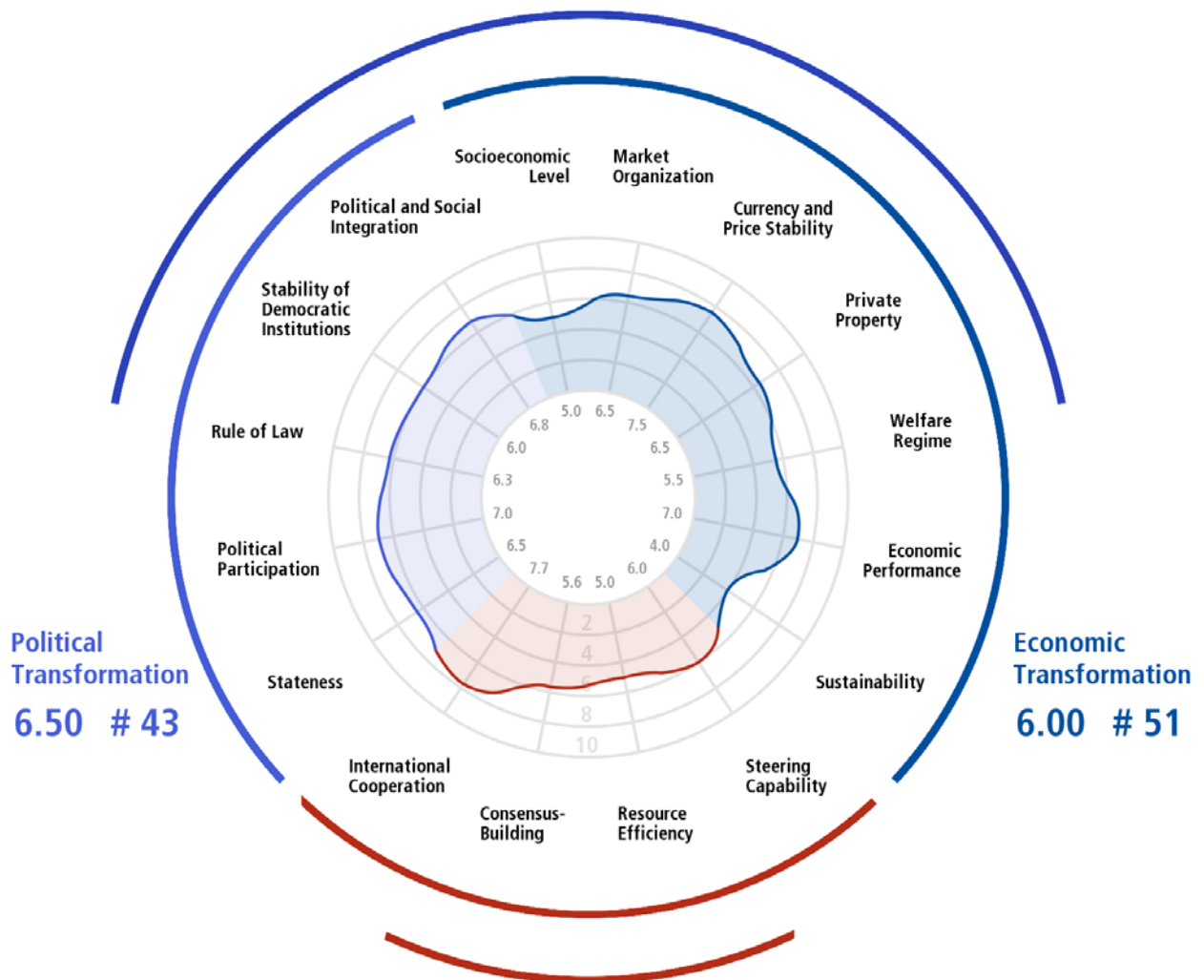


Indonesia

Status Index

6.25 # 45

on 1-10 scale out of 129



Political Transformation
6.50 # 43

Economic Transformation
6.00 # 51

Governance Index

5.45 # 48

on 1-10 scale out of 129

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2018. It covers the period from February 1, 2015 to January 31, 2017. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

Please cite as follows: Bertelsmann Stiftung, BTI 2018 Country Report – Indonesia. Gütersloh: Bertelsmann Stiftung, 2018.

This work is licensed under a [Creative Commons Attribution 4.0 International License](https://creativecommons.org/licenses/by/4.0/).

Contact

Bertelsmann Stiftung
Carl-Bertelsmann-Strasse 256
33111 Gütersloh
Germany

Sabine Donner

Phone +49 5241 81 81501
sabine.donner@bertelsmann-stiftung.de

Hauke Hartmann

Phone +49 5241 81 81389
hauke.hartmann@bertelsmann-stiftung.de

Robert Schwarz

Phone +49 5241 81 81402
robert.schwarz@bertelsmann-stiftung.de

Sabine Steinkamp

Phone +49 5241 81 81507
sabine.steinkamp@bertelsmann-stiftung.de

Key Indicators

Population	M	261.1	HDI	0.689	GDP p.c., PPP \$	11612
Pop. growth ¹	% p.a.	1.1	HDI rank of 188	113	Gini Index	39.5
Life expectancy	years	69.0	UN Education Index	0.649	Poverty ³	% 33.8
Urban population	%	54.5	Gender inequality ²	0.467	Aid per capita	\$ -0.2

Sources (as of October 2017): The World Bank, World Development Indicators 2017 | UNDP, Human Development Report 2016. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

During the period under review, Indonesia recorded a slight but noticeable decline in democratic quality. President Joko Widodo (popularly called “Jokowi”), in power since October 2014, has thus far not been able to realize his promises of greater democratic participation and upholding human rights. On the contrary, the years between 2015 and 2017 saw a wave of social and legal discrimination against the LGBT (Lesbian, Gay, Bisexual and Transgender) community; a renewed campaign against suspected communists and victims of the 1965 anti-communist purge; a strengthening of the political role of the armed forces; rising anti-Chinese sentiments, fueled by growing investments from mainland China and the participation of some Indonesian ethnic Chinese in elections; an increase in the sociopolitical influence of Islamist groups; the filing of treason charges against the administration’s political opponents; the blocking of websites run by separatists and other dissidents; and a continued dual approach in Papua. While President Jokowi has not initiated or supported these developments, he has done little to stop them. Under his watch, political and religious conservatives within and outside government have increased their strength, with the president either unsuccessfully trying to advance a more moderate stance or unwilling to spend political capital on confronting conservative groups.

That said, the overall parameters of Indonesian democracy remained sound in the review period. Public support for democratic governance continued to be high, as evidenced by opinion surveys and healthy voter turnout (69% in the December 2015 local elections, which was similar to the 2014 presidential and parliamentary polls). The level of communal violence was, while increasing, still moderate to low, both by international standards and by Indonesia’s own historic experiences of large-scale violence in the 1940s, 1960s and 1990s. The media landscape was still highly competitive, despite many TV stations and print media being owned by politically connected oligarchs. Participation in civil society groups, protests and activism in Indonesia was vibrant and largely tolerated by the state. Thus, the danger posed by developments during the first two years of Jokowi’s government listed above is not so much that they may cause a sudden collapse of the

democratic polity; rather, they constitute a gradual qualitative erosion of Indonesia's electoral democracy, which is likely to prevent it from further democratic advancements.

The Indonesian economy also showed further signs of crisis, continuing the slide begun in the last reporting period (2013-2015). GDP growth was below 5% in 2015 and only slightly above that mark in 2016, and while that held up well against many other countries in a sluggish world economy, it was well below the rates the government of his predecessor, Susilo Bambang Yudhoyono, had achieved. The budget deficit was estimated to have reached 2.7% in 2016, the worst level since the economic breakdown of 1998 and the subsequent recovery period. To make matters worse, the government grossly overestimated tax income in 2015 and 2016, forcing it to make emergency revisions when the gap between expected revenue and real income became clear. The government also sent mixed signals regarding its commitment to a free market. Jokowi appointed three trade ministers in quick succession between 2014 and 2016, one of which was protectionist, the other pro-market, and the third a property developer. As a result, the Jokowi government swayed unpredictably between pro-market and protectionist measures. The government also faces income equality which foments other problems, such as ethnic conflicts, crime rates, and difficult access to public services. Poverty and open unemployment, however, have continued to decline. Jokowi also became more realistic and pragmatic in both politics and economics. Therefore, both the democratic system and the economy exhibited signs of increasing volatility.

History and Characteristics of Transformation

Indonesia's democratic transition began in May 1998, when longtime autocrat Suharto resigned from the presidency after 32 years in office. Supported by the military, the bureaucracy and his Golkar party, Suharto had ruled the archipelago with an iron fist after bloodily putting down a communist coup attempt in October 1965. For much of his tenure, Suharto governed with a mixture of repression, patronage and performance legitimacy – the latter drawing from high levels of economic growth under his watch. But the Asian Financial Crisis of 1997 to 1998 led to the collapse of the Indonesian economy, destroying the foundations upon which Suharto's power had rested. As a result, cracks in the regime emerged, which in turn emboldened street protests and encouraged Western capitals to reconsider their support for their former anti-communist ally. When the armed forces deserted him as well, Suharto had no other option but to resign.

While Suharto's resignation occurred amid significant mass mobilization, the regime change itself took place as a pact-based transition. Opposition forces allowed Suharto's vice president, the hugely unpopular B.J. Habibie, to take power in exchange for assurances of substantial political reform. Indeed, Habibie's reforms – most of which he began implementing only a week after Suharto's fall – far exceeded the opposition's expectations. He scheduled free and fair elections, lifted restrictions on the press, released political prisoners and even launched a decentralization process that turned the heavily centralized state into one of the most decentralized polities of the developing world. The June 1999 parliamentary elections were globally praised as free, fair and

competitive, and Habibie handed over power to his successor Abdurrahman Wahid in October 1999. However, Wahid was appointed by the only partially-elected People's Consultative Assembly, making political conflict unavoidable. Wahid was soon locked in a hostile conflict with parliament, and after his attempt to dissolve it in an unconstitutional manner in July 2001, the legislature impeached him. He was replaced by Vice President Megawati Sukarnoputri, who governed between 2001 and 2004.

