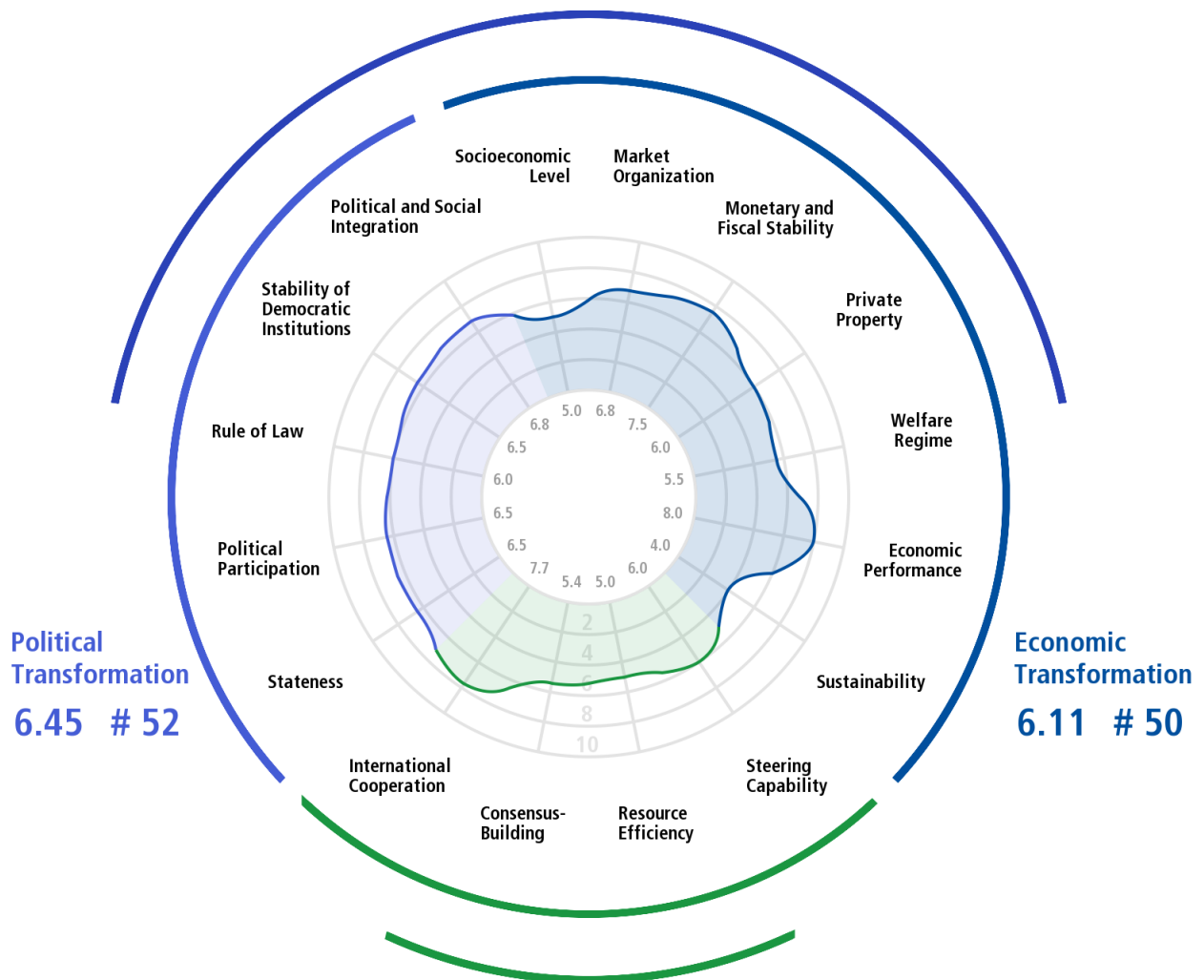


Indonesia

Status Index

6.28 # 47

on 1-10 scale out of 137



Political Transformation
6.45 # 52

Economic Transformation
6.11 # 50

Governance Index

5.39 # 50

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2020**. It covers the period from February 1, 2017 to January 31, 2019. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Key Indicators

Population	M	267.7	HDI	0.707	GDP p.c., PPP \$	13057
Pop. growth ¹	% p.a.	1.1	HDI rank of 189	111	Gini Index	38.1
Life expectancy	years	71.3	UN Education Index	0.625	Poverty ³	% 27.3
Urban population	%	55.3	Gender inequality ²	0.451	Aid per capita \$	0.9

Sources (as of December 2019): The World Bank, World Development Indicators 2019 | UNDP, Human Development Report 2019. 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

Between 2017 and 2019, the quality of democracy in Indonesia continued to slowly but noticeably decline. While President Jokowi was able to de-escalate the conflict between the government and Islamist groups to some extent, he only managed to do so by integrating some Islamist themes and actors into the government structure. This, in turn, moved Indonesia ideologically and politically to the (religious) right. Religious, social and political minorities were the biggest losers of this shift. The discrimination of LGBTI citizens reached new heights, with local officials leading raids on the LGBTI communities and signing decrees that aimed to remove LGBTI individuals from public life. Ahmadis and Shi'ites continued to experience discrimination, while left-wing activists were increasingly targeted in an intensified anti-communist "red scare" campaign, which the president supported. The government also became increasingly repressive toward its critics, issuing a regulation in 2017 that allowed it to ban social organizations without prior judicial process (a regulation that has been used once). Moreover, internet users attacking Jokowi on social media were imprisoned for spreading misinformation and "hate speech," while most television stations offered exceedingly positive coverage of the president as their owners supported his re-election campaign.

It is important to note, however, that despite this decline in democratic quality, Indonesia remains an electoral democracy – albeit an increasingly defective one. Unlike other states in the region, it has not crossed the line to electoral authoritarianism, although the risk of this occurring in the medium to long term has increased. Formally, the institutions of democracy remain in place and elections continue to be competitive (although the electorate now has fewer choices than in previous years). Nominal support for democracy as a general concept also remains high among the elite and wider population. While the understanding of what democracy entails differs widely among Indonesians, the fact that democracy is at least rhetorically supported is significant. Finally, the level of communal violence remains moderate to low by international standards and Indonesia's own experiences of large-scale violence in the 1940s, 1960s and 1990s.

Indonesia's market economy remained torn between two conflicting economic principles – both of which were advanced in equal measure by political elites, depending on the specific occasion.

On the one hand, the significant protectionist streak continued, especially as the 2019 elections neared. Imports were particularly criticized by elites, with presidential candidate Prabowo Subianto pledging to ban imports altogether if elected president, while the government raised import taxes on more than 1,000 goods to reduce the growing current account deficit. Outside of the electoral arena, on the other hand, policymakers remained committed to free trade, especially as the increased protectionism of the U.S. Trump administration turned against Indonesia. Indonesia ratified a number of free trade agreements during the review period and presented itself as a defender of free trade at international summits. Thus, while populist pressure continued to drive Indonesia to advocate some protectionist policies, its overall outlook remained supportive of open markets.

History and Characteristics of Transformation

Indonesia's democratic transition began in May 1998, when long-time 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 suppressing 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 in 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 claimed to stand for the continuation of the democratic status quo while promising improvements to public service delivery. Jokowi eventually won the elections in July 2014.

Although Jokowi achieved a high level of popularity (around 70% in 2018), he disappointed those who believed that he would, at the very least, defend the existing democratic polity. Under his watch, democratic quality declined. In part, this was because he simultaneously attempted to suppress the anti-democratic challenges of Prabowo and his Islamist allies, while also accommodating some of their themes. These two contradictory approaches undermined democratic principles in different ways. On the one hand, the government gave itself (and used) autocratic tools (e.g., banning organizations and arresting critics) that were last used in Indonesia during the Suharto era. On the other hand, the accommodation of Islamist ideas threatened the position of religious, social and political minorities, whose protections (already eroded under the Yudhoyono presidency) were further weakened. At the end of his 2014 to 2019 term, Jokowi had given up on any meaningful democratic reforms, and instead focused almost exclusively on infrastructure development and maintaining social order.

