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GOVERNANCE, RULE OF LAW, AND NATURAL RESOURCES IN INDONESIA AND LESSONS FOR BURMA'S TRANSFORMATION

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P R O C E E D I N G S

MR. BUSH: Let's go ahead and get started. Thank you all for coming. I'm Richard Bush. I'm the Director of the Center for Northeast Asian Policy Studies here at Brookings. But today the program concerns Southeast Asia, but that's okay. We have three outstanding speakers today for today's program on -- and let me get the title -- Governance, Rule of Law and Natural Resources in Indonesia and Lessons for Burma's Transformation.

We have three outstanding speakers: my colleague, Vanda Felbab-Brown; then Bill Wise from down the road at SAIS; and then my colleague, Lex Rieffel, who's a Senior Fellow in our program on Global Economy and Development.

The proximate motivation for our event today is that Vanda has recently come back from some very interesting field work in Indonesia on natural resource management, and we wanted to give her a chance to report her findings and talk about the implications.

Now, natural resource management is an important topic, but it seems a bit narrow, but I really think it has wider ramifications. And, indeed, the performance of the government of Indonesia on natural resource management really is a window on the larger question of its state capacity. For any government, its ability to perform a variety of tasks well without interference and having its efforts corrupted is a hallmark of a modern, developed, state along with rule of law and some measure of democratic accountability. So Vanda is, in a sense, looking at Indonesian state capacity from this angle.

By way of comparison, Bill Wise will examine the Indonesian government's capacity and performance with respect to counterterrorism. And then extending the theme, Lex, who has studied Indonesia in a former lifetime, but is now working fulltime with respect to Burma, will talk about the implications of Indonesia's

experience for the future of Myanmar, which is a case of new state building or rebuilding a state.

You have detailed bios as you came in. I just need to say a couple of words about Vanda. She is not the only reason why we can all be optimistic about the future of Brookings as we approach our centennial in 2016, but she's one of them. She has a wide array of interests. For anybody who's interested in Afghanistan or U.S. security policy, I would recommend her new book on Afghanistan, "Aspiration and Ambivalence." She brings a great rigor to her analytical work and intrepid -- the word "intrepid" only begins to describe the energy and attitude she brings to her research work. So it's a great pleasure to sponsor her today, and the floor is yours.

MS. FELBAB-BROWN: Well, thank you very much, Richard, for the extraordinarily kind introduction, way kinder than I normally get, which is either "Oh, my God, there is Vanda; she does drugs or crime," or "Oh, my God, there is Vanda around." So thank you very much. And it's equally a delight to share the podium with two very distinguished scholars of Southeast Asia, Bill Wise and Lex Rieffel. I feel very privileged to be able to share my findings with them and have Richard put on this event. So thank you all for coming.

Indonesia is an absolutely fascinating place, country, for many reasons. If you allow me to go back to the term that was for a while used within the East/Southeast Asian space, it seems to me that Indonesia is the country that can most lean toward China or most lean toward the United States or stay as neutral as possible. It is really the one country that has the greatest capacity. And it's one reason why it's getting a lot of attention in U.S. decision-making circles, but it's also getting a lot of attention for both the hard security issues that Bill will be talking about and some of the softer issues, natural resource management, that very much have to do with climate change.

And as much as the focus is changing to Southeast Asia, so is the question of what priorities for U.S. policy, what domain of priorities should be, I think, starting to take place in the U.S. relationship to Indonesia. And it is important, in fact I would say critical, that we do not lose focus of the natural resource management both because of the global implications they have, such as climate change, such as biodiversity laws, but also because they are an emitter, as Richard introduced the session, on how the Indonesian state is changing and how it is changing in its interactions with the Indonesian people.

Natural resource management is intimately linked, in fact, to many issues. Of course, to poverty and poverty management, rising inequality or shrinking inequality. It can be a source of violence, of social strife, perhaps feeding terrorist groups and militant groups, or it can be a source of reduction of tensions and greater integration of society. It can be a source of corruption, and I think I would posit that it is very much a new engine of corruption in Indonesia. But one could imagine and hope that there are better ways to manage natural resources so as to, in fact, strengthen rule of law.

It should start with what we probably quite -- the pressing comments by two positive pieces of news. One, the most immediate one, is that Asia Pulp & Paper, a very major company involved in the production of paper, announced recently that they would stop using timber from natural forests and instead use timber from plantations. That's fantastic because Asia Pulp & Paper is one of the biggest companies and one of the contributors, or had been one of the key contributors, to deforestation in Indonesia. Unfortunately, it's not the sole one, and deforestation still continues at a dramatic pace, even at a pace that's reduced.

The second good piece of news is that finally in December after protracted long negotiations, the Indonesian government and the government of Norway

agreed on one of the first world's REDD+ projects. I'll talk about REDD+ for those of you who don't know what it is. It is reducing emissions through forest degradation and deforestation mechanisms. Essentially, it's a scheme where the countries or actors that care about climate change, about carbon capture and biodiversity preservation, pay countries that either cannot afford it or have different interests not to deforest. And so one of the first examples of implementing a REDD+ scheme is a project in Kalimantan near Tanjung Puting called Rimba Raya. This project was in the making for many years, stalled, became very difficult, but finally has been approved and serves as one of the hopes for the global environmental movement that this will be a model to be emulated. And in my talk about how the -- the premise and opportunities that the REDD+ mechanisms offer, but also the likely difficulties they will run into in Indonesia and more broadly.

As you probably know, Indonesia has been a country with tremendous pressures on natural resources, on the forest through deforestation desire for timber. In fact, Indonesia has seen just an extraordinary rate of deforestation over the past 20, 25 years that slowed down only in the 2000s. Part of this slowdown is the result of greater environmental consciousness, including by President Yudhoyono, but partially a slowdown simply because Indonesia's forests have been logged out. There are still forests left in -- a lot of forests left in a place like Papua, but in many other parts the forests have been seriously degraded and logged out. And, of course, Indonesia is one of the greatest hot spots of biodiversity in the world with unique species, which if they are lost, they are gone. There is no way to bring them back.

