowerment of State Enterprises Tanri Abeng discussed with us his efforts to carry out his assignment to divest state-owned businesses. This has been considerably more difficult than some anticipated when Tanri Abeng first assumed his position last Summer. Ultimately, he is responsible for privatizing 159 state-owned companies. But despite setbacks, political resistance, and interim measures, the Minister remains firmly committed to carrying out his ultimate responsibility.

Minister of Mines and Energy Kuntoro discussed with us the several reforms underway in his jurisdiction, including a reduction in the government's share of oil & gas revenues, the ultimate removal of subsidies, fair market pricing, and transparency.

The Finance Minister we met in the midst of final discussions with the World Bank and IMF on Bank recapitalization and closures. He missed his deadline, which expired two days after our meeting. But I am pleased to note that this past weekend, the Indonesian government followed through by closing 38 insolvent banks.

Even Minister Adi Sasono, an admittedly controversial and certainly very complex figure, expressed to us the importance of the market economy and the need to reduce the government's role in it. In this vein, the Minister went so far as to quote Thomas Jefferson's preference for the "government that governs least." Minister

Sasono praised the U.S. for its commitment to good business ethics and identified it as an example for Indonesia's reform movement.

There is no more clear sign of reform than in the Indonesian press. Our business delegation met with representatives of the Indonesian press in Jakarta for an off-the-record discussion of the current economic/political atmosphere. Their critical views of the Habibie government and frank assessments of the political process was in marked contrast to the more circumspect attitude we faced in Indonesia on a similar mission just ten months ago. The second day of our visit, in fact, the Jakarta Post carried a front page editorial calling on President Habibie's impeachment for his alleged obstruction of investigations into President Suharto. The controversy over an intercepted conversation between the President and his Attorney General continued throughout our four-day visit. We are quickly becoming use to the barbs of Indonesia's free press, but this sort of dissent was unheard of only a year ago.

Meetings with political party representatives both in Jakarta—and here in the U.S.—also underscore the centrality of the reform process. Amien Rais, Chairman of the National Mandate Party was just in Washington, DC, where, I, as I know several of those present today, had the opportunity to talk with him at some length about the reform process. During our meeting with him, Dr. Rais publicly voiced support for the IMF's involvement in Indonesia's ratification of the OECD anti-bribery convention. He was also supportive of foreign investment, the sanctity of contracts and the importance of the international trading system of rules.

The Committee's message to our friends in Indonesia has been consistent: A commitment to free, transparent, and efficient markets must be a part of any viable reform agenda. It is essential to draw the political leadership and other influential sectors of the body politic out on these issues. If left isolated, I am concerned that they will develop positions that are not only less than amenable to international business, but untenable in the long run. To this end, we have institutionalized a similar engagement of the Indonesian private sector. Long before the onset of the economic crisis, we worked with our Indonesian counterparts to improve the business environment in areas as varied as tax reform, customs reform and distribution liberalization. The crisis has encouraged to redouble our efforts to engage them even more broadly.

Indonesia has made an astounding number of commitments over the past two years to reform its economy, and has held to most of its promises, albeit in a sometimes halting and incomplete manner. Its progress on economic reform has been periodically approved by the IMF, following extensive reviews. Among the actions it has taken are the following:

- Announced closure of 38 insolvent banks.
- Initiation of the restructuring of \$80 billion in corporate debt.
- Initiation of the privatization of 12 state-owned enterprises.
- Establishment of a Bankruptcy Court.
- Cancellation of 12 major infrastructure projects.
- Cancellation of its government run airplane projects.
- Cancellation of the National Car Policy.
- Abolition of government agricultural monopolies.
- Abolition of all restrictions on investment on wholesale and retail trade.
- Elimination of restrictions on foreign investment in listed banks.
- Reduction of export taxes on certain agricultural goods.
- Tariff reductions on foodstuffs.
- Dismantlement of marketing restrictions in the forestry sector.

In their totality and with the critical proviso that they are implemented faithfully, these reforms promise to transform the way business is done in Indonesia.

While we must recognize the full extent of these efforts to modernize the Indonesian economy, constant engagement is required of international financial institutions, foreign donors, and the international business community. In some cases, the necessary laws have been passed and regulations rewritten, but changes in the field have come slowly.

The most notable recent example in this regard is the establishment of the Indonesian bankruptcy court. The Government appears to understand how essential an efficient, effective bankruptcy regime is to its recovery and future development. Simply put, creditors must have a system whereby effectively insolvent companies can be made liable for their debts. A new bankruptcy law went into effect in Indonesia in September to do just this. Out of 38 cases filed since then, 12 bankruptcies have been declared. The problem is that in the most prominent cases involving foreign creditors including the IFC (International Finance Corporation), the commercial court has found in favor of the debtors—despite what many think have been solid cases against them.

Beyond reinforcing my impressions about the overwhelming needs of the reform process, our discussions in Indonesia gave me a better perspective on the current economic climate. The impression one has from much of the US media coverage is that the country is devastated, an economic basket-case with as much as 100 million people descending into poverty. It is a very difficult time there. No doubt. However, there is much more resiliency in the Indonesian economy than has been generally portrayed.

In a report prepared for the World Bank, surveys of conditions in the country indicate that poverty is not as severe as some have assumed. Before the crisis, the incidence of poverty was approximately 11%—down I should note from 70% thirty years ago. It is now at 14%. The crisis has hit hardest urban areas, Java, and those with incomes in the upper half of the nation's earners. The effects elsewhere have been less severe. In fact, in some areas such as Sulawesi, the economy has actually benefited from drop in the value of the Rupiah.