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

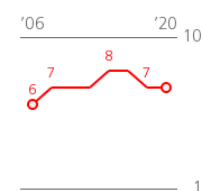
The Indonesian state's monopoly on the use of force is generally accepted. Only a few groups continue to fundamentally challenge it and their influence is weakening. In the province of Aceh, where separatist rebels challenged the state's authority between the 1970s and mid-2000s, a 2005 peace agreement is in place, which is currently stable. Papuan guerilla fighters continue to oppose the Indonesian state, but their forces are small and exercise territorial control only over tiny parcels in very remote highland areas. Islamic State (IS) group terrorists, some of whom held small interior areas of Central Sulawesi in 2015 but were subsequently detained, have also lost much of their power, with many going abroad to fight in overseas theaters. While Indonesia experiences regular terrorist attacks, such as the May 2018 suicide bombings in Surabaya that killed 28 people, these do not substantially undermine the state's authority. To further strengthen its authority, the state banned Hizbut Tahrir Indonesia, an ultraconservative Islamist group that rejects the Indonesian state in principle. In compensation for this move, however, the government has made concessions to other Islamist groups, integrating them into the state structure. Similar concessions continue to be extended to mafia-style gangs across the country, which have close connections to local police and military.

Most Indonesians tend to support the existing state format, but there are significant tensions between the idea of a nation-state and the notion of Islam's supremacy. In an August 2018 survey, 45% of Indonesian Muslims supported the idea of establishing an Islamic caliphate – which inherently contradicts the current pluralist nation-state. In the same survey, however, 83% of Muslims declared support for the current pluralist state constitution – meaning that a large number of Indonesian Muslims are confused as to what role Islam does and should play in state organization. While this unresolved debate over Islam's place in the nation-state and the increasing influence of religious conservatives has marginalized minorities (e.g., the Ahmadis, the Shi'ites, the native-faith followers, LGBTI citizens and ethnic Chinese), none of them have actively been denied citizenship rights (although some

Question
Score

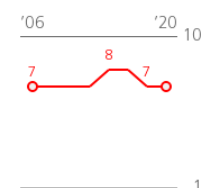
Monopoly on the
use of force

7



State identity

7

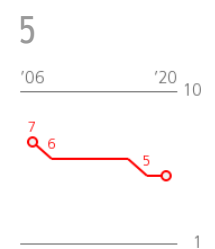


Ahmadis reported in 2017 that they found it difficult to obtain the new electronic identity cards rolled out by the government). Indeed, for many minorities (including ethnic Chinese, who faced problems securing citizenship under the pre-1998 autocratic regime), the problem no longer concerns obtaining citizenship, but rather the discrimination they face despite being citizens.

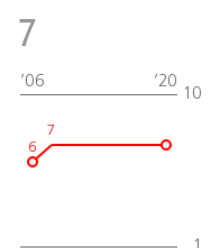
As with the debate on state identity, Islamic conservatives have in recent years increased their influence over the workings of political and legal institutions. Given that 87% of its population are Muslim, Indonesia has traditionally struggled to maintain a balance between promoting Islamic values and the rights of non-Muslim minorities. While the Indonesian constitution guarantees the freedom of religion, this right has been increasingly hollowed out. One indication of this is the rise in the number of blasphemy cases, both against elites and ordinary citizens. The Chinese-Christian governor of Jakarta, Basuki Tjahaja Purnama (or “Ahok”), was sentenced to two years in prison in May 2017, following large Islamist demonstrations against him. In August 2018, a Chinese-Christian woman was convicted of blasphemy after her complaint about the noise of a mosque loudspeaker triggered a riot in her hometown of Tanjung Balai on Sumatra. At the same time, LGBTI citizens have faced the worst attacks on them in living memory, with local state officials since 2018 introducing a range of local discriminatory regulations and conducting raids aimed at publicly shaming them. These local regulations add to other, already existing 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. Since 2014, it is reported that approximately 32 churches and five Ahmadi mosques were closed by Islamist conservative groups or by the government under the pressure of such conservative groups across the Indonesia.

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 23% of Indonesians still lack access to improved sanitation facilities and the quality of education remains poor. Indonesian students regularly finish near the bottom of international education surveys. For example, in the 2015 PISA survey, Indonesia ranked 62 out of 72 countries, with 42% of Indonesian students failing to meet minimum standards across all three areas covered by the test. But democratic elections have forced local incumbents to offer improved infrastructure and public services as part of their campaign pitches, and the introduction of the universal health care system in 2014 has opened access for many to better health care services.

No interference of religious dogmas



Basic administration



2 | Political Participation

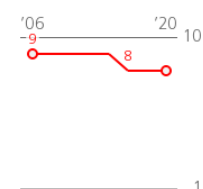
Every five years, Indonesians go the polls to elect the president, members of the House of Representatives and Regional Representative Council, and members of provincial and district-level parliaments. They also vote for governors, mayors, district leaders and village heads. The direct ballots for president, governors, mayors and district heads include the possibility of run-offs. Most Indonesians believe that these elections are generally free, fair and competitive. However, recent elections, both local and national, have seen trends that undermine this perception. First, there has been an ever-increasing level of vote buying, involving a sophisticated system of brokers. Second, electoral competitiveness has narrowed. In 2018, 16 out of 171 local elections involved only one candidate (up from nine in 2017, three in 2015 and none before that). At the national level, the high nomination threshold resulted in only two presidential nominations for the 2019 elections (there had been five in 2004, three in 2009 and the same two nominations in 2014). Third, President Jokowi used his incumbency more forcefully than his predecessors to pull state actors into supporting him electorally. He called on the military to promote his government's achievements; governors and district heads were "encouraged" to openly declare their support; and the police banned gatherings by a movement seeking a change in president in 2019. Fourth, most owners of private television stations lined up behind Jokowi's 2019 campaign, leading to overwhelmingly positive coverage for the president. Finally, local and national elections have acquired an increasingly religio-sectarian tone, focusing contests on the piety of each candidate and further diminishing the policy content of election campaigns.

Although democratically elected politicians can generally govern without intervention in relation to standard issues of administration, veto powers have increasingly succeeded in imposing their agendas on the government. For instance, the cleric who signed the blasphemy fatwa against Jakarta governor Ahok in 2016 became so influential after the Islamist mass demonstrations of that year that Jokowi ultimately felt the need to name him his presidential running mate for 2019. This pointed to the growing veto power of Islamist groups, adding to other influential actors, such as the military. Under the Jokowi administration, the military has shown its assertiveness in non-defensive missions and established a memorandum of understanding with government agencies to provide security at airports, protect government facilities and establish new rice fields nationwide.

Furthermore, given the absence of a functioning party and campaign financing system, many politicians have become highly dependent on oligarchs as sponsors. In return for contributions, they pass regulations or approve projects that benefit their donors. One such oligarchic actor with high intervention potential is the tobacco industry. In 2018, for example, the government canceled its already announced increase in tobacco taxes after heavy lobbying from the industry.

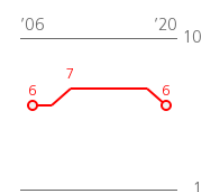
Free and fair elections

8



Effective power to govern

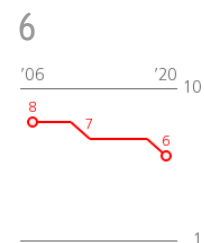
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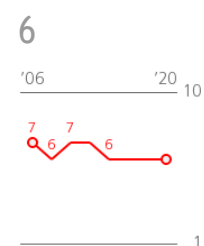
In most parts of Indonesia, the freedom of association and assembly is generally upheld. But there are important exceptions, which have increased in severity. First, groups advocating the separation of their territory from Indonesia are systematically repressed. In Papua, where such advocacy is strongest, the right to assembly and association for pro-independence activists does not exist, and those who try to gather are often arrested. In December 2018, more than 500 Papuan activists were detained across Indonesia for commemorating what they view as Papuan independence day. Second, left-wing activism has been increasingly discouraged and prosecuted. In 2018, an environmental activist demonstrating against a gold mine in Banyuwangi was sentenced to four years in prison for allegedly spreading communism (a charge most observers believed was fabricated) – echoing an increasingly prevalent “red scare” since 2016. Third, non-mainstream religious and social groups (e.g., Ahmadis, Shi’ites or LGBTI citizens) enjoy no protection of their assembly and association rights. Their meetings are often disbanded and their members assaulted, both by societal groups and law enforcement agencies. Fourth, for the first time since the end of authoritarianism, political opposition groups have been prevented from organizing. Gatherings of an anti-Jokowi protest movement mobilized under the banner “Change the president in 2019!” were dispersed by the police in August 2018, just as the presidential nominations for 2019 were made. In addition, the government issued a decree in 2017 that gave it the right to ban sociopolitical organizations without due judicial process. The government used this decree shortly afterward to ban the non-violent Islamist group Hizbut Tahrir Indonesia.