But a forest more broadly other resources, including fisheries and corals and Indonesia has faced pressures from other industries, other economic interests, as well such as mining. In fact, illegal mining -- mining, both legal and illegal mining, today

is one of the biggest drivers of problematic natural resource management and environmental frights. And equally its cultivation of plantation crops, such as African oil palm, is putting tremendous pressure on the forests.

There has been a lot of effort, including international efforts, to get Indonesia to manage its economic growth, which has been based on primary commodities' exportation over the past several years in a way that is both sustainable, but also ecologically and environmentally friendly and responsible. And, in fact, the government of Indonesia has been adopting a lot of positive language in making important commitments.

Unfortunately, underneath the language and commitments there are often very serious problems with implementation, and here is where state capacity issues come in. So the international focus really has been on fixing the overall regulatory framework. And much of that language has even trickled to national guidance documents or even laws in Indonesia, but a little of that language is in practice being well implemented.

Why is that the case? Well, one area is that there are very many important powerful economic interests in Indonesia that perpetuate environmental exploitation in a way that generates quick economic change and quick economic profits, but is often not very sensitive environmentally or socially. And among these are critical law enforcement actors, both the police and the military. A decade ago the Indonesian military, after the end of the Suharto era, depended on at least a third of his budget to come from all budget forces, such as exploitation of these economies via corruption. That really hasn't fundamentally changed over the decade. And so local police officials as well as local military officers frequently expect and are determined to make not just personal money from taxing both legal and illegal illicit economies, but, in fact, generating

institutional budgets.

If anything, corruption has become more complicated, as centralized as the rest of the political system in Indonesia. And that also makes effective law enforcement management more difficult, including management with respect to briberies. So some of the logging company representatives I would -- or a coal company representative I interviewed in Kalimantan told me, look, it makes no sense for us obey these newest laws that are on the book. If we obey the laws and get all the right census that we are supposed to get, it will take us maybe two years to get the license. And even then we are really not sure what will happen. The police or the military can simply halt the timber shipment on the river, let it stay there for weeks until we pay them a bribe, and, if you don't, the timber will rot. It's much easier to pay a bribe to everyone right away at the beginning and forget about the licenses.

And so one of the sort of key issues about logging and mining management in Indonesia is that increasingly there is a question of "what does illegality really mean?" I mean there are some obvious illegalities such as exploitation that takes place without a license. Often that is done by very poor miners or very poor loggers who also bear the brunt of law enforcement actions. But how different is that activity fundamentally from logging that takes place with the license but is not as highly constructive, perhaps even in violation of national laws, as long as the license was acquired by a bribe.

So the issue of management and licenses and sanctioning of certain behavior is only as good as the law enforcement that, in fact, enforces this licensing. And as long as law enforcement is deeply corrupt and, in fact, institutionally driven to participate in illegality or in the space between the fully illegal and the legal, the regulatory framework might be extraordinarily weak and you will not accomplish any of

the management of both the intrinsic harms and the negative externalities that it is meant to accomplish.

Related to licensing is a sort of bigger international move to adopt certification mechanisms, to promote corporate social responsibility. So, for example, you can go to Whole Foods and buy yourself fish that's been certified by the Mining Stewardship Council that it was harvested in a sustainable manner. Same is true about timber. In IKEA or Home Depot you can ask for timber that has been certified by actors. And, in fact, since the 1990s, the principle mechanism on enforcing and encouraging corporate social responsibility has been certification.

Certification is a wonderful idea because it can encourage better behavior, both on the part of suppliers and consumers, but it is only as good as the inspectors. And one of the key problems is that with the proliferation of certification, there has also been a proliferation of inspectors and certifiers. In the vast majority of them, they are paid by the multinational companies to conduct the inspections that give the multinational companies a lot of leverage over what the inspectors certify and what they see. And increasingly, lots of the certification that's being produced is of highly questionable value.

Moreover, especially in a place like Indonesia but also in Africa, the increase in Asian multinational companies or Asian companies from Malaysia, China, India, is making the certification less interesting. Many of these companies are fundamentally not interested in corporate social responsibility. They don't face constituencies that demand that like in the United States or in Western Europe. And so they often do not need to get the certification in the first place and problematic for users can simply switch to them, or they are not shy about acquiring certifications via less than desirable practices. So when I asked in Sumatra about certification for Africa oil palm,

the company president that I spoke with laughed and he said oh, that's just another bribery item for us.

So certification is only as good as long as the inspectors are truly independent and have a capacity to get out in the field for more than two days at any time. And while this is a very important mechanism, it is a mechanism that needs to be made far more robust and strengthened if it is to accomplish its principle goal of strengthening corporate social responsibility, if it is not just another mechanism for whitewashing conscience.

And on two points, on speaking about the REDD+ mechanisms and then through bringing it back to the larger issue of state capacity. Much of the excitement of the rather unexciting Doha climate talks was specifically about REDD+. And there was a real hope that there would be a breakthrough made and that the REDD+ would move through the sort of theoretical round to actual policy implementation. And certainly as major advances have been made on how the baselines for allotting the carbon pace have been set, lots of the technical issues have been resolved.

What REDD+ stalled on in Doha in November is two aspects, and they relate to certification. One is the refusal of very important players, like Brazil but arguably carrying the word not just for Brazil but also for countries like Indonesia, to refuse to permit independent external monitors to be monitoring that the forests are, in fact, being preserved, which is, of course, a critical point especially when one deals with settling the extraordinarily pervasive corruption such as, for example, in Indonesia where the government can simply take the money, yet forests can be slaughtered. So in the absence of independent inspectors, the value of the carbon -- of the payments for carbon capture like REDD+ is highly questionable.

But a second, very important issue and one that is very relevant for

Indonesia is that apart from verification and apart from actually establishing an existing fund that isn't right now to pay for such procedures, is that the money goes either to the national government or to the local government. But if you have a wide variety of actors who participate in either the illegal mining or illegal logging that's affecting the forest, such as the poor illegal loggers, local companies, important powerful interests, there is no guarantee that they will, in fact, be paid off. And as long as simply the government captures the money, lots of the important actors that, in fact, drive the forestation or forest degradation might not see any change in the structural incentives unless, of course, there is credible law enforcement that simply coerces them to stop engaging in the behavior.