While Megawati's presidency has often been described as visionless, it was during her term that the most important reforms of the post-1999 era were launched. Direct presidential elections were introduced; a Constitutional Court was established; an Anti-Corruption Commission was founded; and direct local elections for governors, mayors and district chiefs were enshrined in decentralization laws. When these reforms became fully operational in 2004 and 2005, Indonesia finally completed its democratic transition. The main beneficiary of this trend was Susilo Bambang Yudhoyono, who won the first direct presidential elections in 2004 and was re-elected in 2009. While he further stabilized the polity, he was often accused of inactivity. At the end of Yudhoyono's term, two populist challengers emerged who competed for his succession: the ultranationalist Prabowo Subianto, who proposed a return to stronger centralist government; and Jokowi, who stood for the continuation of the democratic status quo while promising improvements to public service delivery. Jokowi eventually won the elections in July 2014. While Jokowi has reached high levels of popularity (around 70% in 2016), he has not been able to deliver on many of his promises. Democratic rights have been undermined by conservative religious and political groups, with the president seemingly unsure about how to react. In December 2016, Jokowi faced a demonstration by hundreds of thousands of Islamist demonstrators, who demanded the arrest of Jakarta's Christian-Chinese governor for alleged blasphemy. The demonstration has been the strongest sign thus far that Indonesia's democratic and pluralist achievements are under threat, and it remains to be seen whether (and if so, how) its defenders can respond to it.

Overall, the political system in Indonesia after Suharto develops further. The period of B.J. Habibie, Abdurrahman Wahid and Megawati became the transition period which was very dynamic. Later, during the period of Susilo Bambang Yudhoyono's government, a period of stabilization occurred, requiring many political and economic costs, including the lack of infrastructure development and a growth of corrupt practices. After the SBY period, the Jokowi government is trying to move forward. However, Indonesia is recently experiencing various constraints and challenges, including the oligarchy system in all political institutions as well as the global economic crises.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

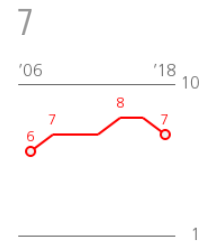
1 | Stateness

While the Indonesian state's monopoly on the use of force is generally accepted, it has been challenged by some groups. In the province of Aceh, where separatist rebels challenged the state's authority between the 1970s and mid-2000s, a 2005 peace agreement is in place. This agreement is currently stable, but former guerrillas have carved out spheres of political and economic influence which the Indonesian state finds difficult to penetrate. Papuan guerilla fighters continue to fight the Indonesian state, but their forces are small and exercise territorial control only over tiny parcels in very remote highland areas. Pro-Islamic State (IS) terrorists held some territory in Central Sulawesi for a period of time in 2015, but an intensive joint military and police campaign put an end to this by mid-2016. However, the number of terrorism threats in 2016 increased, including a suicide bombing in the Sarinah area in downtown Jakarta in January 2016. More important than these actions by separatists and terrorists, a major challenge comes from openly operating Islamist groups that view Islamic law as above Indonesian law, and have therefore questioned the police's authority to limit their actions. As a result of their increasing influence, police have been reluctant to enforce the law against them.

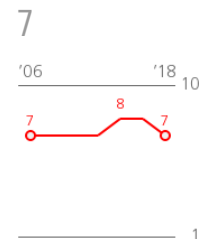
Although the majority of Indonesians have a strong sense of nationalism and enthusiastically support the nation-state, there are important exceptions. In Papua, many citizens demand their own state, and a number of extremist Islamist groups advocate for a Muslim caliphate in Southeast Asia and beyond. IS also attracts some support in Indonesia, but its influence remains limited. However, openly operating Islamist organizations, such as the Islamic Defenders Front (FPI), are more influential than these fringe groups. They nominally accept the Indonesian nation state but insist that Islamic scripture is of higher value than the Indonesian constitution. This view, previously only held at the margins, has now entered the national mainstream. Unlike the authoritarian regime, the current democratic regime does not deny any particular groups access to citizenship. From the 1940s to the 1990s, ethnic Chinese had found it difficult to gain citizenship. Since the early 2000s, Indonesia has made progress in

Question
Score

Monopoly on the
use of force



State identity

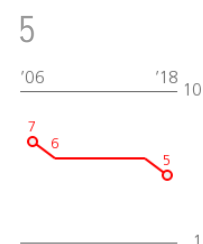


this regard, reducing discrimination against ethnic Chinese people and opening up opportunities for them in terms of cultural, political and social participation. Most recently, however, ethnic Chinese have seen discrimination rising again, especially against those who have entered the political arena. There were two anti-governor (Ahok) rallies in 2016 known as the 411 (November 4) and the 212 (December 2) rallies.

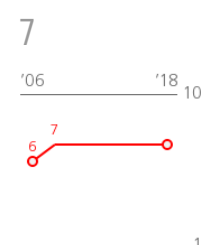
As a state with around 87% Muslim inhabitants, Indonesia has traditionally struggled to maintain a balance between promoting Islamic values and the rights of non-Muslim minorities. While the Indonesian constitution guarantees the freedom of religion, this right has been increasingly hollowed out. Under President Yudhoyono, orthodox Islamic views had a strong influence on political attitudes and law enforcement practices. Yudhoyono refused to take tough action against Islamist groups that attacked non-Muslims and Muslim sects viewed as heretic (such as the Ahmadis and the Shi'ites). And while the Jokowi government promised to better protect minorities, the situation has become even more threatening for them. Since January 2016, the LGBT community has been exceedingly targeted by Islamists, with the state offering no protection. The Chief Justice of the Constitutional Court, which heard a case demanding that homosexuality be outlawed throughout 2016, declared in September of that year that his decision on this will be guided by "Godly light." In Aceh province, Shariah law has been enforced with increasing strictness, with a non-Muslim being caned for the first time in April 2016. Similarly, other districts and provinces have issued bylaws that enforce Islamic dress or behavioral codes. These bylaws threaten women's rights and the ability of religious minorities to practice their faith, and the acquisition of licenses for non-Muslim places of worship continues to be difficult. According to the National Commission on Human Rights (Komnas HAM) annual report, the number of cases of religious intolerance in 2016 increased to 97 from 87 in 2015 and from 76 in 2014.

The Indonesian state has a functioning administration that reaches into all levels of state organization. Indeed, the expansion of the state apparatus that accompanied the post-decentralization explosion in the number of districts, sub-districts and villages has vastly increased the reach of the Indonesian bureaucracy. However, the quality of the public services delivered by the administration is often low. About 39% of Indonesians still lack access to improved sanitation facilities. The health and education systems are poor, with Indonesia spending less in these two sectors than most of its regional competitors (2.8% on health and 3.3% on education, compared to Thailand's 6.6% and 4.2% respectively). On the other hand, democratic elections have forced local incumbents to improve infrastructure, health, and education services. Many now introduce the development of traffic infrastructure and free schooling and health care programs; this has led to a qualitative improvement in such services in some – but by no means all – areas.

No interference of religious dogmas



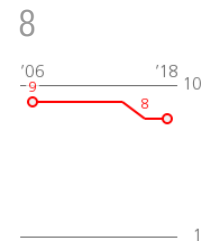
Basic administration



2 | Political Participation

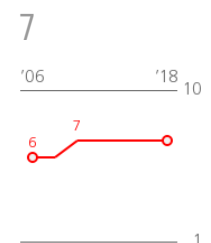
Every five years, Indonesians go the polls to elect the president, members of the House of Representatives and Regional Representative Council, and members of provincial and district-level parliaments. They also vote for governors, mayors, and village heads. The direct ballots for president, governors, mayors and district heads include the possibility of run-offs. Most Indonesians, as well as outside observers, believe that these elections are generally free, fair and competitive. However, the 2014 elections and subsequent local ballots have seen trends that undermine this perception. First, recent elections have recorded an ever-increasing level of vote buying, involving a sophisticated system of brokers that channel club goods and cash to voters. Second, elections have taken on an exceedingly sectarian tone since the presidential election in 2014 in which black campaigning took place, especially on social media. This also occurred during the 2017 Jakarta gubernatorial election in which four big demonstrations took place with hundreds of thousands of people protesting against the Christian-Chinese incumbent for alleged blasphemy. Third, the media has become politically biased in a way not seen since the end of authoritarianism. In elections, most TV stations blatantly back the nominee supported by their owner. While there are also positive trends (such as attempts to limit campaign spending in local elections), increased corruption, sectarianism and media bias have reduced the general quality of national and local elections held since 2014.

Free and fair elections



Democratically elected politicians can generally govern without intervention in relation to standard issues of administration, but veto powers have increasingly succeeded in influencing decisions related to their interests. For instance, in 2016 the military was able to effectively halt an investigation into the army-led massacres of communists of 1965 – an investigation initiated by the Jokowi government. Islamists groups, for their part, forced the government and law enforcement agencies, through mass protests in late 2016, to put the governor of Jakarta on trial for blasphemy, although the police had earlier concluded that there was no case. Furthermore, oligarchs and business groups continue to exert pressure on parties and politicians, both with respect to the executive and the legislature. Given the absence of a functioning party and campaign financing system, many politicians have become highly dependent on such oligarchic sponsors. In return, they pass regulations or approve projects that benefit their donors. In 2015 and 2016, for example, the Indonesian parliament pushed for a bill on protecting tobacco interests that stood in sharp contrast to the country's declared health improvement targets. The big domestic tobacco companies remain some of the largest sponsors of parties and politicians in Indonesia.

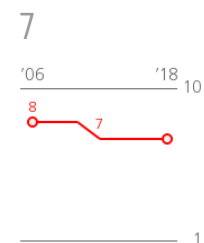
Effective power to govern



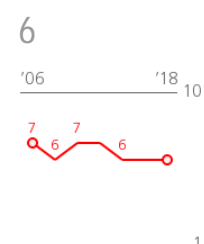
In most parts of Indonesia, the freedom of association and assembly is upheld. Indeed, Indonesia continues to have one of the most vibrant civil societies in Asia, with labor unions, grassroots advocacy groups, women's rights associations and other bodies mushrooming and making their voices heard. Demonstrations in front of government buildings are a common sight and are usually not restricted by the police. However, this freedom still does not extend to groups that promote separatism, radical leftist ideologies or nonmainstream religious views. Supporters of Papuan independence are not allowed to organize freely, and some have been sentenced to long prison terms because they participated in peaceful flag-raising ceremonies. In December 2016, a handful of obscure political figures were also arrested in Jakarta for alleged treason even though they only planned a demonstration to the legislature and lacked the influence to pose a credible threat to the government. In many cases, however, it is not only the state, but other societal groups that restrict the freedom of assembly of citizens. For instance, violent mobs have dispersed meetings of victims of the 1965 anti-communist purge, LGBT groups or religious minorities, with the state failing to offer appropriate protection. In April 2016, an event held by a foundation committed to researching the 1965 events was violently broken up by Islamist protesters in Cianjur, with the police failing to intervene. Similarly, several meetings of LGBT groups were disbanded by police in 2015 and 2016, with authorities arguing that this was done to protect them from possible Islamist violence. Also, screenings of *The Look of Silence* (Senyap), *Samin vs. Semen*, and *Prahara Tanah Bongkoran* were canceled, disrupted or banned at several universities, including in Yogyakarta, Malang, Surabaya and Banyuwangi.