Freedom of expression is mostly available for citizens holding mainstream religiopolitical views, but is increasingly restricted for those with non-conformist orientations. Pro-independence Papuan activists, LGBTI citizens, left-wing campaigners, non-mainstream Islamic sects and citizens critical of conservative interpretations of Islam face legal prosecution and/or social sanctions when openly expressing their views. In October 2018, police arrested two administrators of a Facebook group for gay people in Bandung, arguing that the Facebook group spread “immoral” content. The government also continues to block websites it deems to contain morally objectionable content. In the media, high levels of ownership concentration have narrowed the breadth of reporting, while the state rarely sees the need for open censorship. The state has, however, taken action against citizens attacking the president on social media. In 2018, a critic of the president was sentenced to two years in prison for suggesting that he was a communist. In this case and similar ones, the state used the penal code, and the 2008 Electronic Information and Transactions (ITE) Law. Recently, several journalists were intimidated and harassed by members of Islamist-conservative groups when covering the 2012 prayer event in Jakarta.

Association / assembly rights



Freedom of expression



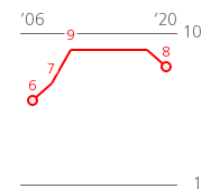
3 | Rule of Law

Nominally, post-authoritarian Indonesia has an effective separation of powers. After 1998, both the parliament and the judiciary emancipated itself from the previously excessively strong presidency. But presidents have traditionally tried to neutralize the controlling power of parliament by building oversized legislative coalitions. Jokowi pledged in 2014 to abolish this model of governance and to instead run his administration with the support of only 37% of the representatives in parliament. This led to an effective balance of power in the first two years of his administration, but Jokowi subsequently persuaded opposition parties to join his coalition, giving him a supermajority of 69%. This notably reduced parliament's willingness to scrutinize the executive. The speaker of parliament was arrested for corruption in November 2017 and, in the following year, a deputy speaker was also arrested for corruption. These events further undermine the legislature's ability to hold government to account. Similarly, while the judiciary obtained significant levels of independence after Suharto's fall, its judges are still widely seen as corrupt and self-serving.

Indonesia's judiciary has two main branches: the Constitutional Court, which has the right to review and alter existing laws, and whose nine judges are appointed proportionately by the president, parliament and the Supreme Court to serve five-year terms; and the Supreme Court, which has the authority to interpret laws and whose judges are elected by parliament to also serve five-year terms. While judges are now largely autonomous from political influence, they are 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. In August 2018, a judge on the Medan Anti-Corruption Court was arrested for receiving bribes in relation to a case she handled. The Supreme Court commented that it had given this judge "seven warnings" prior to this case, indicating the widespread nature of judicial corruption and the unwillingness of the Supreme Court to act unless its judges are caught red-handed. Cases of political inference occur occasionally, but are rare. In April 2018, the Supreme Court – whose chief justice was close to Vice President Jusuf Kalla – controversially disqualified the popular mayor of Makassar from running for re-election, leaving Kalla's nephew as the only candidate remaining in the race.

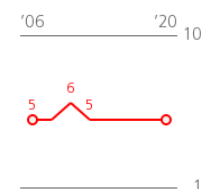
Separation of powers

8



Independent judiciary

5

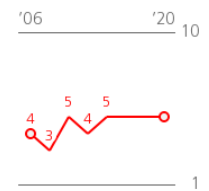


Corruption and abuse of power remain endemic in Indonesia. However, in contrast to the early post-Suharto period, many officeholders are now prosecuted for their actions – in most cases for corruption. Between the establishment of the Anti-Corruption Commission in 2004 and the end of 2018, the commission had handled cases involving 205 parliamentarians, 25 ministers, 19 governors, 87 regents and mayors or their deputies, 190 high-ranking bureaucrats, and 18 judges, with a conviction rate of almost 100%. But two main problems remain. First, given its small budget and staff, the commission can only handle a tiny fraction of the cases it could otherwise take on, giving perpetrators a high chance of not getting caught. Second, as the NGO Indonesian Corruption Watch (ICW) calculated, the average sentence for a corruption conviction in 2017 was a mere two years and two months (which, after sentence reductions, means that most convicts spend only one year in prison). Only in very rare cases do high-profile defendants receive harsh sentences, such as Setya Novanto, former speaker of parliament, who was imprisoned for 15 years in April 2018.

Protection of civil rights remained volatile between 2017 and 2019. Followers of non-mainstream religious groups, left-wing activists and Papuan pro-independence campaigners continued to experience severe violations of their civil rights, both by the state and other members of society. For instance, dozens of Ahmadis were evicted from their homes by a violent mob in Lombok in May 2018, with the state taking no meaningful action to protect them. But the most serious deterioration of civil rights in the review period affected LGBTI citizens. As the police arrested homosexuals in raids (using the anti-pornography bill), parliament and government pondered whether to criminalize homosexuality in the revised penal code. The Constitutional Court, for its part, decided not to make homosexuality a criminal act by a mere five-to-four majority decision in December 2017, but told parliament it was free to legislate such a ban if it so wished. In the meantime, 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.

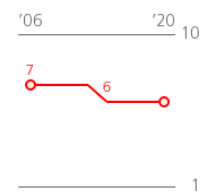
Prosecution of office abuse

5



Civil rights

6



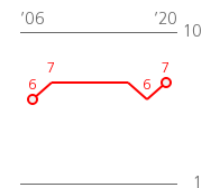
4 | Stability of Democratic Institutions

The level of friction between Indonesia's democratic institutions slightly reduced during the review period, given that the opposition's extra-parliamentary mobilization against the president in late 2016 and early 2017 eventually ceded. However, in order to mitigate these tensions, the president had to hand concessions to his opponents, which damaged the democratic fabric of governance in other areas. For instance, the president endorsed some themes advanced by the Islamist opposition that further undermined minority rights. There also remain structural problems not necessarily between, but within democratic institutions. For instance, ministries have a high level of autonomy, impeding the government's ability to act as a coherent entity. At the local level, the effectiveness of democratic institutions, especially local government heads and parliament, varies widely. While in some areas they are moderately effective, in others (such as Papua) they are handicapped by corruption and incapacity.

Most relevant actors view the government and other democratic institutions as legitimate, but with significant qualifications. After the Islamist mobilization of late 2016 and 2017, which was formally directed against the then governor of Jakarta but also targeted Jokowi and the legitimacy of his administration, the president accommodated some of his critics while repressing others. These critics, consequently, moderated their previous rejection of the government's legitimacy, either because they were given concessions or because they faced legal consequences if they continued their attacks. For instance, one of Jokowi's most ferocious Islamist critics, Rizieq Shihab, fled Indonesia to Saudi Arabia in May 2017 after the police initiated a number of cases against him. In another case, Jokowi used a slightly different approach to shut down an intra-government opponent, removing military chief Gatot Nurmantyo (who had openly expressed anti-democratic views) in December 2017. Jokowi replaced him with a soft-spoken general close to him. Thus, while open rejection of democratic institutions has been less public than in previous years, this has only been achieved by integrating or removing those who most vocally doubted their legitimacy.

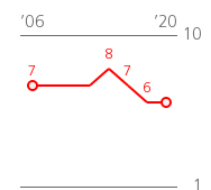
Performance of democratic institutions

7



Commitment to democratic institutions

6



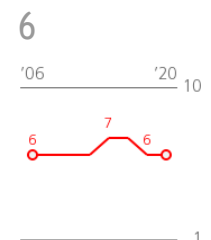
5 | Political and Social Integration

Indonesia's formal party system is fairly stable, with voter volatility 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 gained seats. For the 2019 elections, only a handful of new parties emerged, most with little chance of entering parliament. This nominal stability of the current Indonesian party system is due to many parties being anchored in specific religiopolitical constituencies, and the long-term persistence of key actors and their catch-all presidentialist parties (e.g., Yudhoyono's Democratic Party or Prabowo's Great Indonesia Movement). However, outside of this formal party system, powerful groups have grown that are not accommodated by it. For instance, in a 2018 survey, 13% of Muslim voters stated that they would vote for the Front of the Defenders of Islam if it stood in elections. This points to the existence of political streams that Indonesia's current centrist party system can't represent. Importantly, many of these streams are anti-democratic in nature, with their exclusion from the party system concealing pockets of opposition to the existing order.