So you either need much greater improvements on the quality of law enforcement or the direct positive effectiveness will either depend on how the money is distributed from either the national capital or the local capital to the actors who, in fact, are critically involved in the illegal logging, which in the case of Indonesia is a major and difficult issue. And it's one that was very much surrounding and continues to be surrounding the Rimba Raya forest, the first or one of the first symbolic projects of REDD+.

Many outstanding issues are unresolved: Pressure from a big company or an African palm plantation company that has overlapping land claims on the land. They relinquished some of them, but not all title issues have been resolved and these issues will be back; and how these powerful interests will be paid off as well as how the illegal poor loggers will be paid off yet remains to be seen.

So one of the key issues for Indonesia is, of course, whether it will manage to reform its rule of law, its justice sector, and its law enforcement, and the military to start upholding the rule of law as opposed to being a driver of corruption in the country, including corruption in resource management. And it's never easy and it's not

easy in a country like Indonesia where for decades the state had many thick relations with criminality, not simply powerful criminal economic balance, acquiring positions of formal power whether in the parliament or the national government, but political parties, political actors using criminal groups, using gangs, for the purposes of the state.

And that's also a key issue with respect to counterterrorism that Bill will talk about because increasingly, the criminals in Indonesia and the terrorists have been mixing, both put in the same general prisons. We're assessing the development of interesting -- still cursory but nonetheless interesting -- linkages between urban gangs, criminal groups, and the terrorists.

MR. BUSH: Okay, thank you, very interesting. Bill, I heard your segue. You have the floor.

MR. WISE: Thank you. Thank you very much, Richard, and let me commend you for the -- shall I call it ecumenicism? -- in including Southeast Asia in the Center for Northeast Asia Studies Program. Perhaps you can celebrate the centennial of Brookings by recreating a Center for Northeast Asia and Southeast Asia Studies.

But in any case, it's a great pleasure to be with you this morning and to have this opportunity to talk about a subject that I looked at some years ago and have paid, I have to admit, less attention to lately than perhaps circumstances might suggest would be warranted. And that subject is terrorism, religious-based terrorism, in Indonesia.

The most authoritative research done on this subject on Indonesian terrorism is done by the International Crisis Group in Jakarta. Also good work is done by the Center of Excellence for National Security at the S. Rajaratnam School of International Studies in Singapore, and these are the primary sources from which I draw.

Little more than ten years ago, Indonesian suicide bombers struck a

nightclub area in Bali. They killed and maimed both Indonesians and foreigners. Al-Qaeda funded the attack. Jemaah Islamiyah, a homegrown terrorist network, actually organized it. The terrorists killed 202 persons, 164 of whom were foreigners, and injured 350 Indonesians and tourists from 22 different countries. While significantly smaller in number than the casualties from 911 to be sure, the 202 persons killed in that attack rank among somewhere in the top ten most casualty-producing terrorist attacks in recent history.

The Bali bombing focused international attention – because of people coming from so many countries and the number of casualties – on the problem of terrorism in Indonesia. That problem had preexisted the Bali attacks, but the Indonesian government, even after 911, had turned a blind eye to the problem. The Bali attacks changed all that. They might have been late to recognize the terrorist threat in the country, but Indonesian officials, when they did see the problem made immediate, sensible, pragmatic, decisions to cope with this scourge. In fact, I cite five key decisions that were made at the beginning of the counterterrorism period in 2003.

First, they chose to employ a law enforcement model rather than a military model in their counterterrorism operations. Second, they created a legal framework - a statutory basis for conducting counterterrorism operations and for prosecuting terrorists. Third, they established a separate counterterrorism force within the police. You have to bear in mind the Indonesian police, to be kind, did not at that time enjoy a very good reputation so they established a separate counterterrorism force within the police, but they insulated that force from the worst influences of the police. The force was called Detachment or Densus 88. Fourth, they provided Densus 88 with effective leaders and accepted Western technical training and financial assistance to professionalize their operations. And last, they established a single counterterrorism

agency, BNPT, to coordinate activities across the Indonesian government.

In other words, Indonesia made terrorism a crime against society, effectively delegitimizing in popular view the religious justification for violent extremism. And they followed a counterterrorism strategy that was based on a legal mandate, a whole-of-government approach, and forces armed with human, technical, and financial resources necessary to be effective.

In fact, since 2003, Indonesian law enforcement has killed or captured and imprisoned more than 800 terrorists. Jemaah Islamiyah, which I will call as everyone does "JI," JI, the group responsible for the Bali bombings, has since transformed itself into an ideological group, in effect getting out of the terrorism business. But in the intervening period, new terrorist networks, smaller, more diffused, but new terrorist networks, have emerged. Many of the current jihadi groups in Indonesia have links to an organization called JAT, a group set up by the radical cleric, Abu Bakar Bashir, one of the two founders of JI. And that group, JAT, has replaced JI as Indonesia's largest and most aggressive jihadi organization. Most of the militant groups of this new diffused set of cellular-like structures now dismissed JI entirely for abandoning jihad.

But JI continues to exert an influence through its many schools in the country, and many of the disaffected former members of JI remain active through other organizations. In fact, the theme of this is that the same people keep showing up in different parts of the country affiliated with different organizations, but with similar backgrounds and that's why the term "network" applies so neatly in Indonesia.

So a terrorist network can't survive on old folks. They need new fresh blood. They need younger people. And that, indeed, has been what the terrorists have been seeking to do in the last few years, to introduce younger persons, new terrorists, new jihadists, to their networks. The difference is the original terrorists in Indonesia, the

Bali bombers and their friends in Jemaah Islamiyah, were veterans of the war against the Russians in Afghanistan. They were combat tested. They served with Osama bin Laden. They had discipline and a certain degree of knowledge that the younger generation appears not to have. Or to put it in the phrase used often by our friends in ICG, the new breed is amateurish, inexperienced, undisciplined. They don't have quite the vision that their elders had, but that does not mean they are not active and not dangerous.

While weak and divided, Indonesia still has an extremist problem. In fact, the police caused the dispersal of the terrorists across the country and into smaller groups, but the International Crisis Group contends that there is significant evidence that there is a regrouping occurring right now. There are five or six ways that the terrorists are regrouping in Indonesia. Ironically, because so many are on the run, this process of escape and evasion has caused networks to coalesce. It introduces people to help each other.