While freedom of expression is generally upheld, there are enclaves and groups that do not enjoy this freedom. On the one hand, most citizens can criticize government policies without fear of reprisal, and Indonesia continues to have one of the most diverse and critical press landscapes in the region. On the other hand, Papuans remain severely constrained in their ability to express their views freely, as do religious minorities, atheists, LGBT groups and organizations involved in advocacy on the 1965 anti-communist killings. Press reporting in and on Papua, as well as on the abovementioned issues, continues to be heavily restricted. Moreover, the level of violence against journalists is still high in Indonesia. As a result, Indonesia was ranked 130 out of 181 countries in the Reporters Without Borders' Press Freedom Index in 2016. Furthermore, the government has limited public access to the internet, shutting down sites related to advocacy for Papuan independence, pornography, and extreme Islamist causes. Some social media users have also been severely sanctioned for online criticism of public officials or private enterprises. In late 2016, a woman in South Sulawesi was put on trial for allegedly insulting a local legislator on Facebook. While a change to the relevant law in November 2016 made it more difficult to detain suspects before trials begin, activists have argued that this change did little to protect social media users from severe repercussions for expressing their

Association / assembly rights



Freedom of expression



opinions online. The state uses the penal code and the 2008 Electronic Information and Transactions (ITE) Law to silence criticism.

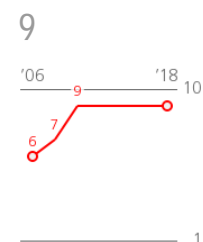
3 | Rule of Law

Following wide-ranging political reforms implemented after Suharto's fall, Indonesia now has an effective system of checks and balances as far as its institutional set-up is concerned. All three branches of government fight with internal issues of mismanagement and corruption, but the separation of powers is formally unaffected by these problems. While officially a presidential system, the Indonesian polity features a legislature with extensive budgetary, oversight and appointment powers. Indeed, the government cannot engage in any major policy initiative without the parliament's explicit approval. It was this power of the legislature that forced Jokowi in 2016 to include more parties in his government, turning his initial minority of 37% support in parliament into a majority of 69%. Meanwhile, the judiciary has developed into a politically independent – albeit notoriously corrupt – branch of state organization, a stark contrast to the authoritarian era when judges openly served the political interests of the incumbent regime.

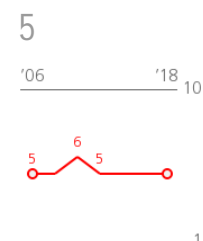
While the judiciary is now largely autonomous from political influences, it is by no means independent of corruption and its perpetrators. Bribes can influence judicial procedures at all levels, from police investigations to indictments by the Attorney General's Office to court verdicts and appeals. High-ranking judges continued to be arrested for corruption in the surveyed period, and the secretary-general of the Supreme Court had to resign after a raid on his house by the Anti-Corruption Agency (KPK) in April 2016 found hundreds of thousands of dollars in cash. Further investigations revealed that he had been at the center of a case brokerage system that mediated between plaintiffs, defendants and judges. The system offered everything from lower sentences to delayed arrests and – the most expensive of all – acquittals. As a result of its corrupt nature, the judiciary has been unable to develop a differentiated and professional organization, despite the existence of a large network of formal institutions and channels. Also, after the arrest of the Constitutional Court chief justice, Akil Mochtar, in October 2013, the Corruption Eradication Commission (KPK) arrested Patrialis Akbar, another member of the court in January 2017.

Corruption and abuse of power remain endemic in Indonesia. However, in contrast to the early post-Suharto period, many officeholders are now prosecuted for their actions – in most cases for corruption. In December 2016, President Jokowi announced that 122 parliamentarians, 25 ministers, 17 governors, 51 regents and mayors, 130 high-ranking bureaucrats and 14 judges had been imprisoned for corruption since the creation of the Anti-Corruption Commission in 2004. Some leaders of political parties were also among the convicts, and they were sentenced to prison terms of up to 18 years. In addition to pushing for tough prison terms, the

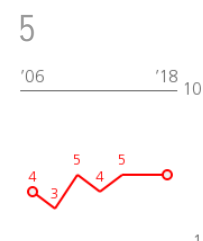
Separation of powers



Independent judiciary

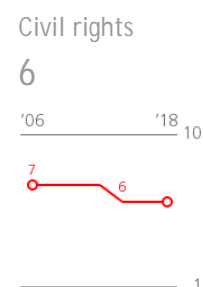


Prosecution of office abuse



Commission has increasingly asked courts to seize possessions of convicts. In 2015, one former regent had assets worth over \$18 million seized by the state. But the prosecution statistics should not distract from the fact that many perpetrators remain untouched by law enforcement. In 2015, Jokowi appointed a former suspect in a corruption case as deputy head of the police and made him head of intelligence a year later – because he was close to the chairwoman of his party, former president Megawati Soekarnoputri. In the same vein, Speaker of the House Setya Novanto only temporarily resigned from his position in 2015 after he was heard asking for favors from a large mining company on a secretly recorded tape. He resumed his position after he had the recording ruled as inadmissible evidence by the Constitutional Court in 2016.

Protection of civil rights remained volatile between 2015 and 2017. Most importantly, civil rights in Papua continue to be under assault, with the police and military taking harsh measures against peaceful pro-independence activists. In 2016, thousands of Papuans were arrested in several large demonstrations in Papua and other parts of Indonesia that demanded a referendum on independence. Many of those arrested were later released, but several were charged with treason, such as four Papuans held in Manado in December 2016. Similarly, the civil rights of nonmainstream religious group followers remain weakly protected. Ahmadis, Shi'ites and other groups viewed by the Muslim mainstream as heretic cannot count on the state to guarantee their basic rights as citizens. Both the Setara and Wahid Institutes recorded a significant increase in the number of cases of religiously motivated attacks on citizens of minority faiths from 2014 to 2015 (the former reported a 50% rise, the latter 23%). What's more, members of the LGBT community have become new targets of Islamist groups since early 2016. Also, the Indonesian Ulema Council (MUI) introduced a religious edict (fatwa) to ban the wearing of Christmas attributes and celebrating Valentine's Day. Hence, the main institution to observe the protection of civil rights, the National Commission of Human Rights (Komnas HAM), has seen its role declining in recent years, with many of its recommendations ignored and its effectiveness further marred by organizational infighting.



4 | Stability of Democratic Institutions

While formally the level of friction between Indonesia's democratic institutions has been low in the surveyed period, some opposition parties have backed efforts of extra-parliamentary mobilization that undermine the presidency. In the arena of formalized politics, President Jokowi reduced tensions with parliament by expanding his government coalition in 2016. However, some parties not included in this arrangement supported mass demonstrations by Islamists in November and December 2016, which officially targeted the governor of Jakarta, but also included calls for the president's impeachment. The demonstrations seriously constrained the

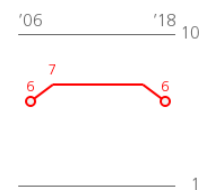


effectiveness of the presidency, with Jokowi having to cancel foreign trips and fully concentrate on alliance building with Muslim groups instead on day-to-day governance. In addition to populist mobilization eroding formal institutions, there are structural problems not necessarily between, but within these institutions. For instance, ministries have a high level of autonomy, impeding the government to act as a coherent entity. Similarly, parliamentary decisions are rarely made by majority vote along party lines, but are mostly the result of consensus-oriented negotiations between individual legislators. This leads to protracted policy-making processes and in some cases low-quality legislation, with the Constitutional Court overturning 44 articles in such legislation in 2015 and 2016. At the local level, the effectiveness of democratic institutions, especially local parliament varies widely. While in some areas they are moderately effective, in others (such as Papua and Aceh with their local political parties) they are handicapped by corruption and incapacity.

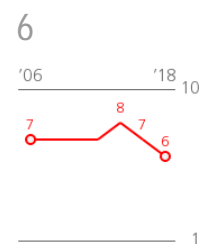
The years 2015 and 2016 have seen a significant rise in the influence of Islamist groups who tacitly or openly question the legitimacy of democracy and, indeed, the Indonesian nation-state as such. Groups, such as Hizbut Tahrir Indonesia (HTI) or the Islamic Defenders Front (FPI), have insisted for many years that democracy is theologically incompatible with Islamic scripture, and that the latter must take precedence over democratic constitutions whenever there is a clash between the two. But while HTI and FPI operated at the fringes of Indonesian society and politics for much of the past decade, 2016 saw them taking a much more prominent role. The unprecedentedly large demonstrations in Jakarta in November and December 2016 signaled that the Islamist agenda had arrived in the middle of Indonesian society (surveys showed that 43% of Indonesians supported the protests). Similarly, anti-democratic views have been increasingly expressed by the military leadership, which had been relatively restrained under the Yudhoyono presidency. The head of the armed forces, General Gatot Nurmantyo, gave a number of speeches in 2016 that echoed the populist rhetoric of Philippine President Rodrigo Duterte. Many political parties also harbor non-democratic views, with some of them demanding to restore elements of the non-democratic constitution from the pre-1998 era. And while the majority of Indonesians still support democracy as the best form of government, a majority also supports the implementation of shariah law. Furthermore, a poll among students in May 2016 showed that 11% supported the idea of a khilafah, or a cross-national state run by religious rather than secular authorities.

5 | Political and Social Integration

While Indonesia's party system is fairly stable, the emergence of non-party groups as key political players has questioned its social rootedness. In the formal party arena, voter volatility is considerably lower than in many other new democracies in Eastern Europe, Latin America or East Asia. During the 2014 elections, all nine parliamentary parties of the previous period re-entered the legislature, and only one new party



Commitment to democratic institutions



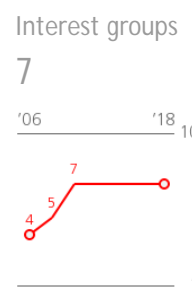
Party system

6

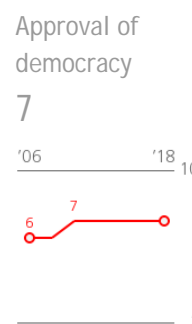
gained seats. The level of polarization is also low. The nominal stability of the current Indonesian party system contrasts sharply with the excessive polarization and volatility of the party system in the 1950s, the only other democratic period in the country’s history before the 1998 regime change. Indonesia’s parties tend to be anchored in specific religio-political constituencies, although the switch to a more candidate-centered electoral system after 2004 has also led to the rise of catch-all presidentialist parties such as Yudhoyono’s Democratic Party or Prabowo’s Great Indonesia Movement. The stability of the formal party system notwithstanding, the key role played by non-party groups in the political turmoil in the second half of 2016 suggests that the existing party landscape has been incapable of accommodating and representing all interests. In this regard, it is of particular concern that the groups emerging outside of the established party system have Islamist agendas that question democracy and/or the Indonesian state. Also, there is a growing number of voluntary movements in regional elections to support independent candidates, although so far, no independent candidates have been elected.