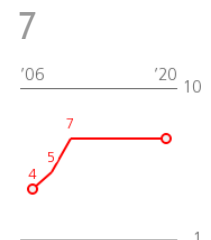
Indonesia has a wide variety of interest groups that reflect competing societal interests. There are Islamic organizations such as Nahdlatul Ulama and Muhammadiyah, which are among the largest Muslim groups in the world; hundreds of labor unions, many of them highly influential; as well as grassroots 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. Overall, however, these groups have struggled to form an effective counterweight to the rising influence of oligarchic business interests, and many civil society groups have been infiltrated by them. Furthermore, it is important to note that some societal interest groups have increasingly pursued an anti-democratic agenda. While numerically smaller than the mainstream Muslim groups, violent organizations (e.g., the Front of the Defenders of Islam) have successfully used the mushrooming of NGOs to masquerade their attacks on minorities as legitimate expressions of civil society activism.

Formally, most Indonesian citizens strongly support democracy. In an August 2018 poll, 83% of respondents stated that they viewed democracy as the best form of government. Moreover, 73% of Indonesians expressed satisfaction with the way democracy functioned, and a different poll in the same month put trust levels in the presidency at 69% (with most other institutions above 50%, the lowest being political parties at 33%). These numbers have been stable for many years. 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

Party system



Interest groups

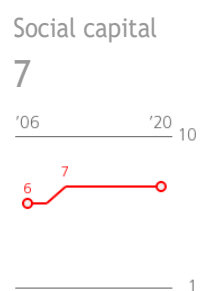
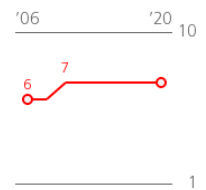


Approval of democracy

7

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, or even the introduction of a caliphate (which 45% of Indonesian Muslims supported in the August 2018 poll). 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. Indeed, for many conservative Muslims, a stronger role for Islam in state organization is not only compatible with democracy – it is, for them, inherently required by democratic values, given that Muslims constitute the largest religious group in Indonesia.

Indonesians are traditionally integrated into a large web of religious, social, ethnic and neighborhood organizations. In a 2018 survey, 48% of Indonesian Muslims said they belonged to Nahdlatul Ulama, while 5% stated they associated with Muhammadiyah. But this embeddedness in networks of social interaction does not necessarily translate into collective trust between citizens. In fact, many cases of violent conflict have involved rival religious groups or neighborhood associations. In those cases, membership of a specific organization or village increased polarization rather than leading to mutual support. In January 2018, for example, two villages on Saparua in Maluku clashed over a traditional ritual involving coconuts and local weapons. One person was killed. At a higher level, conflict often occurs between members of Muslim organizations with different ideological orientations, such as between members of Nahdlatul Ulama and the Front of the Defenders of Islam. One such clash occurred in Jakarta in April 2017, demonstrating that a crosscutting system of conflicting social memberships divides Indonesians just as much as it makes them cooperate.



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 \$0.92 per day) declined from 10.86% in March 2014 to 9.82% in March 2018. In the World Bank's broadened poverty headcount at \$3.20 a day (which captures the poor and the near-poor), Indonesia's poverty rate declined from 38% in 2014 to 27% in 2017. 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, including in Papua, which still has the highest rate of poverty (27.6%, based on the national poverty line, in 2017). Inequality has also decreased slightly, after experiencing an increase in the early 2010s. Indonesia's Gini coefficient fell from 0.408 in March 2015 to 0.389 in March 2018. This was attributed to rising middle-class income levels, access to better government health care services for the poor and increased development funds for villages. Despite these positive poverty and inequality trends, however, Indonesia's overall advancements in increasing its socioeconomic development levels remain moderate to slow. In the 2018 Statistical Update of the Human Development Index, Indonesia ranked 116 out of 189 countries, down from 110 in 2015. 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 104 in the 2017 Gender Inequality Index, down from 103 in 2013.

Question
Score

Socioeconomic
barriers

5

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1

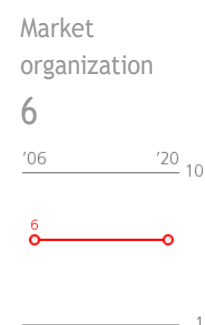
Economic indicators		2015	2016	2017	2018
GDP	\$ M	860854.2	931877.4	1015423.5	1042173.3
GDP growth	%	4.9	5.0	5.1	5.2
Inflation (CPI)	%	6.4	3.5	3.8	3.2
Unemployment	%	4.5	4.3	4.2	4.3
Foreign direct investment	% of GDP	2.3	0.5	2.0	1.9
Export growth	%	-2.1	-1.7	8.9	6.5
Import growth	%	-6.2	-2.4	8.1	12.0
Current account balance	\$ M	-17518.7	-16952.3	-16195.6	-31050.5

Economic indicators		2015	2016	2017	2018
Public debt	% of GDP	27.0	28.0	29.4	30.1
External debt	\$ M	306224.1	319012.7	350133.4	369840.3
Total debt service	\$ M	55716.0	70419.8	68272.8	23735.3
Net lending/borrowing	% of GDP	-2.6	-2.5	-2.5	-
Tax revenue	% of GDP	10.8	10.3	9.9	-
Government consumption	% of GDP	9.7	9.5	9.1	9.0
Public education spending	% of GDP	3.6	-	-	-
Public health spending	% of GDP	1.2	1.4	-	-
R&D expenditure	% of GDP	-	0.2	0.2	-
Military expenditure	% of GDP	0.9	0.8	0.8	0.7

Sources (as of December 2019): 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

Indonesia's economy is generally based on free-market principles, but major constraints remain. First, 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. In September 2018, the Jokowi government raised import taxes for more than 1,000 goods, ranging from cars to cosmetics. This was done to reduce imports and address the growing current account deficit. At the same time, following a political backlash, the government delayed the planned revision of the negative investment list, which had aimed at opening up industry to foreign investors. The second constraint is the large size of the informal sector, with the percentage of informal workers stable at around 58% for many years and showing no signs of reducing. 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, the national oil company Pertamina was subsequently asked to pay for any gap between the market price and the sale price, which was still set by the government. This policy cost Pertamina \$1.3 billion between January and September 2017 alone, and when its chief executive complained about this, the government sacked him. But there are also trends in the direction of building and deepening a competitive market economy. For instance, Indonesia maintains full currency convertibility, despite public demands for

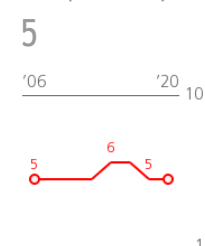


more state efforts to stabilize the rupiah. In addition, the government has continued its attempts to reduce red tape. Thus, the 2018 World Competitiveness Report ranked Indonesia a respectable 45 out of 140 countries. Starting a business takes 20 days and 10 procedures with a cost of 10.1% of GNI per capita. The World Bank's starting a business score amounts to 81.22 out of 100 (rank 134 out of 190). The weak assessment of market organization and business in Indonesia is mainly caused by considerable bureaucratic obstacles, the large backlog in infrastructure investments and low legal certainty for the enforcement of contracts.

Indonesia's anti-monopoly measures are more solid than under pre-democratic rule, but their effectiveness is declining. The country has a Commission for the Supervision of Business Competition (KPPU), established in 2000 under Indonesia's Anti-Monopoly and Unfair Competition Law. However, 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 the last years, the KPPU was engaged in several strategic sectors, including food, finance and banking, energy, logistics and infrastructure, health care, and education. It focuses its enforcement and correction measures on unfair competition cases that cause price volatility or upward price tendencies, supply limitations, or business practices that lower quality or limit consumer choice. At the end of 2018, the KPPU had only issued one decision in that year and had only 11 ongoing cases. Furthermore, the agency has shied away from large, politically sensitive cases such as concentration in the media or food industry (despite announcing in 2016 that it planned to take on the latter). Instead, one of its most high-profile cases involved the foreign companies Honda and Yamaha, which were found in 2017 to have colluded over the pricing of scooters. Honda and Yamaha took the case to the Supreme Court, where it stalled. Another trend undermining competition has been the increasing role of SOEs under the Jokowi government. Much of the infrastructure development initiated by the government after 2015 has been handled by SOEs, which receive regular cash injections to boost their operations (injections into SOEs increased from \$222 million in 2014 to \$3.01 billion in 2018). Business associations expressed concern about this pattern (as did the OECD in October 2018), but have so far been ignored.