The World Bank is now predicting that Indonesia's economy will grow by 1 % during FY 1999/2000 and achieve 3% growth next year, if it adheres to its reform program. This is an optimistic scenario, but most forecasts, if they do not show as high a growth rate as 1% in the current fiscal year, at the very least, foresee a positive growth returning in 2000. Given Indonesia's potential as an engine for growth in the region, I am inclined to be optimistic.

Prior to the crisis, Indonesia's economy averaged 7% growth per year for 25 years. It had created a middle-class conservatively estimated at 20 million—a larger population than all of Australia. To be certain, some of this remarkable growth was unsound. But a great deal of it is attributable to Indonesia's integration into the global economy, conscious diversification, the strengths of the Indonesian people and Indonesia's other natural resources. Structural economic reform carried out to its designated end and political stability will once again permit Indonesia to make the most of its national assets. Speaking on behalf of the US-Indonesia Business Committee of the ASEAN Business Council, I am confident of this.

Let me close by thanking you, Mr. Chairman, for the timeliness of this hearing and for your own long-term commitment to the region. The next several months are crucial in Indonesia. They very well may determine its future for decades to come. I am honored to be a part of the Subcommittee's assessment. Thank you.

PREPARED STATEMENT OF SIDNEY JONES

Indonesia may be at a more dangerous crossroad now than at any time in the last thirty years. When I was there last month, it was exploding in violence from one end of the country to the other. A virtual civil war was taking place in Ambon, in eastern Indonesia, with Christian and Muslim neighbors hacking each other with machetes and burning down each other's neighborhoods. In Aceh, on the northern tip of Sumatra, major military operations were taking place to hunt down suspected independence agitators, with villagers, as always, the major victims. In West Kalimantan, communal violence between two ethnic groups, Malays and Bugis, was set off when a passenger refused to pay his bus fare. In East Timor, the unexpected moves towards independence have triggered an upsurge of clashes between pro-independence forces and pro-Indonesia civilian militias, armed and equipped by the Indonesian army.

Unrest is erupting as villagers confront corrupt officials, debtors go after creditors, indigenous people clash with migrants, and farmers confront commercial plantation personnel. Some of it reflects power struggles at a local or national level. Some of it reflects nationalist aspirations that the Soeharto government tried to smother. Some of it is spontaneous, and some of it appears to be provoked, but provocation only works where the basic kindling is there to begin with.

It is in this context that forty-eight parties, none with skilled or experienced leadership, have been approved to contest parliamentary elections in June. U.S. support for the electoral process is important, and it is critical that the elections take place on schedule, but it would be a huge mistake to see the elections as the key to solving Indonesia's problems.

1. The army

The dominance of the army continues to be a major obstacle to a democratic transition. Too often the army is portrayed as the only force capable of holding Indonesia together. But from Aceh to Irian Jaya, it is the army and its past and present abuses that are pulling it apart. How many seats the military retains in the parliament or how long it will take to gradually eliminate the army's role in social and

political affairs is not the key question. In the short run, the question is how to prevent the army from making existing problems worse.

I can give you four examples. The army quite rightly identified widespread civil unrest as a serious security threat and one likely to intensify during the election campaign. Its solution, however, was to create a civilian militia, armed with the equivalent of nightsticks and given rudimentary training. The dangers of such a force should have been apparent last November when the army sought volunteers for a militia to protect the special session of the country's highest legislative body against threats from student protestors. Those who volunteered were overwhelmingly from conservative Muslim youth groups who saw any call for Habibie's ouster as tantamount to being anti-Islam. Militia members were almost by definition hostile toward the students, making a confrontation inevitable. For the elections, the civilian militia is to be called *wanra*, an acronym for "People's Defense." In Aceh, an area that was the target of counterinsurgency operations from 1990-98 and where the army is loathed for its abusive practices, the *wanra* volunteers are reported to be largely composed of transmigrants, or immigrants from outside Aceh, who are already resented by the local populace. In East Timor, the *wanra* members are very clearly pro-integration and anti-independence. Putting them on the streets to safeguard the peace during elections is only inviting more trouble.

A second problem is that the army tends to see all unrest through a counterinsurgency lens. The Indonesian army has no capacity to take on ordinary law and order functions. It was trained throughout the New Order to respond to internal security threats: the people as the enemy. In a situation of widespread civil unrest, this approach does not help. Sending soldiers to confront students in the streets of Jakarta last November proved to be a lethal error.

Even when insurgents are in fact involved, the army's response is still disproportionate to the nature of the threat faced. In Aceh last December, seven soldiers were dragged off a bus and brutally murdered by people suspected of working with Aceh Merdeka or the Free Aceh Movement, a political organization with a small armed wing. The incident was not treated as a multiple murder and given to the police to prosecute. It was treated as an act of war and triggered the sending of thousands of fresh combat troops to the region, including from units that already had a reputation for brutality in Aceh. The new military operations in turn gave rise not only to new abuses, including the murder of five detainees, but to a growing demand for a referendum on Aceh's future political status.

A third problem is that just at a time when Indonesia should be moving away from reliance on the military, some in the largely unchanged bureaucracy are advocating the expansion of a military presence. Officers are using mounting social unrest as a pretext for recommending the creation of new military area commands (KODAMs) in affected areas. Under the current military structure, there are ten KODAMs, each with about 700 personnel headed by a major general. In February, one new KODAM was approved for Aceh, and the violence in Maluku province has led to a demand for a new KODAM there. Just this week, officials in Nusa Tenggara Barat, the province that includes Bali, decided to request a new KODAM ostensibly as a preventive measure. The establishment of new KODAMs would not only mean a greater troop presence on the ground, but it would open up slots for officers seeking promotions at a time when available positions are shrinking, and the economic crisis has dried up opportunities in the private sector. A democratic Indonesia doesn't need more troops, it needs fewer.