Indonesia has a wide variety of interest groups that reflect competing societal interests. There are Islamic organizations such as Nahdlatul Ulama and Muhammadiyah, which are among the largest Muslim groups in the world; there are hundreds of labor unions that – although not centrally organized – remain a highly effective pressure group for workers’ rights. There are grassroots groups, women’s rights associations, church networks, human rights NGOs, agrarian organizations, think tanks, mass media organizations, and many more associations that mediate between society and political parties at the national and local levels. In combination, these groups have formed a powerful counterweight to the rising influence of oligarchic business interests. However, some societal interest groups have increasingly pursued an anti-democratic agenda. While numerically smaller than the mainstream Muslim groups, violent organizations such as the Islamic Defenders Front have successfully used the mushrooming of NGOs to masquerade their attacks on minorities and pro-Islamist protests as legitimate expressions of civil society activism.



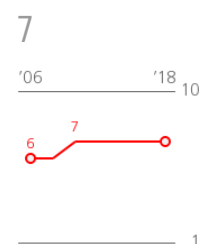
Most Indonesian citizens strongly support democracy. In June 2016, 67% of respondents in a poll run by Saiful Mujani Research & Consulting (SMRC) stated that they viewed democracy as the best form of government. Moreover, 62% of Indonesians expressed satisfaction with the way democracy functioned, and an August 2016 poll by Indikator put trust levels in the presidency at 89% (with most other institutions above 50%). There are two caveats to this general pattern, however. First, there is no joint understanding among Indonesians of what democracy means. In some surveys, many respondents have defined democracy as the state’s satisfactory provision of welfare. Second, the high levels of support for democracy seemingly collide with the simultaneously strong support for the implementation of Islamic law, which Pew Research found to stand at 72% in 2011. In the same vein, the polls indicating strong support for democracy are at odds with the participation



of many Indonesians in the wave of demonstrations in 2016 that demanded the ouster of a democratically-elected official for religious reasons. Researchers observing these protests have reported that demonstrators saw no conflict between their support for democracy and their support for an Islamist agenda. Thus, while the official poll numbers remain an important indicator of democratic health, they need to be interpreted within the context of growing popular support for political Islamization. Two mayor Islamic organizations, NU and Muhammadiyah, also declare their support for democracy.

Indonesia has a large number of autonomous self-organized groups, associations and organizations. A recent study found that 84% of Indonesians belong to at least one such organization, as compared to a world average of 63% (as a regional comparison, this figure is 61% in Malaysia and 51% in Thailand). The number of people belonging to three organizations or more is nine times higher in Indonesia than in the Philippines or Singapore, and three times higher than in Thailand. In the study's sociability index (which measures the degree of intragroup loyalty and incidence of activities such as joining religious organizations), Indonesia has a score of 0.79, significantly above the world average of 0.49. However, the existence of many autonomous self-organized groups does not necessarily translate into trust between citizens. Indeed, conflicts often emerge between such self-organized groups. In the 2015 to 2017 period, there have been numerous incidents of rural clashes and ethnic tensions over relatively small issues, sometimes resulting in deaths and serious injuries. In January 2016, for instance, two citizens were killed in Ternate in North Maluku in a conflict between two neighboring village communities.

Social capital



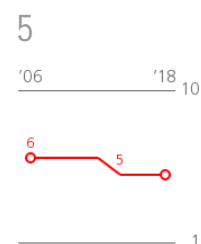
II. Economic Transformation

6 | Level of Socioeconomic Development

While Indonesia continues to face high levels of social exclusion of poor and otherwise disadvantaged citizens, poverty has slowly but consistently declined in recent years. The official poverty rate (which is calculated based on a national poverty line of \$0.87 per day) declined from 11.25% in March 2014 to 10.86% in March 2016. In the more internationally accepted World Bank poverty headcount at \$3.10 a day (which captures the poor and the near-poor), Indonesia's poverty rate declined from 53% in 2009 to 36% in 2014. While in absolute numbers most of the poor live on Java, eastern Indonesia has the highest concentration of poverty in percentage terms – but poverty has declined there too, with the exception of Papua. After Java, Kalimantan is the wealthiest region. While Maluku and Papua became the largest percentage of poor compared to the total population in 2016. Inequality has also

Question
Score

Socioeconomic
barriers



decreased slightly, after experiencing an increase in the previous survey period. Indonesia's Gini Index fell from 0.41 in 2013 to 2014 to 0.408 in March 2015 and 0.397 in March 2016. This was attributed to rising income levels in the middle-class segments and better government health care services to the poor. Despite these positive poverty and inequality trends, however, Indonesia's overall advancements in increasing its socioeconomic development levels remain moderate to slow. In the 2015 Human Development Index, Indonesia ranked at 110 out of 188 countries surveyed, down from 108 in the previous index. This gives it a medium human development ranking. Women are particularly affected by this slow development, as they have fewer opportunities to benefit from economic growth than men. Thus, Indonesia ranked only 110 in the 2014 Gender Inequality Index, down from 103 in 2013.

Economic indicators		2013	2014	2015	2016
GDP	\$ M	912524.1	890814.8	861256.4	932259.2
GDP growth	%	5.6	5.0	4.9	5.0
Inflation (CPI)	%	6.4	6.4	6.4	3.5
Unemployment	%	6.2	5.9	6.0	5.6
Foreign direct investment	% of GDP	2.6	2.8	2.3	0.4
Export growth	%	4.2	1.1	-2.1	-1.7
Import growth	%	1.9	2.1	-6.4	-2.3
Current account balance	\$ M	-29109.2	-27509.9	-17518.7	-16346.9
Public debt	% of GDP	24.8	24.7	26.9	27.9
External debt	\$ M	265452.9	292970.7	308221.5	316430.9
Total debt service	\$ M	42267.6	61703.0	55717.8	67973.0
Net lending/borrowing	% of GDP	-2.2	-2.1	-2.6	-
Tax revenue	% of GDP	11.3	10.8	10.7	-
Government consumption	% of GDP	9.5	9.4	9.8	9.4
Public education spending	% of GDP	3.4	3.3	3.6	-
Public health spending	% of GDP	1.2	1.1	-	-
R&D expenditure	% of GDP	0.1	-	-	-
Military expenditure	% of GDP	0.9	0.8	0.9	0.9

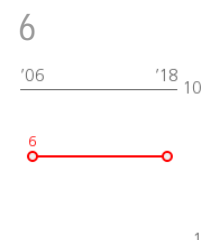
Sources (as of October 2017): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

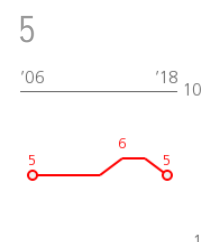
Although Indonesia's economy is generally based on free market principles, there are three major constraints to this. First, the informal sector remains very large, with the percentage of informal workers actually increasing from 57.9% in 2015 to 58.3% in 2016. Second, protectionist policies (mostly measures to increase old or impose new tariffs and regulate import and export quotas) continue to be a popular economic and political instrument of Indonesian governments. Following an increase in the number of such policies in the second Yudhoyono administration, Jokowi continued this trend. In 2015, the government introduced increased local content requirements for smart phones and hand-held devices, restricted the sale of alcoholic-drink retail products, reduced beef imports and raised import duties on a wide range of manufactured goods. Third, the government continues to intervene in the market by providing direct and indirect fuel subsidies. While Jokowi declared in January 2015 that subsidies for premium petrol were abolished, it subsequently emerged that the national oil company Pertamina was asked to pay for any gap between the market price and the sale price, which was still set by the government. An energy observer estimated that Pertamina would lose \$215 million in the first three months of 2017 under this arrangement. But there also trends in the direction of building and deepening a competitive market economy. For instance, Indonesia maintains full currency convertibility, despite public demands for more state efforts to stabilize the Rupiah. In addition, the government has continued its attempts to reduce red tape. Thus, the 2016-2017 World Competitiveness Report ranked Indonesia a respectable 41 out of 144 countries.

Indonesia's anti-monopoly measures are more solid than under pre-democratic rule, but their effectiveness is declining. The state no longer grants official monopolies to entrepreneurs, as was the case under Suharto's authoritarian regime. But the level of concentration in many business sectors remains very high, including in the food industry and the media. This is because political connections and bribery continue to open access for corporations to acquire state licenses and contracts, allowing them to exclude competitors and bolster their exclusive market positions. Hence, in the "effectiveness of anti-monopoly policies" category of the 2016-2017 World Competitiveness Report, Indonesia dropped to 51 out of 138 nations, down from 37 in 2014-2015. This also reflects the continued weakness of the Commission for the Supervision of Business Competition (KPPU), established in 2000 under Indonesia's Anti-Monopoly and Unfair Competition Law. Equipped with a small budget, the KPPU can only handle a very limited number of cases each year, and some of its decisions have been overturned by the Supreme Court. In 2015 and 2016, the Supreme Court ruled twice against a KPPU decision involving a bank which had told its customers that they can only use a life insurance package from one of its affiliated companies. In 2016, the KPPU promised to start investigations into what it viewed as the increasingly powerful cartel in the food industry, but it also asked for more

Market-based competition



Anti-monopoly policy

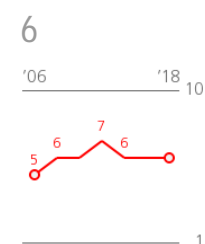


resources and legal powers to do so effectively. In March 2016, KPPU signed a memorandum of understanding with stakeholders to reduce monopoly in the poultry industry.