Indonesia has traditionally focused more on domestic consumption rather than foreign trade as its main driver of economic growth. Indeed, this trend strengthened in the surveyed period: its trade to GDP ratio fell from 48% in 2014 to 39.5% in 2017, against a world average of 56.2%. Indonesia has frequently used tariffs and non-tariff measures to protect its domestic market, and this trend too has intensified in recent years. A systematic study of non-tariff barriers published in 2017 showed that these barriers were higher in 2015 than they had been in 2008, under the last assessment. Meanwhile, Indonesia's simple average most favored nation tariff rates stood at 8.1% in 2017, compared to Malaysia's 5.7%. Since the inauguration of the U.S. Trump administration in January 2017, however, Indonesia has – rhetorically at least – positioned itself against the U.S. government's aggressive protectionism. At

Competition policy



Liberalization of foreign trade



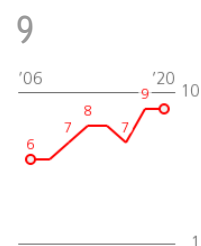
international conferences, Jokowi has proclaimed Indonesia to be a supporter of free trade and, in November 2018, he ratified seven free trade agreements, while another – with Australia – was imminent. This in-principle endorsement of free trade continues to collide, however, with the government's attempts to restrict imports through taxes, tariffs and non-tariff barriers, while seeking greater access for its products around the world.

After collapsing in 1997 to 1998, Indonesia's banking system has recovered and its current indicators point to overall stability. Indonesia's bank-capital-to-asset ratio was 15.2% in 2017, up from 12.5% in 2013, and compared to a worldwide average of 10.8%. Its capital adequacy ratio (CAR) increased from 21.3% in 2015 to 22.2% in May 2018. While the banks' share of non-performing loans to total gross loans rose from 2.1% in 2014 to 2.8% in May 2018, this was well below the world average of 9.4%. These figures are generally better than the Basel III requirements for a healthy banking sector. 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 was completed in December 2017. Nevertheless, the necessary reform of the banking sector has been put on hold. For example, debates on the opening of the Indonesian banking sector to foreign banks, which would increase competition, have stalled. Foreign ownership in banks remains capped at 40% and – as the central bank announced in May 2018 – at 49% in companies that offer electronic money services. A new banking law, which had been promised for 2017 and was to revisit the issue of foreign ownership, was postponed until after the 2019 elections.

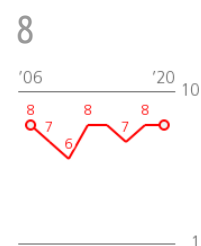
8 | Monetary and fiscal stability

During the review period, Indonesia maintained its traditionally prudent anti-inflation and monetary policies. 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, and it maintained that level to the end of 2018. 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. Similarly, the central bank – with the strong encouragement of the government – intervened in the market to defend the national currency, the rupiah. As the result of a growing current account deficit, the rupiah plunged to below IDR 15,000 to \$1 in October 2018 – its lowest level since the 1998 financial meltdown. With its interventions, central bank foreign reserves shrank from \$132 billion in January 2018 to below \$115 billion in September 2018. Both the interventions to control inflation and to stabilize the rupiah were widely seen to serve the political interests of President Jokowi, who wanted to avoid increasing inflation and a falling rupiah during his election campaign.

Banking system

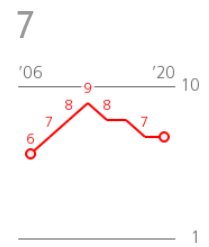


Monetary stability



The government has continued to put great emphasis on maintaining fiscal stability, with the budget deficit at the end of 2018 standing at 2% (the law allows for 3%). This is lower than in previous years and significantly lower than analysts had projected. This has to no small extent been the achievement of Sri Mulyani Indrawati, Indonesia's finance minister and former World Bank managing director, who is a fiscal conservative. But debt has been rising, as a result of the government's large-scale infrastructure program and its spending on efforts to keep inflation low. The public debt-to-GDP ratio increased from 24.7% in 2014 to 28.7% in 2017 and is projected to grow further. External debt, on the other hand, has remained relatively stable at 34% of the GDP (after increasing significantly between 2011 and 2014). The IMF declared in April 2018 that Indonesia's debt levels were "safe" (given that it compares favorably to many other countries' debt ratios, such as India's, which stands at 69%). However, the IMF criticized Indonesia for not doing enough to increase revenues, with the country's tax-to-GDP ratio remaining at a weak 10% in 2018 (against a world average of 15%).

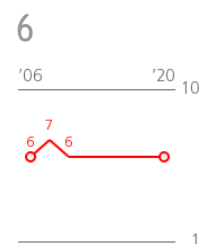
Fiscal stability



9 | Private Property

Property rights are generally protected, but their documentation and registration remain volatile. In the land sector, President Jokowi tried to address long-existing property registration problems by handing out land ownership and usage certificates to citizens and legal entities that previously had tried in vain to obtain them. Between 2015 and October 2018, his administration handed out 13.8 million certificates – often the president did so personally during trips to the regions. While his critics dismissed this move as a transparent attempt to increase his re-election chances, the program helped to formalize land rights in Indonesia. It should be noted, however, that the agrarian conflict remains an unresolved issue. In 2017, there were more than 600 land conflicts (covering 520,491.87 hectares of land), with most cases involving the plantations and government infrastructure projects.

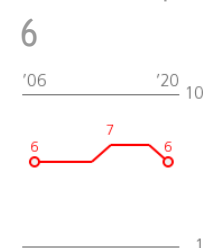
Property rights



In addition, the country made little progress in protecting intellectual property rights. In the intellectual property rights segment of the International Property Rights Index of 2018, the country ranked 97 out of 125 countries, up only one rank from 2016. Similarly, in a 2018 survey by the Business Software Alliance, the Unlicensed Software Installation Rate of Indonesia was 83%, virtually unchanged from previous years. In the Asia-Pacific region, the average percentage was 57% and globally it was 37%.

Generally, the Indonesian state supports 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. At 9.1% in 2017, the share of government spending to GDP has remained relatively low (the world average was 17%). But red tape continues to make establishing private businesses difficult. In 2017, it took an average of 23 days to establish a business in Indonesia, as opposed to 4.5 days in Thailand. One of the continued problems for private business has been the strong role of SOEs under the Jokowi government and their slow movement toward privatization. In 2017, only four SOEs were newly listed on the stock exchange, although the government had earlier announced that 16 would go public. At the same time, the government has proceeded with its plan to establish large holding companies for the state's business interests in the mining, oil and gas, and transportation sectors. This initiative has been viewed with suspicion by private business and the political opposition, which fear that the government (many of whose members have direct commercial interests in the sectors they supervise) seeks to use these holding companies for political and private gains.

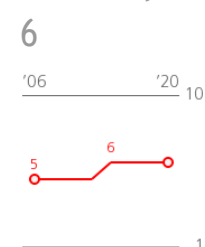
Private enterprise



10 | Welfare Regime

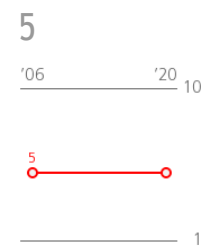
While Indonesia's social safety nets remain underdeveloped compared to the Western world, there have been significant improvements in recent years. In 2014, the health component of a new social security agency (BPJS) became operational, with the goal of providing health insurance to all Indonesians. Citizens with a regular income pay monthly premiums, while these are provided for the poor or unemployed by the government. By September 2018, 77% 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. By late 2018, 48.4 million Indonesians had joined this program. The government also continues to provide other forms of assistance to the poor, ranging from education scholarships to rice allocations. In its entirety, social spending increased by 32.8% to \$26 billion in the 2019 budget, attracting accusations that this was done to attract votes for the incumbent government in the 2019 elections. Furthermore, many districts and municipalities have introduced their own social assistance systems, for instance, offering free 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. For 2018, the deficit was estimated to be \$1.1 billion and, in early 2019, the government injected additional funds to cover the gap.

Social safety nets



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 LGBTI community, and ethnic and religious minorities. The severity of these obstacles varies widely. In 2017, women comprised 38% of the Indonesian workforce, as opposed to 48% in Vietnam. In the 2014 to 2019 parliament, only 17% of members were women. Underprivileged citizens attending low-quality public schools face similar constraints, as private school graduates are structurally better positioned when seeking employment or public office. Rural Indonesians also confront harder conditions than those who live in the city. In March 2018, 7% of urban citizens were poor, versus 13.2% of the rural population. The LGBTI community has experienced particularly severe discrimination. In October 2018, the Ministry of Research and Higher Education banned all activity by LGBTI groups on Indonesian campuses, following statements from some rectors that discouraged LGBTI students from applying to their campuses. 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 an August 2018 survey, 52% of Muslim respondents rejected a non-Muslim as district head and 56% were opposed to an ethnic Chinese district head – in both cases, this constituted a 5% increase from the same survey in 2017.