A fourth problem is the deep suspicion that some officers have of political reform, however much they may see it as inevitable. When I was in Ambon in February, the spokesman for the armed forces was asked why local troops made no move to stop an outbreak of violence between Christians and Muslims. He said that in the old days internal security agents, (Bakorstanas) would just have arrested people, but now it was the reform era, and they had to obey the rule of law. In this case, the army was using reform to justify inaction. In Aceh, the regional commander was questioned as to why his forces did not arrest an alleged insurgent leader in January whom the army held responsible for a series of violent raids. When troops surrounded his house, the man came out, surrounded by his family, and calmly walked away, leading many Acehnese to conclude that the army had no intention of arresting him in the first place. The commander said that before, the army would have just opened fire; now it had to be careful about shooting civilians. It's a good thing if soldiers feel constrained by legal norms, but both responses are disingenuous. They also imply that violence is a necessary consequence of reform, and that people might be safer with the old system back.

Many in Indonesia believe that the worst violence in Indonesia in recent months, especially communal outbreaks involving Christians and Muslims, has been provoked by elements close to the Soeharto family, attempting to reassert their power.

There is clear evidence of provocation in some cases, although none I know of that conclusively links it back to Soeharto. But when even General Wiranto is quoted repeatedly as saying that provocateurs were responsible for the Ambon violence and other incidents, one begins to wonder what evidence he has, why that evidence has not been made public, and why no provocateurs have been arrested.

There is no question that the image of the army has been badly tarnished as more and more revelations emerge about its past and present, but in terms of U.S. policy, it is an opportunity for the administration to put all emphasis on strengthening civilian institutions. There should be no joint training exercises with Indonesian military units until the issue of provocation of major outbreaks of violence, such as the Jakarta riots in May 1998 and the civil war in Ambon, has been fully resolved, and any perpetrators punished. The U.S. should oppose the creation of any new KODAMs. It should support efforts, particularly in Aceh, to hold military officers accountable for past abuses, even when those same officers are currently holding senior positions in the government. It should continue to use every opportunity to oppose the civilian militia. And it should continue to support, as it has, the separation of the police from the armed forces, a move that is likely to take place in April.

2. *East Timor*

I don't think any of us could have predicted at the last hearing on Indonesia how far East Timor would have moved toward independence. On the one hand, the progress is a tribute to the persistence of the East Timorese, the quality of their leadership, and the work of the United Nations. On the other, it indicates the depth of the pique Habibie and other top Indonesian officials felt that their offer of "wide-ranging autonomy" last August was met with ingratitude and cynicism. One gets the impression now that they just want to get rid of the place as soon as possible.

But Indonesia's policies over the last twenty-three years have caused unimaginable damage, particularly in dividing the population to the point that prolonged civil unrest, particularly in the western part of East Timor, is not out of the question. There are some old political wounds remaining from the civil war in East Timor in 1975, before the Indonesian invasion. But most of the potential violence can be traced to the Indonesian army's policy of creating paramilitary, pro-integration groups to help the armed forces in counterinsurgency operations. They were also used to terrorize pro-independence supporters, mount counterdemonstrations to pro-independence rallies, and engage in other political activities. Most were given arms and military training. In January, shortly after Habibie suggested that independence was a second option, many of these groups acquired new weapons. In recent weeks, pro-Indonesia militias, working together with local territorial troops, have attacked civilians suspected of supporting independence in Liquica, Ainaro, and Dili.

Supporters of independence have also been responsible for violence. Any future East Timorese leadership will have to be able to guarantee the protection of the rights of all those who worked with the Indonesian administration. It will have to guarantee the rights of non-Timorese as well, many of whom came to East Timor as traders, teachers, or transmigrant farmers. The signs there are not good. In the last few weeks, almost 1,000 Indonesians have fled to West Timor, many of them families headed by teachers and civil servants who have faced harassment and intimidation since prospects for independence improved. Ethnic Chinese and ethnic Bugis, who dominate retail trading networks, have both been targets of attacks in the past and both need to be reassured of their safety. Now the question is how to avert major violence if, as is now planned, the U.N. conducts some kind of ballot to determine the preference of the East Timorese: independence or autonomy.

Before that ballot can be conducted, the militias have to be disarmed, and some kind of security provided. The Indonesian army cannot provide that security; it is hardly perceived as impartial. It is therefore critical that the international community support, and press Indonesia to accept, some kind of international police presence that can also train East Timor's future police force. East Timor will also need massive assistance, given its current dependence on Indonesia for both budgetary support and for basic human resources.

3. *Independence Elsewhere?*

The moves toward independence for East Timor have not gone unnoticed in other areas, although it would be a mistake to see East Timor as the domino that will cause other regions to break away. There are independence movements elsewhere, but they need to be understood as having their own dynamic, rooted in grievances which need to be addressed—and which will not necessarily be addressed by a free and fair election. Aceh and Irian Jaya are two provinces with well-developed pro-independence movements. On February 26, 100 political, tribal, and community leaders from Irian Jaya presented a statement to President Habibie expressing a

desire for independence of the country they call West Papua. In Aceh, as noted, demands for a referendum have increased, first among student groups, now echoed by many political leaders. Both places are rich in natural resources but have seen little of that wealth reinvested at home. Both, because of the presence of armed rebels, became the focus of military operations that resulted in widespread human rights abuses and alienation of the local populace. In both places, failure to address the abuses of the past has resulted in greater support for independence from Indonesia. (When I was in Aceh in February, the deputy head of the local parliament stressed to me that the rising demands for a referendum and the ongoing violence both could be halted by one act: the prosecution of a single officer responsible for any of the killings and disappearances that took place in the early 1990s.)