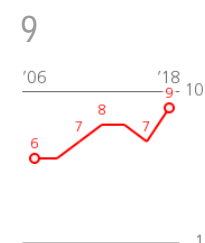
As a country whose growth is driven largely by domestic consumption rather than foreign trade, Indonesia has had fewer incentives to liberalize its foreign trade regime than other nations. Indeed, Indonesia's exposure to foreign trade has even declined in recent years, with its trade volume to GDP ratio falling from 50.1% in 2011 to 42% in 2015, against a world average of 58.3%. In other indicators of the openness of its trade regime, as assessed by the 2016-2017 World Competitiveness Report, Indonesia recorded mostly stagnating or declining trends. For instance, its rank fell from 59 in the 2014/15 Report to 91 in 2016/17 for the business impact of rules on foreign direct investment, and to 73 from 68 for the burden of customs procedures. Trade tariffs remained largely stagnant. In the area of opening trade and investment access to its market, Indonesia has sent conflicting signals. In March 2016, President Jokowi signed a decree easing restrictions on tourism businesses, transportation companies, movie theaters and the retail and port services sectors. At the same time, however, the government introduced stricter controls on telecommunications towers, and in November 2016, Indonesia's central bank put a 20% limit on foreign ownership in companies offering electronic payment services. Thus, Indonesia has relaxed barriers in sectors it feels need more investment, and has increased them in sectors it wants to provide with more protection.

After collapsing in 1997 to 1998, Indonesia's banking system has made a remarkable recovery. Its current indicators point to overall stability. Indonesia's bank-capital-to-asset ratio was 14.7% in 2016, up from 12.5% in 2013, and compared to a worldwide average of 10.3%. Its capital adequacy ratio (CAR) increased from 18.1% in 2013 to 21.3% in 2015. While the banks' share of nonperforming loans to total gross loans rose from 2.1% in 2014 to 3% in 2016, this was well below the world average of 3.9%. These figures are already generally better than the Basel III requirements for a healthy banking sector, but the Indonesian central bank issued additional regulations in December 2015 to prepare banks for the full implementation of Basel III in 2019. The regulation required banks to prepare a "countercyclical buffer" of between zero to 2.5% of their risk-weighted assets, with the exact rate to be determined at least once every six months. Thus far, the stability of the banking sector has also not been affected by the transfer of supervisory powers from the central bank to the newly established Financial Services Authority (OJK). This transition began in 2013, and is scheduled for completion by December 2017. In terms of opening the Indonesian banking sector to foreign banks, which would increase competition, Indonesia has increased its flexibility to some extent. After capping foreign ownership at 40% in 2012, Indonesia's financial authorities announced in December 2015 that foreign investors can have a majority stake provided that they buy two smaller banks and

Liberalization of foreign trade



Banking system



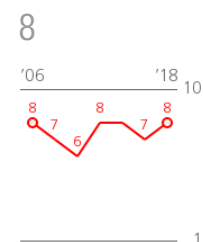
merge them. However, the national banking law will be revised in 2017, and the issue of a foreign ownership cap is set to be revisited then.

8 | Currency and Price Stability

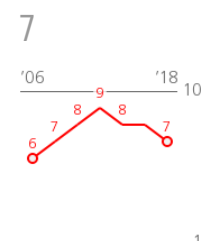
Indonesia has traditionally been praised for its prudent anti-inflation and monetary policies. However, the country has seen both inflation and the currency fluctuating in some critical periods. After a spike in inflation in late 2014 and early 2015 to above 8 % as a result of the abolition of premium fuel subsidies, the government managed to lower inflation to 3 % in 2016. But this decrease was not only the product of independent central bank policies; rather, it involved forcing the oil company Pertamina to cover the costs of some indirect subsidies, and re-strengthening the role of the Logistics Agency (Bulog) in controlling the supply of 14 crucial food items (a decision Jokowi made in June 2015). In addition to these market interventions, the low inflation also remains dependent on simultaneously low international oil prices – a factor that is obviously outside of the government’s control. Similarly, global developments helped push the national currency, the Rupiah, down. The U.S. “taper tantrum” – the end of the U.S. policy of supplying the economy with more money as a stimulus – saw the Rupiah declining from IDR 9,700 per US dollar in early 2013 to 13,300 IDR in January 2017. Nevertheless, neither the fluctuations in inflation nor in the exchange rate seriously undermined the government’s economic policy planning. Indeed, the lower Rupiah helped increasing exports, which reached a two-year high in late 2016.

One of the biggest successes of the Yudhoyono presidency had been the reduction of the government-debt-to-GDP ratio from 60.5% in 2004 to 25% in 2014. But the decision by President Jokowi to declare vast investments in infrastructure development as the hallmark of his first term has made the country more vulnerable to debt uncertainties. The debt-to-GDP ratio rose to 27% in 2015, and is forecast to reach 30% by 2020. More importantly, however, the Jokowi government has faced an ever-increasing budget deficit, with the deficit-to-GDP ratio increasing from 2.25% in 2014 to 2.5% in 2015 and an estimated 2.7% in 2016. This is the highest level in more than 15 years, and close to the 3-percent-threshold allowed by law. Indeed, the deficit is forecast to reach this level by 2017. A significant factor in this development has been the overestimation of tax income by the Jokowi government in 2015 and 2016, which was only rectified with the appointment of Yudhoyono’s finance minister, Sri Mulyani Indrawati, to her old job in August 2016. She is likely to push for a more prudent debt and budget policy, but is equally likely to come into conflict with President Jokowi’s defense of his big-spending infrastructure development agenda.

Anti-inflation / forex policy



Macrostability



9 | Private Property

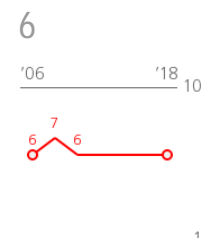
Private property rights are generally upheld, but remain vulnerable to the uncertainties inherent with a corrupt judiciary. Especially in the area of land and intellectual property rights, courts often side with the party that offers the largest bribe to the judges handling the case. For instance, in 2016, Indonesian courts sided with local plaintiffs who claimed the rights to the IKEA and Pierre Cardin brands, citing formalities. Thus, the 2016 International Property Rights Index ranked Indonesia only 98 out of 128 surveyed countries in the intellectual property rights category, and it ranked 67 overall. Indonesia's scores have largely remained stagnant over the last five years. This reflects the open availability of pirated software, movies and music DVDs across Indonesia, against which the government and law enforcement agencies have taken no serious measures. For example, in a 2015 survey by the Business Software Alliance, the Unlicensed Software Installation Rate of Indonesia was 84%, virtually unchanged from previous years. In the Asia-Pacific region, the average percentage was 61%, and globally it was 39%.

The Indonesian state views private enterprises as primary engines of economic production. Indeed, much of the government's long-term economic planning relies on investment by and the role of private businesses, especially with respect to developing infrastructure and fueling growth. At 9.8% in 2015, the share of government spending to GDP remains relatively low. Since 1998, the government has privatized many state-owned enterprises (SOEs) in an attempt to reduce its debt, and has pledged to make the remaining ones operate more professionally. Initially, privatization processes were handled by a government-run debt restructuring team, but since the late 2000s, international financial firms have been hired to manage initial public offerings (IPOs). It was reported in October 2016 that at least 14 SOE subsidiaries intended to launch initial public offerings (IPO) in 2017. If realized, this would mean a significant boost to SOE privatizations, after a slow-down in recent years. This stagnation had been due to President Jokowi's initially strong support for SOEs, which were seen as key actors in the government's push for higher economic growth, and thus received large cash injections from the state budget. But after the budget crises of 2015 and 2016, the SOE Minister Rini Soemarno called on the state companies to seek alternative funding sources as there would be no further capital injections in 2017.

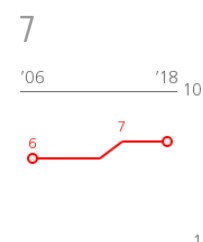
10 | Welfare Regime

While Indonesia's social safety nets remain underdeveloped compared to the Western world, there have been significant improvements in the 2015-2017 period. In 2014, the health component of a new social security agency (BPJS) became operational, with the goal of providing health insurance to all Indonesians. Those with a regular

Property rights



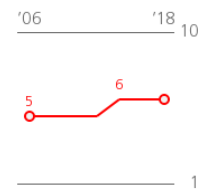
Private enterprise



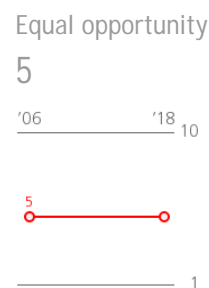
Social safety nets

6

income pay monthly premiums, while these are provided for the poor or unemployed by government. By December 2016, 68% of Indonesians had been covered under this scheme. In 2015, the second BPJS component was launched, offering accident and life insurance as well as pension programs. 20 million Indonesians had joined this program by mid-2016. The government also continues to provide other forms of assistance to the poor, ranging from education scholarships to rice allocations. Furthermore, many districts and municipalities have introduced their own social assistance systems, offering free health care and schooling to their citizens. In a sign that Indonesia’s health and social assistance programs begin to resemble those of more developed countries, the government has faced significant blow-outs in the health budget, forcing it to inject more funds to cover the deficits.

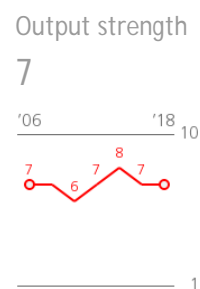


The Indonesian state maintains that equal opportunities exist for everyone to access education, public office or employment, but there are specific hurdles for women, the poor, rural citizens, the LGBT community, and ethnic and religious minorities. The severity of these obstacles varies widely. Women are underrepresented in the workforce, with 51.4% of them obtaining some form of employment as opposed to 84% of men. In the 2014-2019 parliament, only 17% of members are women. Underprivileged citizens attending low-quality public schools face similar constraints, as private school graduates are structurally better positioned when seeking employment. Rural Indonesians also confront harder living conditions than those who live in the city. In March 2016, 7.8% of urban citizens were poor, versus 14.1% of the rural population – and this gap has been increasing in recent years. The LGBT community has experienced increasing discrimination since early 2016, when Muslim and state leaders started a campaign against it, and court proceedings began over the possible banning of homosexual practices. Finally, increased anti-Chinese sentiment has made it more difficult for ethnic Chinese to seek elected office, and members of religious minorities are still discriminated against. In early 2017, the head of a sub-district in Yogyakarta was relieved from his position because Muslim citizens objected to him being Catholic.