Equal opportunity



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 5.2% in the third quarter of 2018, which gave Indonesia one of the strongest growth rates among G20 nations – but it was well below the growth it experienced during the commodity boom of the 2000s and early 2010s. Nominal GDP per capita was \$3,847 in 2017, stagnating at its 2015 level. In purchasing power parity (PPP) terms, GDP per capita was above \$12,000 in 2017, against a world average of \$16,940. The official unemployment rate stood at 5.34% in the second quarter of 2018, but unrecorded underemployment remains very high. Foreign direct investment (FDI) net inflow was \$23 billion in 2017, after a particularly disappointing year in 2016 (\$3.9 billion). Inflation stood at a low 3% in late 2018 and its budget deficit was under control at 2%. At the same time, however, the tax-revenue-to-GDP ratio remains stuck at the 10% mark and the current account deficit hit a four-year high in the second quarter of 2018, negatively impacting the exchange rate. Overall, while there are some negative trends, the Indonesian economy maintained its stability in the surveyed period.

Output strength

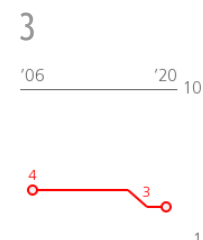


12 | Sustainability

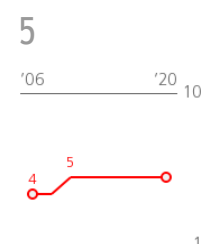
Environmental concerns have some influence on government and business practices, but they remain solidly subordinated to the overall goals of economic development and social stability. The government continues to directly and indirectly subsidize fuel use, rather than trying to limit it through taxation policies. Similarly, official energy policy is heavily focused on coal-fired power plants. While the government has set itself a 2023 target of having 23% of its energy generation provided by renewables, the real level has been stable at 12% since 2007. Consequently, Indonesia has not been able to significantly reduce its carbon emissions. In the 2018 PricewaterhouseCoopers Low Carbon Economy Index, Indonesia was one of the five worst performers in terms of reducing its carbon intensity. Carbon intensity in Indonesia decreased by only 0.1% in the 2016 – 2017 period, compared to China’s reduction of 5.2%. Indonesia has also strongly invested in palm oil, becoming the world’s largest exporter of palm oil. While initially hailed as environmentally friendly, palm oil is now strongly associated with deforestation and social conflict – triggering tensions between Indonesia and the European Union, which wants to phase out the import of palm oil. Nevertheless, Indonesia has been able to slow the pace of deforestation. In 2017, there was a 60% drop in tree cover loss in primary forests compared with 2016. But while the government’s national peat drainage moratorium, in effect since 2016, may have contributed to this, experts have warned not to overstate the 2017 trend given that 2017 was a non-El Niño year, which produced fewer forest fires compared to previous years.

Indonesia has a wide network of education and research facilities, but they are generally of poor quality. In 2016, enrollment levels in primary education (103.5%), secondary education (86%), and tertiary education (27.9%) were high or average by world standards. Thus, the 2017 U.N. Education Index – which is heavily focused on enrollment numbers – has given Indonesia a medium rank and score. However, 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 72 participating countries. It is not surprising, then, that Indonesia’s ratio of education spending to GDP (3.6% in 2015) is below the world average. Similarly, the levels of research and development spending (0.1% of GDP in 2013) are substandard. The highest-ranking Indonesian university is University of Indonesia, ranked 292nd in the 2018 QS World University Rankings – pointing to the lack of international competitiveness of the Indonesian tertiary education sector. Underlining this point further, in the 2018 World Competitiveness Report, Indonesia ranked 97 out of 140 countries for the number of international co-invention applications per million inhabitants (0.04).

Environmental policy



Education policy / R&D



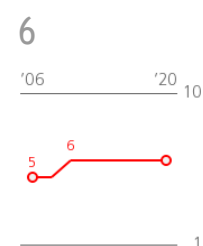
Governance

I. Level of Difficulty

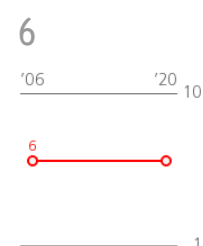
The major constraints on the Indonesian leadership's governance capacity are poverty, low education levels, severely limited public infrastructure (especially in regions outside Java and the eastern part of Indonesia), endemic corruption and geographic factors. With 27% of the population living on less than \$3.20 a day in 2017, 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 – 28% as compared to Thailand's 46%, 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. Its geographical location has also made Indonesia highly vulnerable to natural disasters, especially volcanic eruptions, earthquakes, tsunamis, floods and landslides. In September 2018, a severe earthquake and tsunami killed more than 2,200 people in Palu, Sulawesi, only a month after an earthquake on Lombok left more than 500 dead. These incidents, and their regularity, have posed serious challenges for policymakers in planning development strategies.

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 July 2017, the Home Ministry reported that there were at least 344,039 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 groups – such as Front of the Defenders of Islam (FPI) – openly pursue

Structural
constraints



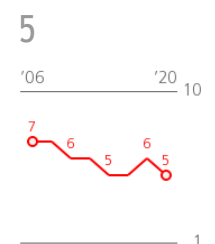
Civil society
traditions



nondemocratic goals, such as limiting the rights of religious minority groups. FPI was one of the drivers 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 increased tensions in 2016 and 2017, when Islamist actors succeeded in mobilizing hundreds of thousands of followers to remove the Chinese-Christian governor of Jakarta from office (both by defeating him in elections and by lobbying for his imprisonment), the potential for large-scale conflict declined again in the 2017 to 2019 period. But this mitigation of conflict risk was only achieved by integrating Islamists into the support infrastructure of the government, moving Indonesia as a whole ideologically to the (religious) right. This shift may calm macro-level tensions between Muslim groups in the short term, but is likely to threaten religious, social and political minorities. By late 2018, LGBTI citizens were the most vulnerable minority, although Ahmadis, Shi'ites and left-wing activists were also under threat. Throughout Indonesia, social conflicts over resources and land also remain active. According to the Consortium for Agrarian Renewal, there were 659 land conflicts in 2017, a 50% increase from 2016. In one such case, police shot dead one man involved in a land dispute on Sumba in April 2018.

Conflict intensity



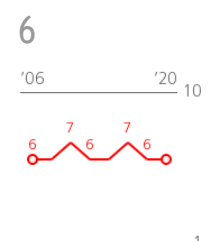
II. Governance Performance

14 | Steering Capability

The government has shown some capacity to sustain long-term projects that it views as important, but has quickly given in to electoral and other pressures when an issue was not of relevance to its political strategy. For example, the Jokowi administration has been strong on pushing through major infrastructure projects, including against environmental, fiscal and efficacy concerns. In other policy areas, however, the government has often adjusted its stance to that of powerful interest groups. In November 2018, the government canceled a planned tax increase on tobacco products, despite its own long-term health strategy emphasizing the importance of such a hike. The government also gave in to conservative Muslim pressure groups, effectively endorsing discriminatory policies against Ahmadis, Shi'ites and LGBTI citizens, although both the state and the Jokowi government claim to uphold freedom of religion and equality before the law. Similarly, the Jokowi government gave up

Question Score

Prioritization

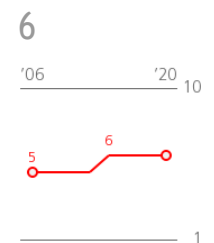


early in its term on seeking justice for victims of past human rights violations, when the military made it clear that it did not support such a move (especially if related to the 1965/66 massacres of alleged communists). The Jokowi government also prioritized the construction of toll roads rather than maintaining the government's earlier vision of building a better sea transportation and logistics network. There is no shortage of strategic planning units in the government (mostly centralized in Bappenas, the Strategic Planning Ministry), and many studies and regulatory impact assessments are carried out by a host of analysts. But often, the evidence-based policies produced by Bappenas and other agencies are subordinated to political interests.