The violence in Ambon may push more of Ambon's Christians toward a separatist movement, even though support there for the largely expatriate political movement of the Republic of the South Moluccas has never been high. Muslims and Christians have been equally the perpetrators and victims of the violence there, but it is an area where the once-dominant Christians have become a slight minority through demographic change, and they need to be made to feel as though there is still a place for them in a Muslim majority country.

Indonesia is not going to disintegrate overnight, but neither should the ferment in some of the outer islands be dismissed as inimical to the well-being of the nation. That ferment could in the long run produce a healthier political structure, perhaps based on a federal system as Amien Rais and the PAN party have advocated. The U.S. Embassy, which by and large has done a terrific job on human rights issues throughout this crisis, should do more to get its embassy personnel out of Jakarta and off of Java. Congress could assist this process in allocating funds for the reopening of the U.S. Consulate in Medan, North Sumatra. A Jakarta-centric myopia misses the point of much of what is happening in Indonesia today, from the causes of violence to the prospects for democracy.

4. *The Ethnic Chinese*

Indonesia's Chinese remain traumatized by what happened to them then, when many were killed, some of their women were raped, and their homes and shops destroyed. The Indonesian government is about to ratify the Convention on Elimination of Racial Discrimination, but it has made few other efforts to ensure the Chinese that they are valued members of society. None of the discriminatory laws and regulations, such as those banning distribution of Chinese publications or celebration of Chinese New Year, have been repealed or revoked despite government promises to review them. None of the recommendations of the government-appointed joint fact-finding team that investigated the May violence has been implemented. Attacks on Chinese shops continue to be a regular feature of social unrest. The U.S. should continue to press the Indonesian government, publicly and privately, to investigate the origins of the May violence, if necessary offering FBI assistance the way it did following a grenade explosion in Phnom Penh, Cambodia, in 1995.

In short, Indonesia has so many critical problems facing it at once that it would be a mistake for the U.S. to place too much emphasis on the elections as a way of getting the country back on track. Elections will help move Indonesia toward a more legitimate government, although many of the people I talked to regarded the June elections as a kind of dry run just to see how the process worked, with the meaningful poll taking place in 2004. The very low expectations about the upcoming elections is probably advantageous, because there is a lower risk of disillusionment. But regardless of the outcome, the role of the army, the ongoing violence, the issue of East Timor, the threat of disintegration, and the issue of the ethnic Chinese are all going to be around long after the votes are counted.

PREPARED STATEMENT OF HON. EDWARD E. MASTERS

Thank you, Mr. Chairman. I am pleased to be here today to discuss recent developments in the world's fourth largest country—Indonesia.

A year ago this week I testified before your committee describing a country at a critical point in its relatively short history, faced with an economy in paralysis undergoing massive IMF-prescribed austerity measures and supported by emergency stand-by credits; a humanitarian crisis due to the effects of El Nino; soaring prices for food; shortages of food and medicine; and mounting unemployment. All of these factors came to a head in May 1998 when massive demonstrations and rioting led to the resignation of President Soeharto with his then vice president B.J. Habibie assuming the presidency.

Today I will share my impression of the democratization process in Indonesia.

I have been following events in Indonesia for nearly thirty-five years. My first assignment, as political counselor in the American Embassy in Jakarta, commenced on September 30, 1964, one year to the day before the attempted communist coup that was launched on September 30, 1965. That traumatic event set in motion the eventual transfer of power that took place officially on March 11, 1967. I witnessed the first years of Suharto's New Order, when all efforts were mobilized to stabilize the massive debt incurred by the Sukarno regime and to assure a reliable food and fuel supply to the people.

I returned to Indonesia in 1977 as Ambassador, and served another four years. By this time, the remarkable achievements of economic development were well underway. Although corruption and cronyism have been well known in Indonesia for a generation—as indeed in just about all rapidly developing countries—the benefits of development were not limited to the few at the top. The World Bank estimates that the distribution of wealth, measured by the Gini coefficient, was slightly more equitable in Indonesia in the early 1990s than in the United States.

After four years as Ambassador I followed events in Indonesia off and on until circumstances permitted a closer look five years ago. I realized that this huge, rich, fascinating and important country—one of the key nations in the world today is virtually unknown to the American people. There are perhaps understandable historic reasons for this, but nonetheless, this giant of Southeast Asia has been almost totally ignored except for the occasions when it has been sharply criticized for its shortcomings.

For this reason I, along with other Americans and Indonesians with long experience in each other's countries, founded the United States-Indonesia Society five years ago. Our purpose is to offer a variety of programs in the United States to permit a more thorough understanding than is commonly available. That understanding is essential today if we wish to determine the best approach for the U.S. toward Indonesia's problems.

From an historical perspective, the tremendous changes that took place in 1998 will be viewed by most Indonesians as painful medicine necessary for the nation to endure in order to achieve sweeping reforms. It is ironic that demonstrating students last May welcomed former President Soeharto's resignation with jubilation and euphoria at first, but it was not long thereafter that the general mood turned to one of fear and uncertainty about the future of the country.