Prisons and prison visits: Prisons are a prime recruiting area for Indonesian jihadists, and prison visits are a communications method for people inside to communicate with people outside.

Military training at remote camps: Some of you may be aware of the fact that almost three years ago, groups of jihadist trainers and trainees were operating in Aceh, in a remote area of Aceh, in the northern tip of Sumatra, and on a smaller scale in other parts of Indonesia. This training camp was broken up by the Indonesian police about which I will say something in a moment.

But the fourth area is Internet chat rooms: Internet chat rooms for terrorists are a very effective means of organizing, recruiting, and communicating.

Fifth is arranged marriages: Deceased terrorists have widows and

children, and the terrorist groups find new husbands for the widows of deceased terrorists. And terrorist families that want to link work together with arranged marriages.

And lastly, I already alluded to religious meetings of the sort that JI conducts. Religious meetings by radical clerics are used as a means of bringing in new people and introducing them to this way of looking at political activity.

As I said before, in many cases the same individuals keep appearing, using old networks to build new alliances. So the number of persons involved may not be changing considerably. There may not be more -- the number of terrorists may not be growing at a noticeable rate, but the activity conducted by these folks is not diminishing as one would hope that it might.

So what about the future? What kind of a circumstance does this set up? While Indonesian terrorists, as I suggested, have been quite incompetent in most of their operations, that doesn't mean they don't keep trying. They, in fact, do. And there are some signs that they have a lessons-learned process to become more sophisticated in recruitment and in conducting criminal activities.

The biggest blow to the terrorists was the raid almost three years ago on the training camp in Aceh to which I alluded a moment ago. But what was interesting about that camp is that it was used as an opportunity to bring different networks together in one place, something that was not commonly thought to be occurring. Many of the senior leaders were captured or killed there. I think there were something in the area of 200 persons who were arrested, tried, and convicted. Those folks are out of the way, but others are around and available to take their place. And the others who remain are, in fact, focused very much on revenge -- not attacking Western targets as originally occurred, but revenge against the police. So police are a new and important target for the terrorists. There have been more than a dozen plots, including actually one against

the U.S. embassy in Jakarta, that have been unearthed since 2010, and almost all were connected to the fugitives from the Aceh training camp.

So, there does appear from evidence available to the police and others that the terrorists are learning lessons from their mistakes, that these groups are not diminishing in size or in the intensity of their efforts. They are apparently becoming more careful about vetting new members, about safeguarding their communications, and about preventing infiltration by Densus 88. The thought amongst the people who follow terrorism is if they are good and astute at learning lessons, they will reemerge as a serious problem.

So here's the problem for us. Indonesia's success in counterterrorism is the result of good policy and good law enforcement. The police are able to identify and arrest those who are responsible for violent crimes, and they are better at interdicting plots before they actually take place. But Indonesia still lacks good, effective, programs to address the environment in which the jihadi ideology flourishes. And there is considerable weakness in the area of deradicalization programs, of changing the minds of people who either enable terrorists or who become terrorists. One cautionary note is that more than 300 of the 830 imprisoned terrorists in Indonesia will be released in the next 18 to 24 months.

So the government needs to better understand why radicalization takes place, what the enabling factors are, how to stop, and how to make sure that terrorist plots against police or any other targets in Indonesia are broken up before they occur. There have been great counterterrorism successes in Indonesia over the past decade, but religious extremists still use violence to achieve their ends and as a consequence, they pose not an existential threat to Indonesia, but a threat nonetheless to the Indonesian state and society.

MR. BUSH: Thank you very much, very illuminating. Let's shift from Indonesia to Myanmar. Lex?

MR. RIEFFEL: Thank you. I would like to start by saying a few words about where I'm coming from, and then I will focus on lessons for Myanmar from the Asian experience in three areas: One is ethnic diversity; the second is the resource curse; and the third is democratic political systems.

My first visit to Myanmar was in 1967 after I'd spent a year in Saigon with the U.S. Navy and two years in India with the U.S. Peace Corps. At that time, 1967, you could only get a visa to visit Myanmar for 24 hours -- Burma it was called then -- 24 hours, so I didn't see much of the country.

Ten days later I went to Indonesia for the first time, and this was a very different visit. It was supposed to last for one week and it ended up lasting for five weeks. I was captivated, and I went back a year later to do research for my master's thesis. And then my wife and I went back in the early 1970s when I was in -- I spent two years in Jakarta. I was employed as an economist in the USAID Mission and there are people in this audience who I have to thank for that opportunity.

Indonesia is the developing country I know best, and this has a lot to do with the fact that I was able to acquire a working knowledge of the language when I was doing my master's thesis research. And then for reasons that still mystify me, I discovered I could speak the language when I went back 25 years later to look for useful things to do there.

By contrast, I know probably fewer than ten words of the Burmese language. So my standard caveat when I speak about Myanmar is that if you don't speak the Burmese language, you don't know what's going on in this country, and you cannot know what's going on in this country, and I don't speak Burmese.

I have focused on four different policy areas since joining Brookings in 2002. Myanmar is the fourth one and that began in 2007, and I am immensely grateful to Richard Bush for encouraging my work in this area over the last five years.

My first project related to Myanmar was a workshop that was held in this room in October of 2009, and the papers commissioned for the workshop were published in this book that came out in 2010.

My second project was a workshop sponsored by the U.S. Institute of Peace, focusing on the economy of Myanmar, and held in March of 2010. Since then I've written several published and unpublished papers on the Myanmar economy and a number of op-eds and Web-eds. More significantly, beginning in January of 2010 -- that's three years ago -- I have gone to Myanmar every six months and spent two to three weeks there getting to know people in the economic policy community. These visits led to an exceptional appointment for three months as an advisor to the Union of Myanmar Federation of Chambers of Commerce and Industry that began in December of 2011.

Finally, I have made two trips to Myanmar in the last four months in connection with an assessment of foreign aid to Myanmar, the most recent one being in mid-January. And the report on this project is due to come out and be launched here about a month from now.

What can Myanmar learn from Indonesia's experience? I will focus on just these three areas. There are many more that we could touch on if we had more time.

