

*“Netherlands-Indonesia Relations:
The Global Context”*

Statement by

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Excellencies,
Distinguished Participants,
Ladies and Gentlemen,

I am very much delighted to address this distinguished forum in these premises so dear to some of my younger colleagues at the Department of Foreign Affairs of the Republic of Indonesia, who have fond memories of their training in the Institute.

May I also take this opportunity to express my gratitude and appreciation to my Colleague, H.E. Dr. Bernard Bot, Minister of Foreign Affairs of the Netherlands, and his staff at the Indonesian desk, who made my long-intended visit to the Netherlands a reality.

The tireless efforts of Dr. Bot to foster engagement between matching groups of stakeholders in the Netherlands and Indonesia have contributed greatly to the enhancement of bilateral relations between our countries.

Over the years, our relations have had its ups and downs but we do have a special historical and cultural relationship and there is no reason our cooperation should not also be special. Obviously, Dr. Bot shares this view. His visit to Indonesia in 2005 to attend the commemoration of Indonesian Independence Day was a milestone in our bilateral relations.

His visit was followed by those of Prime Minister Balkenende, the Deputy Prime Minister Brinkhorst and other ministers thereby strengthening our friendship. It is in the spirit of that friendship that I am here today.

That friendship was very much in evidence when a series of tragedies befell Indonesia as a result of an earthquake and tsunami that killed some 130,000 Indonesians in Aceh and Nias island, and in recent months an earthquake that devastated Yogyakarta and Central Java and, perhaps for good measure, an earthquake and tsunami that struck the southern coast of West Java.

The Government and people of the Netherlands promptly responded by sending emergency humanitarian aid and assistance for the subsequent reconstruction and rehabilitation programmes in the devastated areas. With the help of our friends in the international community, including the Netherlands, I am sure that we will be able to recover from these tragedies. We are, after all, a resilient people and we have suffered many a crisis in the past, and we bounced back every time.

Eight years ago, when we were in the maelstrom of the Asian crisis, most international observers thought it would take us at least a decade to recover from the demolition of our economy and from the political turmoil that we suffered. We were indeed prostrate. Our economy suffered a negative growth of 13.5 percent, inflation was more than 60 percent, and there was political and social unrest in various parts of the country.

But we bit the bullet and launched a national movement of political and socioeconomic reform. The fundamental freedoms—particularly freedom of expression and association—were immediately restored, and human rights began to be respected and protected in earnest. We refined our political institutions, in the process making four amendments to our 1945 Constitution so that it now enshrines the bill of rights. After being ruled by one President for more than three decades, we saw a smooth succession of three Presidents in a span of five years.

We instituted reforms in the military and police establishment, in the bureaucracy, in the judiciary and in the corporate and banking sectors. Where we used to have a rigidly centralized system of government, we radically decentralized, devolving a great deal of decision-making powers to the local governments. The sharing of revenues between the central government and the local governments was restructured in favour of the latter.

On the economic front, we instituted macroeconomic structural reforms and leveled the economic playing field through new regulations and the passage of a more equitable bankruptcy law. We also reformed the banking sector by seeing to it that only the most viable banks survived a rigid test of fitness. We also opted for prudent and restrained fiscal measures that gave stability to the rupiah and to the economy as a whole.

All these efforts resulted in several years of recovery, consolidation and stability. But we could not achieve much growth. From negative growth we climbed to zero growth in 1999, and from there we moved up to a growth of two to three percent in the succeeding years.

A series of terrorist attacks in several years, starting with the bombing attack on Bali Island in October 2002 that killed 202 individuals, mostly foreign tourists, and decimated the tourist trade in the Asia-Pacific, had only minimal effect on Indonesia's economic stability.

Politically, Indonesia's response to the terrorist attacks demonstrated our firm commitment to democratic values as we quickly brought the perpetrators of the terrorist attacks to justice without so much as a single criticism by the international press and the national press, which was by then a free-wheeling one, that human rights were violated in the process.

The breakthrough finally came in 2004. In that year, we held a series of national elections in which the Indonesian people directly choose our representatives in Parliament and our President and Vice President. That was the high point in our transition from an authoritarian system to a more fully democratic system, and it earned for Indonesia, the country with the largest Muslim population, the reputation of being also the world's third largest democracy.

Given a strong mandate directly by the people, President Susilo Bambang Yudhoyono set his sights on serving a tenure marked by growth. In 2004, Indonesia attained a heartening growth of 5.1 percent and the following year, growth improved to 5.6 percent—which was beyond our expectation considering that 2005 was the year of a mini crisis brought about by a sudden spiraling of oil prices in the world market.