A 15% contraction of the economy, high inflation, a much devalued rupiah, domestic social unrest and a change of government all make it difficult to chart a path toward economic recovery let alone the restoration of political stability and social harmony. Most of us see these processes as inseparable: Progress on both fronts must be made simultaneously.

The nation passed the first litmus test of its ability to reach political compromise when the Parliament adopted three laws to replace the five political laws promulgated in 1985. The laws are about the elections, political parties and the composition of the parliament, the people's consultative assembly and the regional assemblies.

The date for elections to the national Parliament (DPR) as well as to provincial and sub-provincial (district) legislatures has been set for June 7, 1999, after a three week-campaign period from May 18–June 6. The district-level results will be announced first (over June 20–26) with members installed on July 20; provincial results will be announced between June 27 and July 2 with members installed on July 25. National results will be announced over July 3–12 and members inaugurated on August 29. A new 700-member Majelis Permusyawaratan Rakyat-MPR (People's Consultative Assembly) is then scheduled to convene on November 11 to elect a new president and vice president. For many of us who have been monitoring developments in Indonesia, the period between the parliamentary election scheduled for June 7 and the November presidential election is critical and I will return to this point a bit later.

Under Indonesia's political structure, eligible political parties will contest for seats in the Dewan Perwakilan Rakyat—DPR (Parliament) while members of the DPR will automatically become members of the MPR. The DPR will consist of 462 elected members and 38 appointed armed forces (ABRI) members. The size of the MPR was reduced from 1000 to 700 members. The MPR will consist of 500 DPR members plus 135 representatives appointed by provincial legislatures (5 from each province) and 65 representatives of social organizations. The MPR will elect the president and vice president and decide on the Broad Guidelines of State Policy. There will also be elections for the provincial and district assemblies.

The election will be based on a multiparty system. The election will be held under a system of proportional representation at the provincial level. According to the law on the election, to be eligible to take part in the elections, a party must have

branches in at least nine provinces, and in half the districts in each of these nine provinces. On March 4 a list of 48 parties that qualified was announced.

Political parties will compete in the 27 provinces with their own candidate lists for national seats (DPR), provincial seats (DPRD-I) and district level seats (DPRD-II). Voters will elect by piercing the symbol of their party.

An Election Committee or KPU, composed of government officials and representatives of the parties which are eligible to take part, is responsible for the conduct of the election. The KPU is in charge of voter registration, the nomination of candidates, campaign arrangements, polling and tabulation of votes at the polling stations.

The government will allow independent observers and monitors. The KPU will coordinate election monitors which will play a crucial role to ensure the elections are conducted in a free, fair and transparent manner.

All Indonesian citizens above 17 will have the right to vote (married people under 17 will also be allowed to vote). According to the latest figures (based on the 1997 election) 124.7 million out of a population of more than 210 million people will be entitled to vote.

In addition to conducting the June elections, the KPU will allocate the number of parliamentary seats assigned to each province; tabulate and announce results of the contest.

The Election Law stipulates that the government will provide five representatives to the KPU, and that each political party taking part in the elections will provide one representative. If and when the KPU votes on decisions, the government and political party representatives will each have a 50% weight in the voting rights. This makes the government representatives particularly influential: together their five votes carry the same weight as the 48 votes from the political party representatives. If these five are credible figures with strong integrity, it will boost the chances for fair elections. The five individuals named to be government representatives to the KPU turned out to be responsible private (non-government) figures who have been critical of government in the past. The names of appointees were greeted with relief and surprise by skeptical observers and opposition parties.

The election schedule:

- Feb. 1–March 1: Registration and selection of political parties eligible to contest the elections.
- March 16–April 20: Registration of voters.
- March 15–April 15: Nomination of legislators for the House of Representatives, and for provincial and regency legislatures.
- May 18–June 6: Election campaign season.
- June 7: Balloting and vote counting.
- July 3–12: Announcement of election results for House legislators. Those winning seats in provincial legislatures will be announced from June 27 until July 2 while election results for regency legislative councils will be announced between June 20 and June 26.
- Aug. 29: Inauguration of new legislators in the lower House. Legislators in regency and provincial legislatures will be installed on July 20 and July 25 respectively.
- Presidential Election tentatively set for late October though there is some talk of advancing the date to as early as August 29.

Under the new laws, civil servants are barred from joining political parties. Civil servants who join a political party must take leave of absence, while being entitled to draw his or her basic pay for at least one year, and this can be extended to five years. Civil servants who fail to report membership in a political party will be fired. I view this as a very positive development and a clear break from past practices—a leveling of the playing field whereby no single political power can corner the civil servant constituency.

Progress is being made in Indonesia's electoral reform process in other ways that are worth noting. New election laws stipulate monetary limits on political donations (15 million rupiah for individuals, and 150 million rupiah for corporate contributions). This is a welcome development and another example of a leveling of the playing field.

PROBLEM AREAS

There was great debate over whether the new election law would designate seats in the DPR for ABRI, the armed forces. As it turns out, the army retained seats and for the time being preserved the social and political role it plays—the *dwi-fungsi*—in addition to providing for the country's defense. The dual-function is one

of the main obstacles to democracy in Indonesia. Under the new laws, the armed forces, whose members will not be entitled to vote in the elections, will occupy 38 DPR seats (down from 75) with full voting rights, leaving 462 seats for the political parties which contest seats. The 38 ABRI seats in the national parliament will represent the equivalent of 9 to 10 million votes, a possible swing vote of 7.5%.