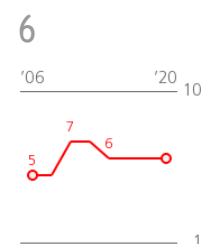
The government has been able to implement some of its key policies, but has often faced significant constraints in terms of its fiscal, bureaucratic and technical capacity. The main obstacle has been fiscal in nature. After its worsening current account deficit in 2018, which triggered a significant fall in the value of the rupiah, the government announced that it was considering postponing some import-intensive power plant projects. Following protests from business associations, the executive indicated that it would try to continue the projects, but its ability to see them completed is now largely determined by its fluctuating fiscal capacities. At the same time, the bureaucracy has been a frequent impediment to the smooth implementation of policy. In November 2018, President Jokowi stated that he would prefer to have fewer business and development regulations in order to reduce red tape, but most of these regulations are issued by the bureaucracy of which he is formally in charge. There have also been technical hurdles to policy implementation. In February 2018, the government suspended a number of large infrastructure projects after a series of fatal accidents due to poor technical capacity and oversight. Politically, however, the Jokowi government faced fewer difficulties in its internal decision-making and policy implementation processes than the preceding Yudhoyono administration (members of which often voted against government policies in parliament). After several cabinet reshuffles, Jokowi minimized government infighting toward the end of his 2014 to 2019 term, allowing for a better coordinated implementation of government priorities.

The government's ability to learn from past policy mistakes is declining and the private sector now accounts for almost all Indonesia's innovation capacity. As the memory of the authoritarian excesses of long-time autocrat Suharto continues to fade, the Jokowi government has increasingly borrowed from Suharto's toolbox on maintaining political control and enforcing developmentalist economic policy. For example, the Ministry of Education proposed in November 2018 reviving ideological indoctrination courses abolished after 1998; the military has been directly involved in a food security program and infrastructure projects; the government has supported a new anti-communist campaign that echoed Suharto's past practices, with President Jokowi declaring in October 2018 that "communism has to disappear from the Indonesian state forever" (despite there being no credible evidence of a communist

Implementation



Policy learning

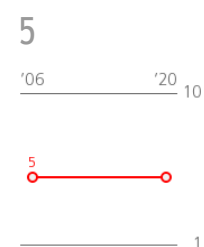


mobilization); and the police under Jokowi have taken action against government critics in a way that most post-1998 governments had shied away from. Thus, the government has shown only a limited amount of flexibility and learning ability, especially when it relates to replacing the failed policies of the authoritarian Suharto regime with innovative ones. In other, less political areas of governance (e.g., in sustaining overall economic stability), the government's flexibility has been higher, with trained technocrats successfully steering Indonesia away from the high-debt policies of the past. In addition, some non-governmental segments of Indonesian society have displayed remarkable potential for innovation. Most importantly, the private sector has seen a number of companies launch innovative projects that have been internationally competitive. Gojek, a ride-hailing start-up that expanded into other Southeast Asian markets in 2018, is one example of a wide range of creative companies that have adapted effectively to globalization and market modernization.

15 | Resource Efficiency

Traditionally, Indonesia has used its vast natural and human resources ineffectively and the incumbent Jokowi government has not been able to make significant progress in this regard. Its civil service, which comprises 4.5 million employees, continues to be viewed as overstaffed, ineffective and corrupt. The government announced in December 2017 that local governments spend an average of 37% of their budget on civil servant salaries, far above the international best practice level. Furthermore, government officials often sell civil servant positions below them in order to raise money for political campaigns – in one such case in October 2018, the district head of Cirebon was arrested for selling middle-ranked positions for about \$10,000 each. Indonesia's labor productivity also remains low. A 2017 study by Deloitte showed that Indonesia's labor productivity had declined in comparison to China over the last decade, and that it remains well behind that of countries such as Malaysia, Brazil or Mexico. In terms of natural resource management, protectionist and otherwise restrictive policies discouraged many investors, both foreign and domestic, from investing in the capital-intensive oil and gas sector. As a result, investment in that sector dropped from \$19.2 billion in 2014 to \$9.3 billion in 2017. Instead, investors rushed into cheaper coal and palm oil extraction, causing severe damage to the environment. While Indonesia's budget deficit is low overall, it is widely acknowledged that there is substantial waste due to corruption and inefficiencies.

Efficient use of assets



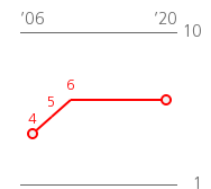
While President Jokowi managed to reduce frictions in cabinet through two major reshuffles in 2015 and 2016 (which resulted in more coherent policy formulation in the 2017 to 2019 period), two major issues with regard to policy consistency remain. First, policies developed by ministries seen as having only secondary importance are ignored in favor of those advanced by departments viewed as more significant. For instance, anti-smoking policies drafted by the Ministry of Health were endorsed by the president and cabinet, but subsequently ignored because they collided with the interests of the tobacco industry, usually represented by the Ministry of Trade and Ministry of Industry. Similarly, environmental goals set by the government are routinely set aside because energy generation and GDP growth are seen as more important than environmental protection. The second major problem in achieving policy coherence is Indonesia's high level of decentralization. Policies developed by the central government are often rejected, altered or ignored by lower-level administrations in the regions. For instance, the provinces of Central Java and Yogyakarta refused in 2018 to endorse a central government plan for a toll road running through their areas, compromising a major element of Jakarta's transportation plan for Java.

Much of Indonesia's anti-corruption policy remains focused on two agencies, the Anti-Corruption Commission (KPK) and the State Auditing Board (BPK). The KPK, for its part, has been successful in achieving high-level arrests, but its limited budget means that it can only operate at the surface of an ocean of corruption. In 2018, it handled 126 cases with 93 investigators – in a country of nearly 270 million people known for its deeply engrained traditions of clientelism, patronage and corruption. Another pressing issue is the attacks on KPK officials and investigators. Since 2017, two violent attacks and two bombings directed against KPK members remain unresolved by the police.

The BPK, on the other hand, is better resourced, but its findings are often ignored by the government. In April 2018, the BPK announced that more than 50,000 – or about half – of its recommendations had been ignored or insufficiently addressed. These unaddressed recommendations involved the questionable use of \$6.4 billion in state funds. Outside of what these official anti-corruption bodies can handle, however, there is widespread agreement that the level of corruption remains high and that only a tiny fraction of all cases is exposed. Similarly, party financing regulations are not enforced. Since the state provides minuscule state subsidies to parties (covering far less than 1% of their operational costs, despite an increase in state payments in 2017), parties' illicit fundraising activities are widely tolerated.

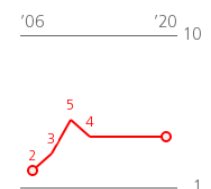
Policy coordination

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Anti-corruption policy

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16 | Consensus-Building

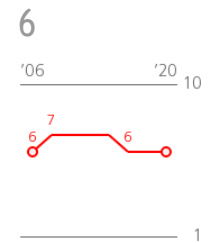
Elite support for democracy is fragile. While most political actors support democracy on a rhetorical level, it is often unclear what they mean by that. President Jokowi, for example, stated in 2017 that Indonesia's current democratic system was "overrated," pointing to the rise in liberalism, sectarianism and other -isms that stand opposed to a Pancasila-style system.

In some segments of the political establishment, there has been increasing support in recent years for "Pancasila democracy," as named and practiced by long-time autocrat Suharto. His former son-in-law, Prabowo Subianto, promised during the 2019 presidential campaign that he would defend democracy, but there have been persistent questions as to which version of democracy he referred to. Islamist interpretations of democracy, in which democracy is interpreted as Muslim majority rule, are becoming increasingly popular. On the other hand, there are some indications that lower-level elites support democratic values more strongly than the broader population. A 2018 elite survey found that provincial legislators showed greater support for a range of democratic measures than their electorates. Thus, support for democracy differs across various elite levels and interpretations of the concept of democracy.

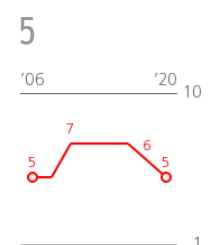
The support of elite actors for a market economy follows fluctuating levels of political expediency. When in office, elites often practice free-market policies in response to international pressures and the need for economic growth. But once election campaigns begin, they switch to a protectionist rhetoric that caters to strengthening anti-globalization sentiments in the population. There is a particularly strong rejection of imports, both among ordinary voters and the elite. In the 2019 election campaign, Prabowo Subianto pledged that, if elected president, he would stop all imports. The government, for its part, addressed the widening current account deficit in 2018 almost exclusively through import-reducing measures (e.g., higher import taxes), rather than by promoting an increase in exports.