11 | Economic Performance

Indonesia’s economy performs solidly but below its potential as one of the largest consumer markets in the world. GDP growth was at 5.0% in the last quarter of 2016, which gave Indonesia one of the strongest growth rates among G20 nations, but was well below the growth it experienced during the commodity boom of the 2000s and early 2010s. Nominal GDP per capita was \$3,834 in 2015, increasing from its 2013 level of \$3,570. In purchasing power parity (PPP) terms, GDP per capita was above \$11,000 in 2015, against a world average of \$15,500. The official unemployment rate stood at 5.61% in the third quarter of 2016, down from 5.94% in October 2014 – but unrecorded underemployment remains very high. Foreign direct investment (FDI) net inflows were at \$20.1 billion, but were down from \$25.1 billion in 2014 (largely as a

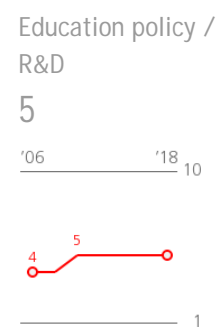
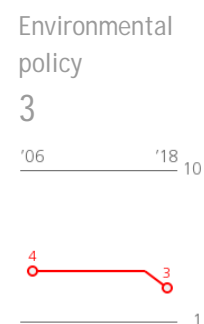


result of the weakening Rupiah). As noted in earlier sections, inflation stood at a low 3% in late 2016, but Indonesia's budget deficit approached the legal limit of 3% in 2016. At the same time, the tax-revenue-to-GDP ratio declined, standing at 10.8% in 2015, and one major bank estimated it to be around 10.1% for 2016, which would be the lowest since 2000. Overall, while there are some downward trends, the Indonesian economy maintained its stability in the surveyed period.

12 | Sustainability

While Indonesia tends to present itself as a pioneer in environmental protection among the developing world, the reality is much less impressive. In the 2016 Environmental Performance Index, Indonesia ranked 107 out of 180 surveyed countries, with a downward arrow indicating that it performs worse than other countries in its region. Forest fires in Kalimantan and Sumatra – often related to land clearing for palm oil production – burned 21,000 km² of forest and peatland in 2015, releasing more CO₂ emissions into the atmosphere than Germany does in a year. Indonesia also had the highest gross forest loss in Asia in 2014, and 2015 is estimated to have been significantly worse than 2014 given a prolonged dry season, forest clearing and fires. In addition to forest fires, which the government has been slow in addressing, President Jokowi has also made it clear that environmental considerations need to take a back seat to accelerated development. Environmental licensing procedures for new projects were relaxed throughout 2015 and 2016. This also applied to new coal-fueled power plants that Indonesia plans to build in order to add 35,000 KW in electricity capacity by 2019, further increasing its emissions. Thus, on the 2016 PricewaterhouseCoopers Low Economy Carbon Index, Indonesia was one of the few G20 countries that registered an increase in carbon intensity (the amount of carbon emissions per unit of GDP) between 2014 and 2015. While Indonesia's carbon intensity increased by 0.6%, China's declined by 6.4%, and the world average saw a decline by 2.8%. Indonesia also had the second-largest increase (5.4%) among G20 states in all energy-related emissions.

Indonesia has a wide network of education and research facilities, but they are generally of poor quality. While enrolment levels in primary education (105.7%), secondary education (82.5%), and tertiary education (31.1%) are high or average by world standards, tests have shown that Indonesian students are less educated than their regional or global peers. In the 2015 PISA (Programme for International Student Assessment) project, the performance of Indonesian students in science, mathematics and reading was below par, with an average rank of 62 out of 69 participating nations. It is not surprising, then, that Indonesia's ratio of education spending to GDP (3.3% in 2014) is below the world average. Similarly, the levels of research and development spending (0.1% of GDP in 2013) are substandard. In the 2016-2017 World Competitiveness Report, Indonesia ranked 99 out of 138 surveyed countries in the number of patents per one million of a country's inhabitants (0.1). However,



not all of Indonesia's indicators in the field of education and R&D are discouraging. According to the same report, Indonesia was ranked 32nd with respect to the capacity for innovation, and 26th in company spending on R&D. The number of scholarship programs for students, state university lecturers and public servants provided by the central and local governments has also increased.

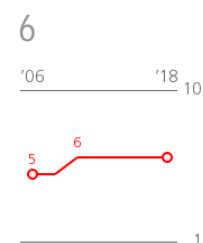
Governance

I. Level of Difficulty

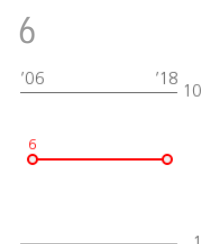
As in previous review periods, the major constraints on the Indonesian leadership's governance capacity remain poverty, low education levels, severely limited public infrastructure (especially in regions outside Java), endemic corruption and geographic factors. With 36% of the population living on less than \$3.10 a day, Indonesia's political leaders have to focus much of their attention on fulfilling the population's basic needs. This in turn often contributes to short-term policies rather than long-term solutions. Similarly, the lack of an educated workforce makes Indonesia's transformation into an industrial, modern and sophisticated society difficult. Particularly serious is the low percentage of Indonesians with a tertiary education – 31% as compared to Thailand's 53%, for example. In the same vein, the rampant corruption and weak rule of law continue to sabotage the development of a modern economy and of public infrastructure such as roads, bridges, electricity generation and transmission facilities and clean water. Finally, Indonesia's geographic conditions also constrain governance capacity. As an archipelago stretching about 5,000 kilometers and encompassing three time zones from its western to eastern end, the country faces considerable transportation, communication and infrastructure challenges. This vulnerability to geographic factors is due to the high likelihood of natural disasters, especially volcanic eruptions, earthquakes, tsunamis, floods and landslides. A December 2016 earthquake in Aceh, which killed 102 people, demonstrated that a disaster like the 2004 Boxing Day tsunami, which caused around 170,000 deaths and billions of dollars in damage, could strike again at any time.

While Suharto's authoritarian regime sought to control and suppress civil society activism, regime change led to an explosion in the number of NGOs and other societal organizations. In December 2016, the Home Ministry reported that there were at least 254,633 NGOs in Indonesia, up from 139,507 in July 2013. A new civil society organization law, passed in 2013, tightened regulations for NGOs, but this led only to a spike in registrations, as this was one of the requirements set out by the law. Most of these civil society groups have scrutinized government policies, demanded more popular participation in budgeting, protested against corruption, and represented the poor vis-à-vis bureaucrats, employers and law enforcement institutions. However, not all civil society groups are supportive of principles of good governance. Some

Structural
constraints

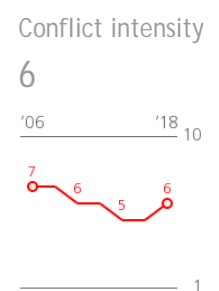


Civil society
traditions



groups – Hizbut Tahrir Indonesia (HTI) or the Islamic Defenders Front (FPI), for example – openly pursue nondemocratic goals, such as limiting the rights of religious minority groups. HTI and FPI were the engines behind the large-scale Islamist protests in late 2016. Other groups are under control of politicians and are used to support their sponsor’s interests. Dealing with nondemocratic groups or organizations controlled by political strongmen is a constant policy challenge for incumbent governments at both the national and local level. In this regard, it is important to note that while civil society activism is stronger in the urban centers than in the regions, decentralization has strengthened NGO operations in the provinces and districts as well.

After relatively low levels of ethno-religious tensions in the last decade, the 2015-2017 period saw radical political actors being increasingly successful in mobilizing along existing cleavages. As explained in previous sections, Islamist leaders called for mass demonstrations in November and December 2016 to demand the arrest, prosecution and electoral disqualification of the Christian-Chinese governor of Jakarta for allegedly blasphemous remarks. The November protests ended in violence, while the December demonstration dispersed orderly - but its leaders threatened further action should the governor not be declared guilty in his trial. Subsequently, the Islamists called for a “religious war” (jihad) several times to defend their leader, Habib Rizieq, against investigations initiated by the police. The pro-Islamist demonstrations, which drew from and further fueled existing anti-Chinese sentiment, were the largest since Indonesian independence. The last religiously charged mass demonstrations had taken place in the early 2000s, when some leaders of Muslim parties and groups mobilized support for Muslim fighters in the religious conflict of Maluku, which killed thousands of people. It is too early to say whether the newly increased religious and ethnic tensions will lead to large-scale physical conflict, but it is clear that as far as inter-religious and inter-ethnic relations are concerned, the post-transition decade of relative calm and stability has come to an end. In addition, there has been an uptick in land conflicts in recent years, with local populations clashing with plantation owners and security forces. In one such conflict, three people were killed in Lampung in March 2016.



II. Governance Performance

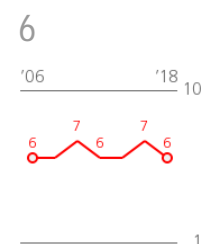
14 | Steering Capability

In a broad sense, the government has the capacity to prioritize and organize strategic policy measures but it is constrained by three major institutional factors: the post-1999 decentralization, through which significant policy authorities were transferred from central to district level; the fragmented nature of post-Suharto “rainbow coalition” governments; and third, the time-consuming bargaining processes within the legislature, especially the DPR’s committees. In 2014, President Jokowi tried to overcome these constraints by announcing nine policy priorities (the “Nawa Cita”) as main guidelines for his first term in office. But except for a heavy focus on infrastructure, which the government was able to sustain between 2015 and 2017 in a sharp break with the previous Yudhoyono administration, most of these priorities have been subject to the same limitations as the priorities set by former political leaders. Indeed, Jokowi has expressed frustration over these limitations, frequently calling in all governors from across Indonesia to better coordinate between the central and regional governments. Jokowi’s party has even called to reinstate the authority of the now mostly ceremonial People’s Consultative Assembly (MPR) to issue long-term development plans that go beyond five-year presidential terms and which the government of the day would be obligated to implement. Jokowi has not endorsed this proposal, fearing that it would reduce the power of presidents to define and change policy priorities. In addition to the difficulties of enforcing consistent development strategies, Jokowi also found it impossible to defend the priorities of his human rights platform, which was key to his 2014 campaign. Giving in to conservatives from the military, Muslim groups, the police and the political party establishment, he halted government initiatives to investigate the anti-communist abuses in 1965 and ongoing violations in Papua.