In the provincial and district-level parliaments, the armed forces will occupy 10% of the seats without contesting in the elections. At present, the armed forces occupy half of the nation's governor positions, while 40% of district heads are from ABRI. By retaining seats in the regional assemblies they will be able to influence appointments of governors and district heads.

A component of the new law on the composition of parliament is the appointment of two hundred members to the MPR by the provincial legislatures and social groups. There will be 135 seats for regional appointees (five representatives per province appointed by new provincial legislatures) and 65 for community and social groups nominated by the KPU. Thus the voting outcome for the provincial elections will be critical for the selection of their representatives to the MPR, which in turn selects the next president.

A problem area of the new political laws is the exclusion of local parties from participating in the election of national and regional parliaments. The stipulation that local or ethnic groups will not have their own representative parties in parliament. For instance, Acehese or Papuan political parties will not be able to participate in the elections simply because they do not have branches in at least nine of Indonesia's 27 provinces. Clearly, the new laws are skewed in favor of Java-based, nationwide parties. In a country of such ethnic diversity as Indonesia, this is a major drawback. The same rules will also apply to the provincial and district assemblies that will be rendered incapable of representing the local communities. On the other hand it reduces the chances of separatist political parties.

It is too soon to draw assumptions or make predictions about the upcoming parliamentary elections and whether the electoral process will be free and fair for all political parties. The government will allow independent observers to monitor the elections. As the world's largest archipelago, it will be difficult for independent monitors to cover an election estimated to cost \$400 million and spread over 300,000 polling stations, especially in the more remote parts of the country where wholesale election malpractice typically occurs.

Disproportionate government control over the administration of the election process such as voter registration, nomination of candidates, voting and tabulation of votes in the polling stations from top to bottom also raises the prospect of manipulation and fraud. Also, the gap between the June elections and the November presidential election offers a window in which violence might escalate. Flare-ups and sustained inter-ethnic clashes as we have witnessed in Ambon in the first few months of 1999 are testament to the susceptibility of Indonesia's fragile social fabric. The eruption of violent incidents as the elections draw near could derail Indonesia's first post-Suharto general election.

Indonesia's Election Law may also be deficient in terms of how it deals with the appeals process. Fair and transparent handling of complaints will be crucial for this election, but the law fails to grant the KPU control over processing appeals. Instead, the KPU must "coordinate" with the judicial system. The judicial committees with which the KPU must coordinate will be made up of government appointees. Indonesia's court system has been plagued by corruption. Even if the KPU and the Ministry of Home Affairs manage to conduct the elections in a fair and credible manner, one cannot rule out the possibility of a mishandling of the appeals process by the judiciary.

The upcoming elections are one in a series of steps that our friends in Indonesia must take on the long road to democracy. The elections are not a panacea for all of the social conflicts and economic problems the country is now dealing with. But if the June election is conducted in a fair, transparent, and credible manner, broader and more equitable representation of the people's political aspirations will be achieved. We have an opportunity to help make this the first truly democratic election in Indonesia since 1955, and I strongly advocate continued engagement, consultation, financial and humanitarian assistance to Indonesia at this critical time.

PREPARED STATEMENT OF HON. STANLEY O. ROTH

INTRODUCTION

Mr. Chairman, thank you for the opportunity to address this subcommittee. I am particularly pleased with your decision today to run a little counter to current trends and give me the chance to focus not on Korea or China, but on Indonesia.

Indonesia is one of Secretary Aibright's four "priority" developing democracies. Her criteria for selection included regional impact, prospects for near-term democratic developments, and resources—both natural and human—available for future development. The Secretary's choice of Indonesia acknowledges what Indonesia watchers have long held: what happens to Indonesia impacts all of Southeast Asia.

I know that I need not belabor the importance of Indonesia with this subcommittee: Indonesia sits astride strategic global shipping lanes. It is the fourth most populous nation in the world and has the largest Muslim population. It possesses a wealth of natural resources. It plays a critical role in regional political issues. It encompasses a wide array of cultures and religions. It is a co-founder of the non-aligned movement, a member of OPEC, and a respected participant in the Organization of Islamic Countries. It is a critical member of ASEAN.

What I do want to emphasize is that this is a pivotal moment in Indonesia's history. Indonesia is about to hold the first election in over forty years where the results are unknown. A successful electoral process, culminating in the selection of a new President and Vice President by the MPR in November, will go far in determining the prospects for democracy, the pace of recovery, and the potential for social stability in this key Southeast Asian nation. By extension, the course that Indonesia follows will have ramifications well beyond its borders.

PRESENT DEVELOPMENTS

The situation in Indonesia today is remarkably complex, reflecting a number of positive developments as well as a number of troubling ones.

On the positive side, President Soeharto's ouster in May, 1998 created genuine opportunities for reform in Indonesia's political system. President Habibie has lifted controls on the press, political parties, and labor unions. Civil society has blossomed. There is a growing spectrum of diverse political parties. New rules for the electoral system have been accepted by the major opposition leaders. Parliamentary elections are set for June 7, 1999, and a new President is to be selected several months later.

ABRI, Indonesia's military, one of the pillars of the Suharto regime, is also changing. The Indonesian people have made it clear that military dominance of the state is no longer acceptable. The number of ABRI representatives in Parliament has been halved. Many opposition parties have placed a diminution of the military's socio-political role high on their agendas.

The armed forces leadership appears to be getting the message. Under the leadership of General Wiranto, ABRI has committed to a number of key structural reforms aimed at reducing the military's political role in the state, including withdrawing support from the ruling party and pledging neutrality in the upcoming elections; scheduling the separation of the police from the military; requiring ABRI personnel who accept jobs as civilian administrators to resign from active service; and eliminating the position of Chief of Staff for Social and Political Affairs—the very embodiment of the military's political role.