On ethnic diversity: The most important challenge for Myanmar is building a viable nation when it starts with what we can consider Olympic-scale ethnic diversity. Indonesia got it right, I would say, and Myanmar clearly got it wrong. Indonesia's independence after World War II was at least as diverse ethnically as

Myanmar and arguably more diverse. For example, Burma had then and has now no counterpart to the Dayaks in Borneo or the Papuans in New Guinea. Moreover, Indonesia's ethnic groups were spread over several thousand inhabited islands and three time zones. The largest ethnic group in Indonesia, the Javanese, represented 40 percent of the population and together with three other ethnic groups living on the small island of Java represented 60 percent of the population, roughly the same as the Bama majority in Myanmar. Moreover, the Muslim religion was more prevalent in Indonesia than the Buddhist religion was or is in Myanmar today.

What was Indonesia's formula for success? Number one, as I see it, was a group of nationalist leaders back in the 1920s, decades before independence, who understood that trying to get the whole country speaking Javanese was a fast track to failure. Instead, they had a brilliant idea. They created a new national language out of the pidgin Malay spoken in the bazaar, in the markets across the archipelago. So after independence, everyone had to learn Bahasa Indonesia as a second language. India has largely overcome the same problem by adopting English as an official language, in effect everyone's second language.

Number two, second part of the formula for success, I would say is respecting diversity from the outset. For example, the country's motto, enshrined in the 1945 Constitution, is "unity and diversity."

Number three was going beyond preaching diversity to practicing diversity. For example, the military in Indonesia, the country's strongest institution for 50 years and perhaps still the strongest today, has been open to all ethnic groups and advancement has been possible for all.

Fourth, when Indonesia began its transition to democracy after 1998, one of the first steps grounded in an amendment to the Constitution was a massive

decentralization of power to the regencies or kabupaten. Decentralization has had some unintended consequences, as Vanda pointed out, but I do not believe any alternative would have been sustainable in a democratic framework.

My last point, however, may be the most important in this area. Indonesia does not get any prizes for ethnic harmony today. Ethnic and communal tensions abound, and they could become overwhelming. In sum, Myanmar should not look to Indonesia for easy answers. Achieving ethnic harmony in countries with so much diversity requires hard work every day from top to bottom.

On the resource curse: Myanmar suffers from a resource curse. Indonesia suffers from a resource curse. I would have to say that Indonesia has suffered more because it has been overexploiting its resources for much longer and on a bigger scale than Myanmar, as Vanda has pointed out. To that extent, Myanmar is lucky. Its overexploitation did not begin until the late 1990s and has not yet anywhere inside the country reached the scale of exploitation found in Indonesia's outer islands. I would have to say that the basic lesson to learn from Indonesia, the basic lesson for Myanmar, is don't do what Indonesia did.

Is there any good news? Possibly in three areas: One is a growing trend toward resource nationalism. This is reflected in a recent decision to ban the export of 14 raw materials beginning later this year. In other words, they have to be processed in the country before being exported.

Second is the challenge from Norway, backed by a billion dollar commitment, to reduce carbon emissions from deforestation, but Vanda has pointed out some of the problems with this.

The third is Indonesia's commitment to participate in the Extractive Industries Transparency Initiative, EITI. But I would point out that this commitment was

driven by a finance minister who was subsequently forced to resign because she was trying to eliminate corruption related to tax collection. And it's easy to imagine the next government, the one that will be elected next year, it's easy to imagine them falling off this bandwagon.

The bottom line for Myanmar: Avoiding the resource curse is easy to talk about and hard to achieve. The financial incentives to overexploitation are simply too strong. To retain for the population as a whole the billions of dollars of value that are being lost today through overexploitation, legal as well as illegal, Draconian measures would be required such as a moratorium on new mining and land concessions -- and I'd point out that Laos imposed such a moratorium a year or two ago -- and second, nationalizing some private ventures such as the copper mine that's in dispute in Sagaing State.

Now let me turn to democratic political systems. For me, Indonesia is more of a negative model for Myanmar than a positive model for two compelling reasons. First, my Indonesian friends tell me that the biggest obstacle to progress in Indonesia today is the legislature. It is mired in money politics; elected members to the legislature have more to gain from opposing legislation than supporting it. Number two, my Indonesian friends tell me the judicial system is more corrupt today than it was in 1998.

What is special about Myanmar that will enable it to avoid the same fate, an obstructionist legislature and a judicial system that sells justice to the highest bidder? At the heart of the problem in Indonesia is a patronage culture: A culture where power rests in personalities, not institutions; a culture where voters expect to get something from candidates for public office, at least a T-shirt or a box lunch; a culture where there is no tradition of ordinary citizens making campaign contributions or volunteering to campaign for a candidate on the basis of the issues that they represent. I have seen little

evidence that Aung San Suu Kyi has figured out how to prevent Myanmar from going down a similar path to a dysfunctional political system, or that President Thein Sein or any other leader in Myanmar has figured out how to do it.

Finally, as a kind of postscript, my second major project at Brookings was the study of military business in Indonesia carried out with an Indonesian scholar and published in 2007. A law enacted in 2004 in Indonesia required the military to transfer to the government all of its businesses controlled directly or indirectly within five years. That goal was not achieved, at least in any meaningful or transparent way. The Indonesian military is still engaged, as Vanda has pointed out, in revenue-generating activities, many of which are illegal. Fourteen years into Indonesia's transition away from military rule, I would say civilian supremacy has not been achieved. Many of the institutional reforms required to create a professional military by global standards have yet to be implemented. It will not be easy for Myanmar's military to do better in the next 14 years, to do better in terms of extracting itself from a broad range of economic interests and focusing on its narrow professional responsibilities.

MR. BUSH: Okay, thank you. Our speakers have made their presentations. It's now your turn. We have about 35 minutes for Q&A. Your guidelines are first of all to wait for the microphone once I've called on you, identify yourself, identify to whom your question is directed, and please try to keep your question brief. I saw a hand over here on the side.

SPEAKER: I'm Pamela Hill with Resources for the Future, but my question is not to Vanda. My husband and I worked in Sulawesi, an island north of Java, for two years in the 1950s and at that time Dar-al-Islam was an Islamic terrorist group. In fact, they had captured the ground crew at the airport when we were supposed to leave to fly back to America. We had to come back by ship. But my question is not about the

Islamic people either, although I obviously -- they continue and they may have – Dar-al-Islam may be incorporated into JI.