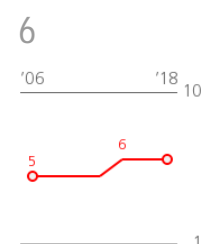
While the Jokowi government was able to overcome some old hurdles in implementing its own policies in the 2015 to 2017 period, it also faced new ones. First, the Jokowi government managed to reduce legislative resistance to executive priorities. Under the Yudhoyono administration, several key policies had been voted down by parliament, including by the president’s own coalition partners represented in cabinet. Thus far, Jokowi has not faced such obstruction. This is due to the gradual expansion of his government coalition, but also to his close relationship with the Speaker of the House Setya Novanto. As a result, the government’s strong prioritization of infrastructure development has been endorsed and implemented. But whereas the Jokowi government mitigated some intra-institutional opposition to the implementation of its priorities, new resistance emerged in the form of extra-

Question
Score

Prioritization



Implementation



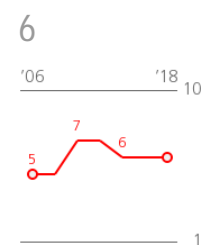
parliamentary mobilization on the streets. The Islamist mass demonstrations in late 2016 challenged the government for allegedly being too secular, causing a powerful distraction from the realization of its declared priorities. Given the size of the protests, the president had to spend considerable resources and time to negotiate with Muslim groups and parties, changing his strategic priorities, at least in the short term. In addition, important structural impediments continued to sabotage policy implementation on the ground. These impediments include uncooperative local administrations, corruption, noncompliance and ineffective bureaucracies. For instance, while the government began a process of open recruitment in the bureaucracy in 2015, the agency in charge of overseeing it reported in early 2017 that many of the appointment panels had been tainted by bribery, making the policy ineffective.

In the early post-authoritarian transition, Indonesian governments were highly innovative. Learning from the mistakes of previous autocratic regimes, post-Suharto rulers introduced effective democratic institutions and strengthened the market economy. But the current government's track record in learning and innovation is ambiguous. On the one hand, the Jokowi administration has reformed the fuel subsidies regime, showing a significant ability to learn from, and correct, errors made by his predecessors (although it later asked the state oil firm Pertamina to cover some of the costs of this policy). On the other hand, Jokowi appointed people to key positions who represent outdated paradigms of governance. This includes the Coordinating Minister for Politics, Law and Security Wiranto who joined cabinet in August 2016. Wiranto had been the adjutant of long-time autocrat Suharto in the 1990s, and presided, as armed forces commander, over the 1999 violence in East Timor. Similarly, the Minister of Defense Ryamizard Ryacudu helped sabotage peace negotiations in Aceh in the early 2000s, and once appointed by Jokowi, he began to propagate and implement old army ideas of providing paramilitary training to the entire population. At the same time, some sections of the elite – both within and outside of government – are openly proposing the return to a more centralist, executive-heavy system of government, despite the negative experiences Indonesia made in this regard under Sukarno and Suharto.

15 | Resource Efficiency

Indonesia faces structural problems in using its available human, financial and organizational resources effectively. For example, spending on administration is higher than in most other countries. In October 2016, the government announced that 58 regions (out of 535) spent more than 60% of their budget on personnel costs; another 177 spent more than 50%. At the same time, there has been no dramatic improvement of public services that could justify such expenditure. Further, Indonesia has struggled with two seemingly contradictory trends inherent in its budget inefficiencies: on the one hand, the budget deficit has increased to levels not

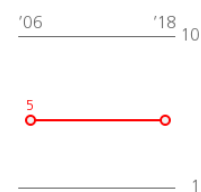
Policy learning



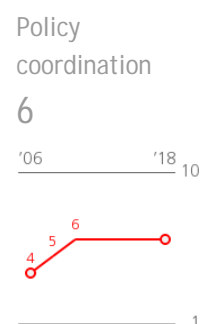
Efficient use of assets

5

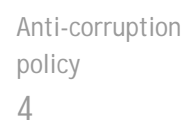
seen for 15 years; on the other hand, central and local governments have struggled to spend the allocated funds for their designated purpose. In early November 2016, for instance, the oil and mining industry had spent only half of its 2016 budget. Hence, in order to reach their expenditure goals, government agencies often hastily spend funds in December (in 2015, 91% of the entire budget was eventually spent). In more general terms, the government does not make effective use of its unique human and natural resources. A 2016 study showed that labor productivity trends are lagging in comparison to both the global average and in comparison with neighboring countries such as Thailand and Malaysia. Similarly, the country's abundant natural resources are often not professionally managed. Illegal logging and mining cost the state billions of dollars each year, and Indonesia has fallen behind in developing new gas, oil and mining concessions that could be of substantial budgetary benefit. And while new measures taken by the Jokowi government to curb illegal fishing have been successful, they have not yet boosted the national fishing industry.



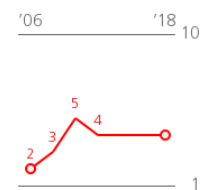
Post-Suharto governments have found it difficult to coordinate conflicting objectives into a coherent policy. Ministers traditionally have high-levels of discretion in running their departments, and the level of coordination between them is low. Before his inauguration, President Jokowi had promised to improve the coordination of and among ministers, but very little has changed. Indeed, the level of policy-related conflict among Jokowi's ministers was so high in 2016 (some of them openly attacked each other in the press) that the president sacked a number of key ministers in the August 2016 reshuffle. In his first two years in office, Jokowi carried out 19 ministerial changes, making coherent policy formulation and coordination in and between ministries difficult (some departments have had three ministers between 2014 and 2016). But even if the cabinet was coordinated more effectively, it would still face the problem of amalgamating the interests of the executive, parliament, the Constitutional Court, several levels of local government and public opinion into a coherent set of government policies. The degree of power diffusion in post-authoritarian Indonesia is extremely high, and while this has prevented the return of authoritarianism, it has also complicated policy-making. Despite such complications, the government has been mostly able to deliver satisfactory macroeconomic policies, not least thanks to a long tradition in Indonesian politics of entrusting the actual implementation of economic and monetary policies to a small circle of Western-educated technocrats – a tradition continued by Jokowi.



Doubts have increased in the surveyed period (2015 to 2017) whether President Jokowi remains committed to a strong anti-corruption policy. These doubts have been triggered by two major developments. First, Jokowi dismissed two commissioners of the Anti-Corruption Agency (KPK) in 2015 after the police brought highly questionable charges against them. By the time the issue had been resolved, the term of the KPK had expired, and the replacement commissioners did not possess the same reputations for courage and integrity that their predecessors commanded. And indeed, the new KPK pursued a much lower profile approach than the previous leadership.



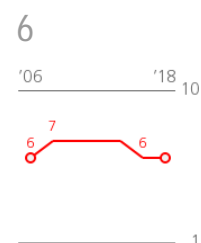
While the latter had arrested incumbent ministers and even the chief justice of the Constitutional Court, the former focused on district heads or members of the legislature. Second, Jokowi made it clear in several speeches that he did not want anti-corruption campaigns to discourage fast disbursement of funds for his infrastructure projects. In July 2016, Jokowi asked police chiefs and the attorney-general not to “criminalize” heads of local governments who might be involved in “administrative violations” when handling development budgets. Many critics interpreted this as an instruction to tolerate possibly corrupt behavior for the sake of development. At the same time, the auditing of state spending remains weak. In the first half of 2016, the BPK found 15,568 cases of financial irregularities involving \$3.3 billion of state funds, but there have been few legal consequences for the agencies accused of the violations. Similarly, party financing regulations are not enforced. Since the state provides only minuscule state subsidies to parties (covering far less than 1% of their operational costs), the parties’ illicit fundraising activities are widely tolerated. The same conditions also take place in Aceh and Papua when the national government neglects the problems of transparency and accountability in the special autonomy grants.



16 | Consensus-Building

The consensus among the socio-political elite about maintaining the democratic system has weakened further in the 2015-2017 period, but not enough to warrant another downgrade in this field. After demands by key political actors for a return to the pre-democratic constitution dominated developments in the last reporting period (2013-2015), most recently Islamist actors have taken the lead in Indonesia’s counter-democratic discourse. Their demands range from the full implementation of Islamic law in Indonesia to, in their most extreme form, calls for a cross-national caliphate. While previously a marginal phenomenon, such proposals are now part of mainstream discussions, especially on social media. While few leaders of government and political parties have adopted these suggestions thus far, they have begun to accommodate some of its components. For instance, the United Development Party (PPP), a member of Jokowi’s coalition, proposed in October 2016 that the constitution be amended to ban non-Muslims from running for president.

Consensus on goals



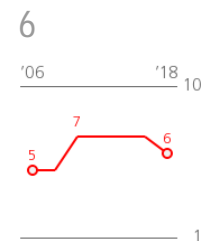
The consensus on the need for a market economy has also eroded further. The 2014 election campaign was marked by strongly protectionist and nationalist rhetoric, and this rhetoric has persisted. The words “capitalism” and “liberalism” are now cuss-words in Indonesia, mostly reflecting deeply seated anti-globalism sentiments. Many politicians use anti-free-market and protectionist rhetoric to attract support from their constituencies, while highlighting the constitutionally anchored obligation of the state to directly manage the nation’s wealth to the benefit of all Indonesians (Article 33). That said, Indonesia can ill afford to return to the economic isolationism of the 1960s, and thus it is unlikely to. It is more probable that Indonesia will continue to vacillate

between protectionism and free-market policies, as it has done under Yudhoyono and Jokowi.

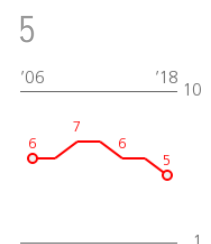
The Indonesian polity has co-opted rather than excluded anti-democratic actors. Potential spoilers such as the armed forces, oligarchic interests and Islamist groups have been offered a place in the post-authoritarian system. But while the goal of this accommodation had been to secure their overall support for the democratization process, all three actors have become more assertive in their anti-democratic activism in the 2015 to 2017 period. The armed forces, politically restrained under the rule of ex-general Yudhoyono, have increasingly expressed their view that democracy in Indonesia needs to be more regulated. Oligarchs, for their part, have gradually increased their influence over Indonesian politics, with half of all parties now controlled by them. Islamists, finally, have dramatically expanded their influence through their mass mobilization in late 2016. President Jokowi, a moderate reformer who has disciplined parties and the legislature but finds it hard to control other groups, even felt forced to attend the Islamists' December demonstration, despite its clear anti-government agenda. Jokowi seems to believe that granting concessions to the increasingly self-confident anti-democratic actors is the best strategy to keep them from openly threatening to overthrow the democratic polity. And while this may well be true – and protect democracy from a sudden collapse – Jokowi's accommodation approach has accelerated a process of erosion in democratic quality that had started under Yudhoyono in the early 2010s.