Negotiations on East Timor's future have seen dramatic progress in recent months since President Habibie's announcement that he will recommend independence for the troubled territory if the East Timorese reject Indonesia's offer of wide-ranging autonomy. Just last week, Indonesia agreed to a direct ballot "democratic consultation" mechanism by which the East Timorese will be able to consider the Indonesian autonomy offer. As things stand now, the UN, Portugal, and Indonesia plan to finalize the autonomy proposal by late April and then put the package to the East Timorese for a direct vote no later than July.

On the economy, President Habibie's recent decision to shut down 38 insolvent banks is a vital step forward in the process of economic recovery. Revitalized banks, ready and able to lend on commercial bases, are necessary to get Indonesia back on the path to prosperity. Consequently, with the rupiah strengthening from summer lows, inflation down, and interest rates declining, the Indonesian economy is showing some positive signs.

And so, Mr. Chairman, Indonesia has come a long way in the 10 short months since Suharto resigned, but much continues to threaten that which has been accomplished. First and foremost on the list of concerns is the troubling persistence of violence. ABRI's inability to restore order during outbreaks of violence has caused seri-

ous concerns both in Indonesia and abroad. Ambon is one visible example, but many others exist.

Unless this violence can be brought under control, Indonesia's ability to carry out free and fair elections will be put at risk. More fundamentally, the violence threatens the very fabric of Indonesia's multi-ethnic society, jeopardizing the spirit of tolerance that has distinguished Indonesia for so many years. ABRI's inability to quell this violence, and the lack of accountability for past actions, have all but destroyed the notion of ABRI as the protector of the people.

East Timor has not been spared this violence. In fact, a cycle of violence may be intensifying in East Timor between pro-independence and pro-integration factions. There are persistent, credible reports that elements of the Indonesian military are arming pro-integration civilian groups, and we have repeatedly made it clear to the Indonesians that such actions must be stopped.

Another serious issue which will require a credible effort is the lack of a credible effort to systematically address corruption. For example, reports that "money politics" are creeping into the election campaign are undermining the Indonesian people's confidence in the credibility of the election process.

Finally, while the Indonesian government's recent bank restructuring was a welcome and much needed step, the basic economic picture remains grim. Indonesia's GDP dropped over 13 percent in 1998 and the IMF predicts it will drop another 3.4 percent in 1999. The World Bank reports that 14 percent of Indonesians now live below the poverty line, and the International Labor Organization estimates unemployment between 8 and 11 percent. The return of investor confidence, an important indication of, and contributor to, Indonesia's economic recovery, will be dependent on sound economic policies as well as credible elections.

POLICY PRIORITIES

The foregoing sketch gives an indication of the plethora of important issues which Indonesia must address. For the immediate future, this Administration will focus on the following: the importance of credible June 7 elections, stemming the spreading violence, continued progress towards economic recovery, and peaceful resolution to the situation in East Timor.

June 7 Elections—

The success of Indonesia's June 7 parliamentary elections constitutes our highest short-term priority because the elections are a necessary, if not sufficient, condition for the restoration of political stability and economic recovery. In order for these elections to play that positive role, it is essential that Indonesians perceive them as free, fair, and credible.

Preparations to achieve this standard of electoral legitimacy are underway, but in an immense archipelagic country with as many as 125 million voters, much remains to be accomplished. The Indonesian Government has recently indicated that it welcomes technical assistance for the elections. The UNDP has stepped forward to coordinate the international community's response. Financially, even our significant \$30 million in planned electoral assistance is far short of the total amount Indonesia will need. Consequently, we are working closely with other potential donors to ensure that additional monies are made available to Indonesia on a timely basis.

Hopefully the June elections will be harbingers of fundamental political change in Indonesia. Not surprisingly, however, there are those who question the extent of the transformation underway. A legacy of generally weak and frequently corrupt institutions has led many potential political participants to remain deeply skeptical, both about the elections and the reform process in general. These disaffected actors do not trust the current Habibie government to carry out free and fair elections. They believe the military should be completely removed from politics. They want to see former President Soeharto, his family, and cronies, prosecuted for corruption. They see President Habibie's failure to follow through on some highly visible human rights cases as evidence that his government does not have the political will to break with past practice.

This skepticism is not without basis and those concerns should not be dismissed. But, the vast majority of Indonesians see these elections as the only way forward, even while recognizing that one election does not a democracy make. Indonesians will have to work hard to internalize democracy. Political parties which are unsuccessful will have to accept the electoral results and take up the role of constructive opposition. In subsequent elections, former victors will have to voluntarily relinquish power. In short, successful June elections are only a first step, and the U.S. must be prepared to remain engaged to support democracy in Indonesia over the long term.

Violence—

Indonesia's present level of ambient violence threatens to negate the country's hard-won progress. Ethnic conflict. Intra-religious violence. Skirmishes between armed civilian factions. All have either recently taken place, or are presently taking place.

Ambon is perhaps the most tragic example. Once known for its tradition of peaceful co-existence between Muslims and Christians, now Ambon is characterized by charred churches and mosques, fleeing residents, armed civilians, and a collapsing economy. Up to 200 inhabitants have been killed in the violence that has erupted since January. Thousands are homeless. The initial cause of the conflict is not clear, but social restraints and security forces have thus far proven unequal to the task of containing the spreading violence.