But my question really is about the relationship, the periodic pogroms all over Indonesia against the Chinese who are living in Indonesia. It may be that the indigenous groups get along fairly well, but I'm wondering, there have been at least two wide-scale episodes that I know where there was large-scale killing of the Chinese who were born and working in Indonesia. Is that something that's continuing? What's the relationship between the Chinese in Indonesia and Indonesians?

MR. BUSH: Who would like to answer that?

MS. FELBAB-BROWN: Well, I can start even though you are not necessarily directing the question to me. The Chinese minority has seen great strides since the end of Suharto era, but it still continues to be a minority that faces a local discrimination. Certainly the Chinese community holds a lot of economic power and has been able to achieve some great businesses, but you see very few, if any, Chinese politicians at local levels of government of the region or at the national level. And, in fact, there's a lot of excitement in Indonesia about the new Jakarta mayor, Jokowi, and he is one of the sort of first politicians who has been willing to very openly campaign with Chinese politicians.

So perhaps the future is better than it has been, but certainly it's a group that continues to be discriminated and at times the escape goat. And, in fact, one of the events you are referring to probably is the program against the Chinese community conducted by Pemuda Pancasila, which was and continues to be one of the major youth groups/urban gangs and one that the Suharto regime used very frequently to intimidate opponents, deliver votes, force donations for the political party, in a manner that continues in Indonesia and is, in fact, very typical of Southeast Asia and links toward

what Lex was talking about, the patronage culture and the use of criminals outside of the state, illegal actors, for interests of politicians and political parties and the state. And despite democratization, Indonesia has not broken out of that habit. That habit continues, and it will be one of the signs of democratization to stop using gangs to deliver votes and intimidate opponents and instigate problems such as against the Chinese minority.

MR. BUSH: Lex?

MR. RIEFFEL: Briefly, Myanmar also has an important Chinese minority that is economically prominent. Here there might be a good lesson for Myanmar from Indonesia. As I see things, I would say that the Chinese community in Indonesia has assimilated quite successfully at this stage. In other words, the non-Chinese in Indonesia seem more tolerant, accepting, of the Chinese and this sort of anti-Chinese sentiment I think has diffused somewhat in Indonesia.

The challenge for Myanmar is that China's right on their border and in the last ten years, there have been hundreds of thousands of Chinese who have moved into Northern Myanmar for various economic reasons. Some people think more than a million have come in. And there is a serious potential for anti-Chinese activity in Myanmar, and it will take some smart policies, some smart moves, by the Myanmar government to avoid this from blowing up at some point.

MR. BUSH: The gentleman over there.

SPEAKER: My name's Ken Davidson. I'm a Fellow at the American Antitrust Institute. I was in Indonesia in 2002-2003 during the Bali bombing, during some subsequent bombings in Jakarta. But my role was as a resident adviser to the KPPU, which is the antitrust, the Competition Agency, in Indonesia. And of all of the competition agencies in Southeast Asia, the Indonesian agency has been absolutely the most active.

It is the largest. It grew from maybe 50 people in 2002 to 390 now. Part of the devolution of power was to spread around the country the agency, and they bring more cases than anybody else. Unfortunately, very few of them are competition cases. Almost all of them are corruption cases. Now there is a corruption agency in Indonesia, and they have worked -- it was nonfunctioning when I was there, but they were trying to get it functioning, and they now bring cases together on corruption. And I was wondering -- I was there last summer for an ASEAN Conference, but I'm wondering to what extent you think the rule of law, which was never very strong, is at least growing in this area.

MS. FELBAB-BROWN: I can start, and I'm sure my colleagues will join me. It's a difficult question. I mean there was a lot of excitement about the anticorruption efforts a few years back. And some of it had to do with the leadership of the Anticorruption Commission. As the Anticorruption Commission became more potent, it started stepping on the toes of very powerful actors, including the police and the military. And over the past several months, there has been a lot of effort to curtail the powers of the Anticorruption Commission, rein them back in a way that is very unhealthy and very problematic for Indonesia. But it is still showing the power, the extraordinary legal power, the powerful military, police, and economic interest groups have. So there's very much of an unfinished story and one that we are seeing, in my view, significant backsliding that unfortunately the president has not been willing to stand up for anticorruption efforts for the Commission in the way I think it would be highly desirable.

As far as the justice system, as Lex already indicated, it continues to be deeply troubled and quota decisions are often either politically manipulated or very much up for who pays the highest bribe and the progress there has been far smaller than the world of the Anticorruption Commission.

MR. BUSH: Lex?

MR. RIEFFEL: I'll just briefly -- to me this is really the heart of the matter. This is really the challenge of making a democratic political system work in a country like Indonesia. And the behavior that one sees, I mean this resistance to what the Anticorruption Commission is trying to do, is deeply associated with the political system, the electoral system, that the Indonesians have created with absolutely laudable intentions. But one of the unintended consequences of that system is this kind of mafia, this judicial mafia that involves not simply the police and the prosecutor's office, but the parliament, the political parties. I mean so you have this -- it's a very -- one of the wonderful things about Indonesia now is the free press. There's a relatively free press or astonishingly free press, and there are constant, just an unbelievable number of stories that come out about the problems with rule of law. And it makes you really have to stop and think, how is this country with this kind of a political system, get on top of this problem?

MS. FELBAB-BROWN: We can -- one sentence here -- the media and NGOs have really been critical in exposing corruption illegality, including the natural resource management as well as in other issues such as social strife, which is also very much politically instigated often.

The problem is that now we have finally gotten transparency, but we continue having impunity. So during the Suharto era, you had transparency with opaqueness. These days you have impunity -- so you had impunity with opaqueness. These days you have impunity with transparency. There are exposures, but very little happens after the exposure takes place. Media reports on illegal behavior by a mining company, but the court takes no action, the police take no action, because they are paid very frequently and the illegal behavior continues. It's only in rare circumstances where political pressures align that there is action, prosecutorial action, with any meaningful

punishment after the exposure takes place.