Indonesia's main national cleavage is between secular nationalists and supporters of a stronger role for Islam in state organization. While well managed during much of the post-Suharto transition, the 2014 elections re-escalated this cleavage, and it has become increasingly volatile in the 2015-2017 period. The beginning of Islamist mass demonstrations in late 2016 moved the secular-Islamist cleavage to the center of political conflict, and while President Jokowi was praised by some for de-escalating it temporarily by attending one of the mass rallies himself, the long-term trajectory of this dispute is uncertain at best. At the grassroots, this cleavage has remained significant too, with attacks against nonmainstream Muslim groups and other religious minorities increasing in 2015. As a side effect of the Islamist mobilization, the cleavage between native Indonesians and ethnic Chinese has widened too, after having narrowed in the past decade. The government has also faced a worsening class cleavage, with Indonesia recording the fastest growth of millionaires in Asia and underpaid workers now demanding better pay. Accordingly, massive labor strikes continued in 2015 and 2016, although the military and police were mobilized to limit them. However, there is one divide that Indonesia has routinely managed well in recent years, including in the 2015-17 period: regional and urban-rural conflicts have been addressed effectively through inequality-mitigating mechanisms built into the decentralization policies. Poorer areas receive more central government subsidies

Anti-democratic actors



Cleavage / conflict management

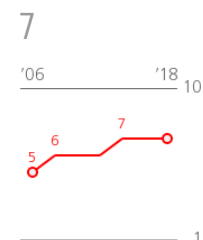


than affluent ones. Thus, there have been very few center-periphery conflicts (except for Papua), or serious conflicts between territories.

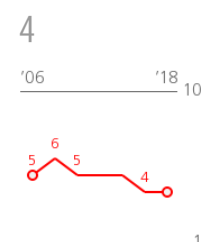
Indonesian civil society has a significant but ambivalent influence on the political process. On the one hand, there has been a notable influx of civil society activists into political parties and parliament since the mid-2000s. Religious figures, women's activists, journalists and other civil society leaders have since that time occupied critical positions in the political infrastructure. Labor unions are influential pressure groups too, staging demonstrations whenever government policy affects labor rights. In 2015, the government changed the rules for setting minimum wage levels from an open process to a procedure based on a fixed formula. This reduced the power of unions to influence the definition of minimum wages, but they continue to exert pressure on other issues. The media has also had a tremendous influence on policy-making, with government plans often faltering after attacks by newspapers and television stations. But the strength of civil society also has a downside: nondemocratic segments of civil society have an increasing say in the political process as well. Conservative religious organizations have growing influence over legislation that touches on issues of religion, and they have used mass demonstrations to pressure state institutions into acting on their demands. As referred to in other sections of this report, most prominent among those demonstrations was the Islamic Defenders Front (FPI) mass rally in November 2016 that demanded the prosecution of the Jakarta governor for blasphemy. Only days after the rally, the police declared the governor a suspect, giving in to the mounting pressure, after having previously stated that there was no case.

Indonesian governments have traditionally shown little interest in truth and reconciliation processes, and the current Jokowi administration is no exception. The previous president, Yudhoyono, had systematically blocked attempts to deal with the anti-communist massacres of 1965 to 1966 (in which his father-in-law had played a key role). While Jokowi initially seemed to support a new initiative in this regard – there was a government-sponsored symposium on the killings in April 2016 – he immediately halted further action on the issue after protests from the military and Muslim organizations. At the same time, the government has refused to establish human rights tribunals dealing with the involuntary disappearances of 1998, which involved high-ranking military officers. This refusal still stands despite the fact that parliament requested such a move in 2009, usually the first step in the establishment of tribunals. In January 2017, senior security minister Wiranto – himself accused of human rights violations in the 1999 violence in East Timor – announced the creation of a National Harmony Council, which would resolve past and present conflicts without legal consequences for the perpetrators. According to Wiranto, this council is designed to replace the Truth and Reconciliation Commission annulled by the Constitutional Court in 2006. Critics, however, have slammed Wiranto's Council as

Civil society participation



Reconciliation



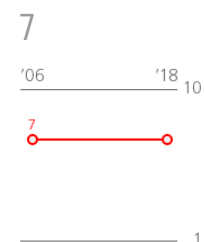
a blatant attempt to try to close cases without any accountability for human rights abusers.

17 | International Cooperation

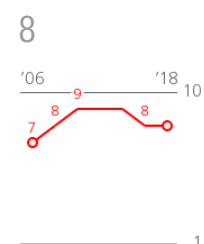
In recent years, Indonesia's focus for foreign aid and assistance has shifted from support for governance reform to loans for large infrastructure projects. In the first decade of the post-Suharto transition, Indonesian governments made extensive use of international democracy assistance to reform the electoral system, launch decentralization, create the Anti-Corruption Commission, establish the Constitutional Court and formulate international trade policies. In many of these projects, Indonesia not only received aid, but built its new institutions according to international best practices. But after Indonesia repaid its debt to the IMF in 2006, and after its economy grew stronger, the country changed its priority to raising international funds for its infrastructure projects. Indeed, donors still working in governance reform were told to scale down their projects. In this sense, Indonesia was effective in using international assistance for its changing development goals. But the government of President Jokowi in particular has often prioritized cheap and fast solutions over offers that could support Indonesia's long-term sustainability. For instance, in 2015 Jokowi accepted an offer from China to build the fast train from Jakarta to Bandung because the loan conditions were better and attached to fewer conditions than the counter-offer from Japan. Most experts agreed, however, that the offer from Japan was of higher quality. Similarly, Jokowi gave most contracts to build more coal-fired power plants to China as well, despite their questionable environmental record. Also, the government plays active roles in G20 Forum.

Politically, the international community considers Indonesia a credible and reliable partner. It is a key player in the Association of Southeast Asian Nations (ASEAN), and an important representative of the developing world in G20. Indonesia has generally honored agreements and rules of the organizations where it has membership. That said, Indonesia's increasing economic protectionism has reduced its reliability as an investment destination, with international chambers of commerce frequently lamenting the growing uncertainty. For instance, a 2009 mining law banned the export of some unprocessed mineral ores, but the government only implemented the ban in early 2014. Even then, it created a transition period until 2017, during which exports were possible if miners committed to building smelters. When the end of the transition period was reached, the government introduced a new transitory arrangement of another five years, according to which miners had to agree to a new contract format that would include, among others, a divestment of 51% of their shares to the government within 10 years. Miners who had started to build smelters after 2014 protested against the constantly changing rules, and against the intervention into their existing contracts. Thus, while Indonesia's political credibility

Effective use of support



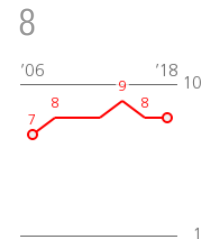
Credibility



is high, its reliability in upholding its own economic regulations is increasingly under doubt.

While Indonesia remains a driver of regional cooperation and integration in Southeast Asia, its relationships with its neighbors have suffered from slightly increased tensions in recent years. For example, when President Jokowi came to power in October 2014, he decided to initiate a campaign against illegal foreign fishing by sinking non-Indonesian fishing boats caught without a license. In 2015, a total of 107 boats were sunk, most of them from Thailand, Vietnam and Malaysia. While this move led to tensions in the relationship with all three nations, it had a particularly negative impact on the traditionally difficult relations with Malaysia. Indonesia's second most problematic bilateral relationship is that with Australia. Although cordial and professional, the relationship is marked by important differences over the smuggling of refugees from Iraq, Afghanistan and Sri Lanka through Indonesia into Australia, and a variety of other issues. In January 2017, Indonesia temporarily suspended its military cooperation with Australia because it felt offended by teaching materials used by Australian educators in their training courses. Despite occasional tensions with Malaysia and Australia, however, Indonesia has mostly maintained its strategy of de-escalation and cooperation, making it a significantly more trusted neighbor than in the 1960s, when it was widely perceived as a security threat to the region. In general, Indonesia tries to strengthen its role in ASEAN.

Regional cooperation



Strategic Outlook

Many of the policy challenges that Indonesia faces have not changed since the last reporting period – but the way they should be prioritized has. Given the events of 2016, Indonesia's most urgent priority is addressing the trend of growing religious intolerance and rising popular support for an openly Islamist political agenda. The pro-Islamist protests have grown so large (the December 2016 demonstration was the biggest in Indonesian history) that the government has wavered between attempts to accommodate the groups and half-hearted initiatives to fight them. Neither has worked. If the Jokowi government wants to defend Indonesia's pluralist constitution, and the post-1998 democratic agenda built on it, it must set clear limits to individuals and organizations that routinely violate existing Indonesian law and human rights standards to push an agenda for their revocation. Anti-democratic groups thrive when authorities are reluctant to enforce the law, and when the democracy they reject does not show the same passion for its own defense as the attackers do for its denigration.

Second, Indonesia needs to address the issue of its dysfunctional party and campaign financing system, the main source of the unabatedly high levels of political corruption. Under the current regime (i.e., almost no state subsidies for parties and no enforcement of oversight regulations), Indonesia's policymakers have become dependent on oligarchs to fund their political operations. As a result, legislators and executive leaders have often prioritized the interests of their sponsors over those of the public at large. This has had a serious impact on policy decisions in crucial areas such as economic planning, poverty reduction, infrastructure development, environmental protection, income distribution and natural resource allocation. If this situation persists, there is little hope for effective reform initiatives or a decline in corruption. Thus, Indonesia should consider introducing substantial and institutionalized state subsidies for parties and electoral candidates, aiming to mitigate predatory funding. Obviously, such a system would not completely root out corruption, but the experience of comparable countries has shown that public financing can reduce the dependence of parties on narrow elite interests.

Third, Indonesia should develop a clear and conceptually coherent concept for its trade and economic policies. Since the second term of Yudhoyono's presidency, protectionist and free-market policies have been mixed in ways that has left both domestic and international investors confused. Jokowi has aggravated this confusion by frequently reshuffling his economic team, each time bringing in new members with a different approach. This lack of clarity has kept investment levels below their potential, and has prevented Indonesia from reaching the kind of growth figures enjoyed by China or India for many years. Hence, what is required is a consistent economic blueprint for the medium to long term, laying out the extent to which the government is committed to free-market regimes such as the ASEAN Economic Community, WTO regulations and the TPP (Trans-Pacific Partnership), which Jokowi has pledged to join. Should Indonesia feel that there are parts of this free-trade agenda it can't meet for political reasons, this should also be spelled out so that uncertainties for investors can be removed.

With various supports from international institutions, the government needs to tackle Indonesia's corruption problem. There was some progress so far. However, corruption remains endemic problem in Indonesia, and corrupt practices take place both at the central government and regional government. Also, there is a growing tendency to weaken the KPK and those accused of corruption fights back along with the revision of the KPK Law.

Support from international institutions is also important in terms of environment sustainability, including in managing natural resources, deforestation, coastal development, over-fishing and pollution problems.

Lastly, Indonesia needs to further develop its welfare system in order to provide basic services, especially in the health, education and infrastructure sectors. This issue has to do with good governance at all levels. It also requires the synergy of the role of the state, private sector and civil society.