Throughout Indonesia, security forces have been faced with constant street rallies and demonstrations. They have been forced to walk a precarious line between violent suppression and unresponsive inaction, and have erred in both directions. This in turn perpetuates the image of Indonesia as a major human rights violator, overshadowing the very significant progress that has otherwise been made on human rights issues.

Given the inadequacy of police forces, ABRI will have to continue to play a major internal security role for the foreseeable future. With insufficient training in controlling massive and sustained civil discord, cognizant of its past excesses and present failings, and intent on keeping its pledge to remain out of politics, ABRI is reticent to enter the new Indonesian era as the enforcer of domestic peace. However, with the lack of any other viable alternative, ABRI must shoulder its responsibilities honorably.

At a minimum, ABRI must assist in identifying and bringing into civilian custody the provocateurs of violence and premeditated unrest, and it must do more to end human rights abuses by its own members. The course that ABRI takes on this critical issue will significantly contribute to, or distract from, its domestic and international reputation. By extension, the choice will dictate the strength of the relations other nations, such as the U.S., will have with ABRI in the future.

ABRI, however, cannot be expected to successfully combat the violence alone. Civic and religious leaders, respected elders, leading publications, all have an obligation to actively denounce the violence and call for calm.

Economy—

In order to restore confidence and growth to its economy, Indonesia will have to continue implementing its economic reform package. As both Secretary Albright and Treasury Deputy Secretary Summers noted during their most recent meetings in Indonesia, Indonesia must be particularly vigilant from now through the November selection of a President. Most major political figures have indicated their intention to continue with the IMF program in a new government.

For its part, the international community will have to remain committed to seeing the economic recovery process through and to addressing social safety net programs to help Indonesia's poor. The U.S. assistance program for Indonesia provides humanitarian assistance, promotes democracy and fair election practices, accelerates economic reform and recovery, and encourages better environmental management.

Under the rubric of humanitarian assistance, the U.S. government is donating 600,000 tons of wheat as well as rice and other food commodities. We are also engaged in activities to help strengthen Indonesia's social safety network. Democratization activities center on providing voter education, election administration, and training of election monitors. We plan to provide more than \$30 million for the upcoming elections. We are also exploring ways to promote civil-military dialogue and strengthen institutions of civil society.

Economic reform programs draw on the expertise of a myriad of U.S. agencies. EXIM has offered a \$1 billion line of short-term credit to help ease trade financing constraints on Indonesian importers. Treasury is providing technical expertise to assist Indonesian efforts in bank and corporate restructuring. Other expert advisers, funded by USAID, are helping design Indonesia's fiscal policy reforms outlined by the IMF.

A list of U.S. economic efforts on Indonesia's behalf would not be complete without mentioning the many American corporations who have retained their presence and operations in Indonesia despite the difficult economic conditions. The decisions of these companies to stay the course in Indonesia not only support that economy directly, they also support general investor confidence in Indonesia.

East Timor—

The situation in East Timor is unique in Indonesia. East Timor did not share the experience of Dutch colonialism and was forcefully incorporated into Indonesia just 23 years ago. Many in the erstwhile Portuguese colony, primarily Christian and ethnically Melanesian, have resisted Indonesia's incursion ever since. The associated, often-times brutal, military repression has not engendered support or sympathy for Jakarta in this province.

In an unprecedented and unexpected announcement on January 27, the Indonesian government stated that, if the East Timorese rejected Indonesia's autonomy offer, it would recommend to the incoming People's Consultative Assembly—the MPR—to consider “letting go of East Timor” on January 1, 2000. This announcement constituted a dramatic reversal of long-standing policy, a reversal for which the Habibie government deserves credit.

A window of opportunity exists in East Timor from now until the July autonomy “consultation” to establish some of the fundamental components of democracy. How to register voters, where and how to establish polling stations, what kind of voter education to provide and by what means, are only a sample of the many practical issues that will have to be resolved in the near future. The U.S. intends to be actively involved with this process. Furthermore, we believe that the systems established will provide a foundation for East Timor's democracy no matter what the outcome of this particular vote.

However, no electoral system will be successful in the atmosphere of increasing tension in East Timor. The Indonesian government must, therefore, put high priority on restoring a sense of calm and stability on the island. Disarming civilian factions and embracing proposals such as a broad-based council to promote peace and reconciliation are necessary steps. Confidence building measures such as troop reductions and an increased international presence in East Timor would also be very useful.

No one can predict the outcome of the East Timorese vote on autonomy. Clearly, however, the possibility exists that East Timor could choose to turn down Indonesia's autonomy proposal thereby raising the real possibility of independence. If this is the electoral outcome, Indonesia must realize that an immediate withdrawal of Indonesian support from East Timor will greatly increase the risk of civil war and long-term invariability for East Timor. This would reflect badly on Indonesia's international image and call into question its regional leadership abilities. Consequently, should East Timor opt for independence, Indonesia should commit to fair and supportive transitional arrangements.

CONCLUSION

The translation of Indonesia's national motto is “unity in diversity.” Diversity—as exemplified by differing languages, multiple religions, and distinct ethnic origins—is inherent to Indonesia. Harmonious unity, on the other hand, will be a goal towards which consecutive Indonesian governments will have to strive. Successful market and financial reforms will help create the necessary economic conditions for stability and, eventually, prosperity. Equity, justice, and transparency, adopted as fundamental governance principles, will help create an atmosphere of trust. Indonesia, just like any other emerging democracy, will face many challenges in order to achieve positive economic conditions and political trust, but both components will contribute to the unity which characterizes successful nation-states.