MR. RIEFFEL: Rich, if I may. To be provocative, I would say there was a kind of rule of law in the Suharto era that was Suharto's law, and in a sense it was more effective and that's another one of the things to think about.

SPEAKER: My sense is that the Anticorruption Agency is too high profile. It has not had the record that the Competition Agency has and because the Competition Agency has focused almost entirely on corrupt bid-rigging kinds of schemes, they have had many more cases and than they have had successes. And some of their former commissioners are now judges in the Indonesian system, and they are the ones who are reviewing the decisions of the Commission. And I think that the numbers show that they are, in fact, having some impact on the policies. The kind of policies that you're talking about, yes, it's endemic; having the military own huge swaths of the economy is hardly unusual. It's true in Egypt. It's true in Burma. It's true all over in less developed countries. But what I'm trying to see because I haven't been there and haven't been reading the *Jakarta Post* on a daily basis, which used to have astonishing stories of corruption, whether any of this is having some effect. It sounds like you're saying that it was having some effect and there's backsliding. The Competition Commission has a very strange structure where all of its commissioners get replaced at the same time, and this is the year that they are going to replace all ten of them.

MR. BUSH: Let's go to another question. The gentleman in the fourth row in the middle; then I'll go there.

SPEAKER: Good morning. It's been a great pleasure to be here. I've been in Indonesia from '87 until last year. I was born and raised there. It was very interesting to hear the range of topics that have been discussed here. I'm trying to come up with a link from the natural resources extraction companies to the realization that the

community into the current state of democracy transitioning.

First I would like to -- back to the part about the fact that the current judicial problem is more dangerous than the previous one. But I think it's more dangerous on the surface because the progress and transparency were able to unveil what's previously invisible. And one of my friends saying something that -- what is the more dangerous thing than organized corruption is the unorganized corruption that's currently happening in various systems and levels in Indonesia due to the fact that decentralization has been taking place in the past years. And one proposition I would like to make and try to link the different areas of topics being discussed here is that one other fact that Ms. Felbab-Brown has mentioned that many companies involved in constructing has been unwilling to really involve in this program that really brings some kinds of progress in our community. In fact, they're having this kind of exclusivity in the region. If you've been to several mining companies in Indonesia, they have these huge gates and then really become a fortress that kind of creates this gap between them and the community in the region. This is one thing that I think the foreign companies that play the role in Indonesian economy can look to play to.

And one thing that they can strengthen more is the educational system, which is related to the recolonization of the jihadists and the Muslims in Indonesia. Most of those are really involved in this -- I already called it a movement -- those with poor economic status have less access to education and they're being told that if you are -- and this is important in the research from several scholars -- that if you are involved in a mission, suicide missions, bombings, or anything else, their families are being granted for. And this is like one of the economic models and has yet to be development of economy post their diplomacy has been creating a massive society. And this is, I think, one of the positions and the role that the foreign companies can play in the future.

MR. BUSH: Okay, thank you. Vanda, and then Bill.

MS. FELBAB-BROWN: So one of the key issues is the issue of equity, how are the profits from resources distributed? Are they invested in human development and social development in communities, or are they either expropriated or captured by a very narrow group? The same problem that Burma will be -- that already faces and will be more intensely facing.

There has been some progress in Indonesia and research and a lot of talk about involving local communities and about doing community-based development or community-based resource management. There are occasionally some impressive success stories, the Bahia forest being one, for example. But by and large lots of the local communities continue to be disempowered. They either cannot effectively resist the arrival of mining or logging companies they do not desire. But they're also extremely susceptible to selling their land, for example, to companies for big profits in a way that brings them immediate short-term payoff, but does not really advance their economic positions in the long term.

So what is often critical for how good the community can participate and assert its rights is community cohesion, and that is a challenging proposition in Indonesia where there is a lot of migration as part of natural arrival of populations from various islands to the five time zones like Papua, or previously Kalimantan. So along with the idea that if one only embraces local communities or if one only sets up transparency at the national level, one can resolve lots of the distribution and corruption problems. I think that the idea needs to be far more problematized and far more challenged, and the local context institutional culture, the strength of the community, makes a big difference whether the community is effective.

So he is saying we need to involve local communities does not

guarantee that the local communities will be empowered. I think far more work needs to be done and many assumptions that merely involve the local communities need good environmental management or, in fact, empowering the community needs to be challenged.

MR. BUSH: Bill?

MR. WISE: Yes, you raised an interesting point about the social and economic bases of persons who engage in jihadi activities. And, in fact, many of the recruits, if not the preponderance of recruits, do come from the poorer elements of society, especially common criminals who are proselytized in prisons. But the leadership of Jemaah Islamiyah and of related organizations, the leadership is more often than not drawn from the middle class, from professionals like Noordin Top, one of the now-deceased but one of the most violent of the jihadists in Indonesia in the last decade.

And it suggests that the government has two things at least in this area to think about. One is reducing the influence of the most radical clerics, perhaps not by closing off free or religious speech, but by thinking a bit about -- I'm brought to the American principle of yes, you can say whatever you like except you cannot scream fire in a crowded theater falsely in a crowded theater. And perhaps some of the most radical speech, hate-inciting speech, needs to be -- the policies towards that need to be reviewed.

And the second is the Directorate of Corrections, which has responsibility for running prisons. There the combination of bringing people together from different groups who might be susceptible to proselytizing is a real and constant problem. And perhaps the Directorate of Corrections, as has been suggested by many people, ought to be more attentive to these effects of incarceration so that persons leaving -- entering, present, and leaving -- who are susceptible to these importunities, are, in fact, followed

more closely.

MR. BUSH: Okay, the gentleman on the aisle there. Yes, please.

SPEAKER: Thank you very much. I'm David Timberman with Management Systems International. I know the focus of this isn't on anticorruption in the KPK, but I've been somewhat involved with the organization for a few years now and just want to make a couple of comments.

First, Vanda, you called it backsliding. Actually I think what's going on is that there is pushback and that's quite different. There's pushback against the KPK and anticorruption effort for the very reason that it's actually been quite successful and it is threatening those very interests. One of the reasons it's been very successful, and this speaks to the rule of law issue, is because there's this separate and independent anticorruption court, which is autonomous from the regular court system. And the conviction rate within the anticorruption court is somewhere close to 100 percent, so that particular court works very well in Indonesia.