This year we expect to attain a growth of 5.9 percent, which we hope to improve to 6.3 percent next year. We are actually targeting an average growth rate of 6.6 percent until 2009. By attaining such a growth rate, we expect to be able to reduce the unemployment rate from 9.5 percent to 5.1 percent and to cut down the poverty rate by half—to 8.1 percent.

Reform continues unabated in the present administration. In the spirit of reform, a peace agreement was successfully negotiated to end the separatist rebellion in Aceh. Through dialogue, reconciliation and the redress of legitimate grievances, peace is being promoted in various parts of the country where there would otherwise be rising tension.

Last year we responded to the mini crisis by lifting the fuel subsidies that had been in place for more than three decades thereby aligning national fuel prices with those of the world market. Instead of pouring some \$12 million into the oil subsidy, we decided to distribute assistance in the form of cash to some 19.2 million poor households and to spend part of that fund on schools and public health projects. Since then, what was once the fuel subsidy has become a fund for the social safety net.

In a single stroke, we not only freed the country of a source of budgetary distortion, we also demonstrated the decidedly pro-poor orientation of the administration. In fact, the basic economic strategy of Indonesia today is one that is “pro-growth,” “pro-job creation” and “pro-poor.”

We are thus taking good care of our human capital. That is why education gets the bulk of our national budget, followed by health.

And that is why we are re-orienting our national economy so that instead of being merely consumer-driven, it should also be export-driven and investment-driven. A strong export sector and hefty inflows of foreign direct investments create jobs.

Today, our export sector has been performing so well that our foreign exchange reserves stand at an unprecedented \$42 billion.

And last year, our inflows of foreign direct investments amounted to \$6 billion, the second highest in South East Asia. We are not happy about it; we know there is plenty of room for expansion and we are doing all we can to make that happen.

That is why a new investment package is now being discussed in Parliament. We are reforming the tax system. We are also reforming our labour laws to remove the rigidities of our labour market. We intend to achieve a judicious balance between the requirements of investors and the interests of workers.

We are launching special economic zones to act as magnet to foreign investments. The first of these, covering the islands of Batam, Bintan and Karimun, has been established, with seven projects worth \$566.4 million ready to break ground and expected to be operational next year. Singapore is closely cooperating with us in this endeavour.

This is just the beginning. There may be as many as seven of these special economic zones all over Indonesia in the future.

The fact is that Indonesia today is benefiting from a trend: investors from all over the world are no longer automatically going to China and are finding their way to Southeast Asia. Five years ago, 87.5 percent of foreign direct investment flows to Asia went to China. Today that is no longer the case. Last year, inflows of foreign direct investments to Southeast Asia grew by an amazing 48 percent, which so heartened ASEAN’s economic ministers that they are now talking of accelerating the evolution of ASEAN into an Economic Community.

These positive developments point to an interregional context in the bilateral socioeconomic relations between the Netherlands and Indonesia. There is indeed a strong case for the idea of the Netherlands serving as Indonesia’s gateway to the expanded European market. On the other hand, Indonesia can serve not only as a gateway but perhaps also a sourcing and production base of the Netherlands in an effort to tap the 500 million-strong ASEAN market.

This is not the first time that this idea has been brought up. But I think the time has come for us to start working more earnestly on it, considering that the interregional cooperation between the countries of Asia and Europe, in the framework of the Asia-Europe Meeting (ASEM) is getting even more dynamic.

Indeed, as we observe the tenth anniversary of ASEM this year, it is clear that there is much to celebrate. The expansion of its membership from 29 to 38 countries, plus the European Commission, and the strong desire of a number of Asian countries to join this forum, has greatly added to its vigour.

It continues to pursue a wide range of activities that cover the areas of Culture and Civilization; Youth, Education and Academic Cooperation; and Multilateralism, Regionalization and Globalization.

Through its sole institutional offspring, the Asia-Europe Foundation (ASEF), ASEM has vigorously promoted people-to-people contact between intellectuals, students, religious leaders and other opinion leaders from the two regions.

It is in the spirit of ASEM cooperation that the EU and ASEAN formed the Aceh Monitoring Mission that has been overseeing the implementation of the Peace Agreement between the Government of the Republic of Indonesia and the Free Aceh Movement (GAM). We deeply appreciate the participation of the Netherlands in that Mission.

It is no coincidence that the Memorandum of Understanding between the Government of Indonesia and the GAM was negotiated and concluded in Helsinki, where we will soon be holding the Sixth ASEM Summit.