The role of reformers has gradually declined over the last decade and now no key position in government is held by a major reformer. Traditionally, Indonesia's post-Suharto governments followed a policy of co-opting influential anti-democratic actors (e.g., the military, oligarchs or Islamists) in an attempt to control potential spoilers of the democratic project. Ultimately, however, this approach allowed potential anti-democratic actors to establish themselves in the political structure. In trying to appease these anti-democratic actors, reformers strayed so far from their original political attitudes that they too became part of the status quo they initially tried to change. President Jokowi, for example, was elected as a reformer in 2014, but once in office he accommodated anti-democratic actors to such an extent (including Islamists, especially after their 2016 mobilization against Ahok) that his reformist image rapidly evaporated. Politically and ideologically, he now leads the most conservative post-Suharto government, with anti-democratic actors holding key positions in his administration.

Consensus on goals



Anti-democratic actors



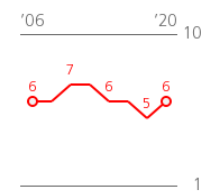
The Indonesian polity's tendency to accommodate anti-democratic actors has eroded its reformist potential, but has helped to manage existing religiopolitical cleavages. The country's main cleavage, between supporters of a pluralist form of state organization on the one side and advocates of an institutionalized role for Islam on the other, escalated during the 2016 and 2017 mass demonstrations against the Chinese-Christian governor of Jakarta. But President Jokowi, a pluralist, succeeded in mitigating these tensions by integrating more Islamists into his regime – most notably, by offering the 2019 vice presidential nomination to a prominent conservative cleric. Other cleavages have been less pronounced and the government has put policies in place to control them. Class differences, for instance, have been less politicized than in other countries and the government's extensive welfare programs have succeeded in reducing inequality to some extent, with the Gini coefficient declining each year after peaking at 0.41 in 2015. Similarly, the central executive managed to contain the impact of regional imbalances, with a budgetary system that allocates more government funds to districts with lower development opportunities.

Successive Indonesian governments have been highly responsive to civil society input and pressure, but this has had both a negative and positive influence on the quality of democracy and government effectiveness. This is because civil society consists of both pro-democracy, reformist groups as well as actors that pursue a narrow religious or politically conservative agenda. In recent years, the latter group of actors have gained the upper hand, exerting extensive pressure on the Jokowi government during and after the 2016 to 2017 Islamist mobilization in Jakarta. In 2018, a number of district heads promised to issue regulations that would discriminate against LGBTI citizens following demands by Islamist civil society groups. Reformist NGOs, on the other hand, are still vocal, but their influence is declining because they lack the instrument of mass pressure that their Islamist-conservative counterparts use so effectively. Another important civil society actor is the media, but given the increasing ownership concentration in this sector, their coverage often reflects elite interests rather than genuine non-governmental ideas and analyses.

The willingness of the political leadership to address past human rights abuses has declined further in the review period, and the past is now increasingly used as a weapon in political competitions. When President Jokowi came to power in 2014, he indicated his intention to address the 1965/66 killings of up to a million alleged communists and to possibly even issue a national apology. A government-sponsored seminar in April 2016 pointed in this direction. But the military made it clear to him very quickly that it was opposed to such a move and so the president almost immediately suspended it. Instead, he began to support a renewed "red scare" campaign, calling in October 2018 for communism and the Communist Party (which had been destroyed in the 1960s) to be defeated. The government has not addressed other human rights violations either. On the contrary, the memory of Suharto's autocratic and violent regime has been increasingly cleansed of its negative

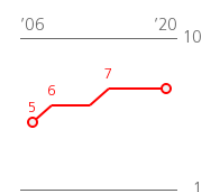
Cleavage / conflict management

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Civil society participation

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Reconciliation

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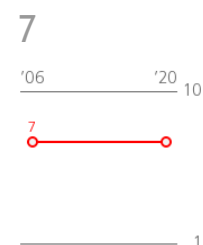
connotations, which were prevalent in the 1990s and 2000s. In November 2018, Suharto's son threatened to sue a politician who had called his father the “teacher of corruption” (a non-controversial statement in the late 1990s and 2000s), and many party officials from Prabowo Subianto's coalition agreed. Indonesia, it appears, is now farther away from dealing with its authoritarian past than at any other point in its post-1998 development.

17 | International Cooperation

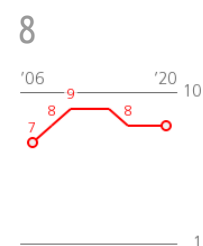
Over the last decade, Indonesia's focus in the field of foreign aid and assistance has shifted from support for governance reform to loans for large infrastructure projects. In the first decade of the post-Suharto transition, Indonesian governments made extensive use of international democracy assistance to reform the electoral system, launch decentralization, create the Anti-Corruption Commission, establish the Constitutional Court and formulate international trade policies. 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 2018, construction began on a China-funded high-speed railway between Jakarta and Bandung, after the government rejected a proposal from Japan because of less favorable loan conditions. 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. Overall, Jokowi was less interested in international aid cooperation than his predecessors. During the Palu earthquake in September 2018, Jokowi waited several days before agreeing to grant limited access to international emergency relief organizations, while Yudhoyono had immediately opened up Aceh in 2004 after the devastating tsunami of 2004.

In its relations with the international community, Indonesia's credibility and reliability have seen divergent trajectories in the political arena on the one hand and the economic arena on the other. 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 the G20. Indonesia has generally honored the agreements and rules of organizations in which it is a member. In the economic realm, however, Indonesia's credibility and reliability have been increasingly questioned. Indonesia's growing economic protectionism has reduced its reliability as an investment destination, with international chambers of commerce frequently lamenting the growing uncertainty. This includes frequent policy reversals (e.g., on the requirement

Effective use of support



Credibility

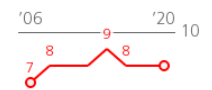


to build smelters in order to obtain export licenses for mineral ores, which changed a number of times), but also Indonesia's reluctance to implement WTO verdicts. In August 2018, Indonesia was found to have ignored an earlier WTO decision siding with complaints by the United States and New Zealand over unfair non-tariff trade barriers against their horticulture and animal products. Thus, while Indonesia's credibility and reliability in the arena of political diplomacy are high, the same cannot be said about its credibility and reliability in upholding international (and often, even its own) economic regulations.

Indonesia has mostly maintained its diplomatic strategy of de-escalation and cooperation (a strategy adopted since Suharto's rise to power in 1966), making it a significantly more trusted neighbor than in the early 1960s, when it was widely perceived as a security threat to the region. Indonesia remains the key actor in ASEAN, it contributes to the G20 and APEC, and has generally stable relations with its largest neighbor, Australia. A free trade agreement with Australia was agreed to in 2018, after years of negotiations, despite a political conflict over Australia's announcement that it was thinking about moving its embassy in Israel to Jerusalem. This announcement, made in October 2018, angered Indonesia, which – as the largest Muslim majority country in the world – is particularly sensitive to the Palestine-Israel conflict. And Jokowi keeps postponing the formal signing of the free trade agreement. Similarly, there have been regular, small diplomatic scuffles between Indonesia and Malaysia (mostly in relation to the many Indonesian migrant workers in Malaysia), but the overall relationship between the two countries continues to be stable – as is the case between Indonesia and its Southeast Asian neighbors.

Regional
cooperation

8



1

Strategic Outlook

During its first two decades of post-authoritarian reform, Indonesia wrestled with long-standing structural obstacles to better governance, such as corruption, weak institutions, poverty and low educational standards. These problems remain pressing, but in recent years, more fundamental questions about the nation's identity have emerged, posing new challenges. Chief among these challenges is the demand by Islamists to adopt Islamic values as the guiding principle for the Indonesian state organization, relegating minority and non-conformist groups to the margins of society. Addressing these demands in a manner that defends, rather than undermines, pluralist democracy will arguably be the primary task for Indonesian policymakers over the next decade. President Jokowi's attempts, after the large-scale Islamist mobilizations of 2016 to 2017, to repress some Islamists and accommodate others has neither contained the Islamist threat nor protected democracy. Instead, the government needs to consistently defend the pluralist principles enshrined in its constitution (which guarantee freedom of religion) and handle Islamist threats against minorities by enforcing the law through proper judicial procedures (rather than through quasi-autocratic measures such as the use of treason, exile and executive bans).

In addition to this politico-ideological problem, 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 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.

In the economic realm, Indonesia should develop a clear and conceptually coherent concept for its trade and investment 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 exacerbated this confusion by introducing new protectionist measures domestically, while defending open markets at international summits. This lack of clarity has kept investment levels below their potential and has prevented Indonesia from achieving the economic 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 bilateral agreements (e.g., with Australia). 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.