One of the other reasons the KPK has been successful in defending itself is because of the important role that civil society is playing in actually defending the KPK. So I think it's important again to bring in to this conversation the role of civil society organizations, not that they're the end all-be all, but that they can play in particular instances very important roles.

One of the other interesting aspects of what's going on with the KPK is that it's the police that is attacking the KPK, but it's the military that is defending the KPK to some extent against police pressure. And that's, I assume, because the KPK has been going after the police. They have not been going after the military and there's always this historical rivalry between the two. So anyway, you have an interesting dynamic there as well.

I was then just thinking about what sort of -- Bill, when you think about why the antiterrorism policies were successful and why the creation of the KPK, which is arguably one of the great institutional successes in Indonesia right now, I don't have the answer to this. So what is it about these particular policymaking processes that has led to the successes? To an extent it's because they were somewhat semi-autonomous and insulated from the very patronage politics and the money politics that we've been talking about. But I think that's what would be really interesting to explore, kind of why and when did these successes work given what we all know about patronage politics and corruption and what have you in Indonesia and other countries. Thanks.

MR. BUSH: Thank you very much. Comments?

MS. FELBAB-BROWN: Well, I'll make a quick one. One of the -- I was looking at the range of illegal economies and organized crime in Indonesia and its relationship to politics. And one of the ones I was looking at was piracy, which is a success story, and suppressing piracy unlike suppressing other illegal economies. I was precisely asking myself why were they successful with respect to piracy. Why did the Indonesian government develop the wherewithal in that one domain and not in the others like illegal fishing, illegal mining, illegal logging. And the answer was rather disturbingly quite straightforward structural incentives.

First of all, it took them quite a while to get interested in piracy. It took a lot of pressure from the government of Singapore, and Singapore paid for them enforcing lots of the patrolling Coast Guard activities.

Second, piracy was generating very little money compared to illegal logging or mining, and so the bribes that went to the Coast Guard or the Navy were very small compared to the chunk of institutional budgets coming from either mining or logging. So although individuals would be on the take, the institutional side wasn't

dependent on the piracy money. The piracy money was very small.

So when the Singaporean government put huge pressure on Jakarta that coincided with pressure from other actors as well and, in fact, paid for most of enforcement and the benefits that were accruing to institutions were small, Jakarta was willing to exercise power and enforce.

I would posit that in the case of terrorism, at least in the case of hitting terrorists, it's very much the same story. The costs are fairly minimal. The institutional incorporation of terrorism is not there, and, in fact, that is a very direct threat to the state. But what has not been done well and what we are seeing -- and I'll use the term backsliding or perhaps that is not even the right term -- but where we are seeing real problems is in politicians in the national government speaking out against not just against sort of extreme hate speech, but speaking out against radicalization and putting tags on Christian groups in Java or on the al-Mahdi groups. What you see in the press would be like well, two al-Mahdi members were killed this year. Ah, but in Pakistan they killed 200. They're still far better. And what you would really want to see is the politician say it's absolutely intolerable that someone is killed because they are a different ethnic group or because they belong to a different religion.

The KPK is interesting, and there is a huge craving in the Indonesian body politic for acting against corruption. That is what people see as the biggest bane of their existence even if they are often very deeply implicated and very much participate in schemes of corruption. The real question to me is will the Anticorruption Commission stay strong despite the pressures. And when I said backsliding, it's because I don't think that the national government has been backing it up as much as civil society has been standing up for it. But the national government has been not very much pushing back against the police, and, in fact, quite letting the police try to muscle the Anticorruption

Commission.

MR. BUSH: Other comments?

MR. WISE: I'd just add that on antipiracy that the Indonesians made or were pushed to a very good decision, which is to combat piracy on land, not at sea. That's how you do it.

And far as, Dave, your point about why did this work? I gave you five good, what I called sensible and pragmatic, decisions that Indonesian officials made at the outset of their counterterrorism campaign. And I think I would rest on that; that if you -- that delegitimizing the religious justification for violent extremism can be done if you make it a crime against society and pursue the crime with law enforcement rather than allowing it to become a political insurgency pursued by the military. And the other aspects for more organizational aspects that I mentioned, I think, allowed the government to be successful. They simply made good decisions and executed them well. And I think if I had to pick out one word beyond that, it was leadership.

MR. BUSH: Okay, we have time for one more question. The gentleman towards the back with the mustache on the aisle.

SPEAKER: Thank you. I'm Leon Weintraub, University of Wisconsin. I'd like to ask Dr. Wise about his remarks about undercutting religious extremism or the justification for religious extremism. Is this done on the micro or the macro level? That is, is it done individually with people that are incarcerated or is this a message that somehow spread on the national level?

And second, are there any facets of this process to deradicalization that has been learned from the experience of Saudi Arabia, which you understand has had a number of programs in this area?

DR. WISE: As to how this operates, how proselytizing operates, the

answer is all of the above. From Internet chat rooms to small religious groups to religious schools to training activities to the small self-supporting networks to the work done in prisons, all of the above is correct. Mass meetings? No. But smaller groups? Yes. The problem of the lack of pushback by the state against hate language or hate-inciting language is a tough one for Indonesia because Indonesians prize their free speech. So it's a difficult problem, but not an insurmountable one. There is a line, as I suggested, that exists in each society over which the society simply can't tolerate someone passing.

Your other question was to --

SPEAKER: If they had learned from the experiences in Saudi Arabia.

MR. WISE: Ah, yes. In fact, Indonesia has imported many different ideas about deradicalization and some of it takes. But the considered view of the best analysts of this subject in Jakarta and Singapore, whom I mentioned at the outset of my remarks, is that it's not taking enough; that deradicalization has not been successful.

MR. BUSH: Thank you. We've come to the end of our time. I think we've had a very good discussion. Vanda, Bill, and Lex, thank you for your presentations and stimulating it. We obviously had a lot of expertise in the audience, so we thank you for your contribution as well. I think there's a lot more we could -- a lot more time we could spend discussing these issues, so we'll try to find an opportunity for doing so.

Please join me in thanking our presenters. Thank you very much.

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