Thus cooperation between Asia and Europe is growing and matching the linkage between Asia and the Americas established earlier through the Asia-Pacific Economic Cooperation (APEC) forum. Both are engagements in which ASEAN is deeply involve, and when you consider that 40 percent of the population of the entire ASEAN region is Indonesian, you can see that we do have a tremendous stake in the success of these cooperative relationships.

We are proud to be actively involved in the successful network building of ASEAN, through which a new regional architecture is now being formed in the Asia-Pacific region.

Apart from APEC, the ASEAN region is engaged with its Northeast Asian counterparts through the ASEAN+3 forum, which was established as a response to the Asian crisis of 1997-1998. Through the Southwest Pacific Dialogue, several ASEAN countries, including Indonesia, are engaged with the countries of the South Pacific. Through the Leaders-led cooperation of the East Asian Summit, which was established last December in Kuala Lumpur, ASEAN initiatives are being boosted. ASEAN also has formal linkages of cooperation with South Asia and the Latin-American countries.

And, of course, we have the New Asian-African Strategic Partnership (NAASP), which was established last year in Jakarta when we commemorated the Golden Jubilee of the Asian-African Conference of 1955.

On security matters, ASEAN runs the only forum in which all the five major powers are represented.

This kind of network building has been the hallmark of ASEAN since it was founded almost 40 years ago. It is perhaps for this reason that it is recognized today as one of the most effective regional organizations in the world—including such powers as the United States and the Russian Federation are keen to be engaged in its processes.

Certainly, much of the economic dynamism of the Southeast Asian region—except for a couple of lost years during the Asian crisis—can be attributed to the ASEAN's diligence at pursuing political, economic

I am also confident that ASEAN is poised to achieve its crowning achievement and that is its transformation into an ASEAN Community resting on three pillars: an ASEAN Security Community, an ASEAN Economic Community and an ASEAN Sociocultural Community. That transformation will be hastened by the institutionalization of an ASEAN Charter in the months ahead.

It is no wonder, therefore, that ASEAN has always been the lynchpin of Indonesia's foreign policy. Our diplomacy follows the pattern of ASEAN network-building. We are reaching out in all directions, building bridges of understanding, goodwill and cooperation—in the framework of multilateral forums such as the United Nations, in interregional and regional forums as well as on a bilateral basis, such as what Minister Bot and I are now trying to achieve.

This, of course, is part of our strategy of survival. In this globalized world of today, no country can go it alone, solve its problems alone and prosper alone. We must work with one another and the best way to do that is to create a climate of understanding, mutual appreciation and goodwill.

At the same time it is also a matter of principle: Indonesia is after all mandated by the preambular provisions of its 1945 Constitution to contribute to the shaping of a world of peace and social justice.

The Netherlands and Indonesia can do much together to help shape that better world that we envision. There is also a great deal that we can do for each other, and learn from each other.

In this regard, it may be recalled that from the late 1960s to the early 1990s, the Netherlands was a great help to Indonesia in our efforts to salvage our economy, which had at that time turned chaotic, and thus we managed to become one of the most dynamic economies in the Southeast Asian region—until the Asian crisis broke out.

Today, the Netherlands can play a role again in Indonesia's development, a larger role—for this time we have a newly established democratic system at stake. We need to prove to our people and to the peoples of our region that democracy works for their welfare because democracies help one another and support one another. We need help at capacity building and at enhancing our democratic institutions.

Moreover, we are facing many challenges. Among the most formidable of these is the threat of international terrorism, which we must vigorously address without compromising our commitment to democratic principles and due process.

We are confronted with non-traditional security threats—like the possibility of massive natural disasters, outbreaks of contagious diseases and transnational crimes like arms smuggling, the trade in illicit drugs, people smuggling and money laundering. All these require capacity building.

And, of course, we need foreign direct investments. We need a total of \$426 billion worth of investment to achieve that average growth rate of 6.6 percent necessary to meet our Millennium Development Goals.

In this regard, I think it is appropriate to say that every dollar invested in the Indonesian economy is an investment in the growth of democracy not only in Indonesia but also in our part of the world.

We cannot afford to fail because failure on the part of Indonesia, in the eyes of many observers, could mean the failure of democracy as the pathway to development.

And because of the enormous stakes involved, we turn to our friends, including the Netherlands, for understanding, support and cooperation, which I am sure will eventually prove mutually beneficial.

But let us go into this not only for the sake mutual benefit but also for the cause of a better world of peace and equitably shared prosperity. That makes every undertaking of ours all the more worthy of our best efforts.

I thank you.