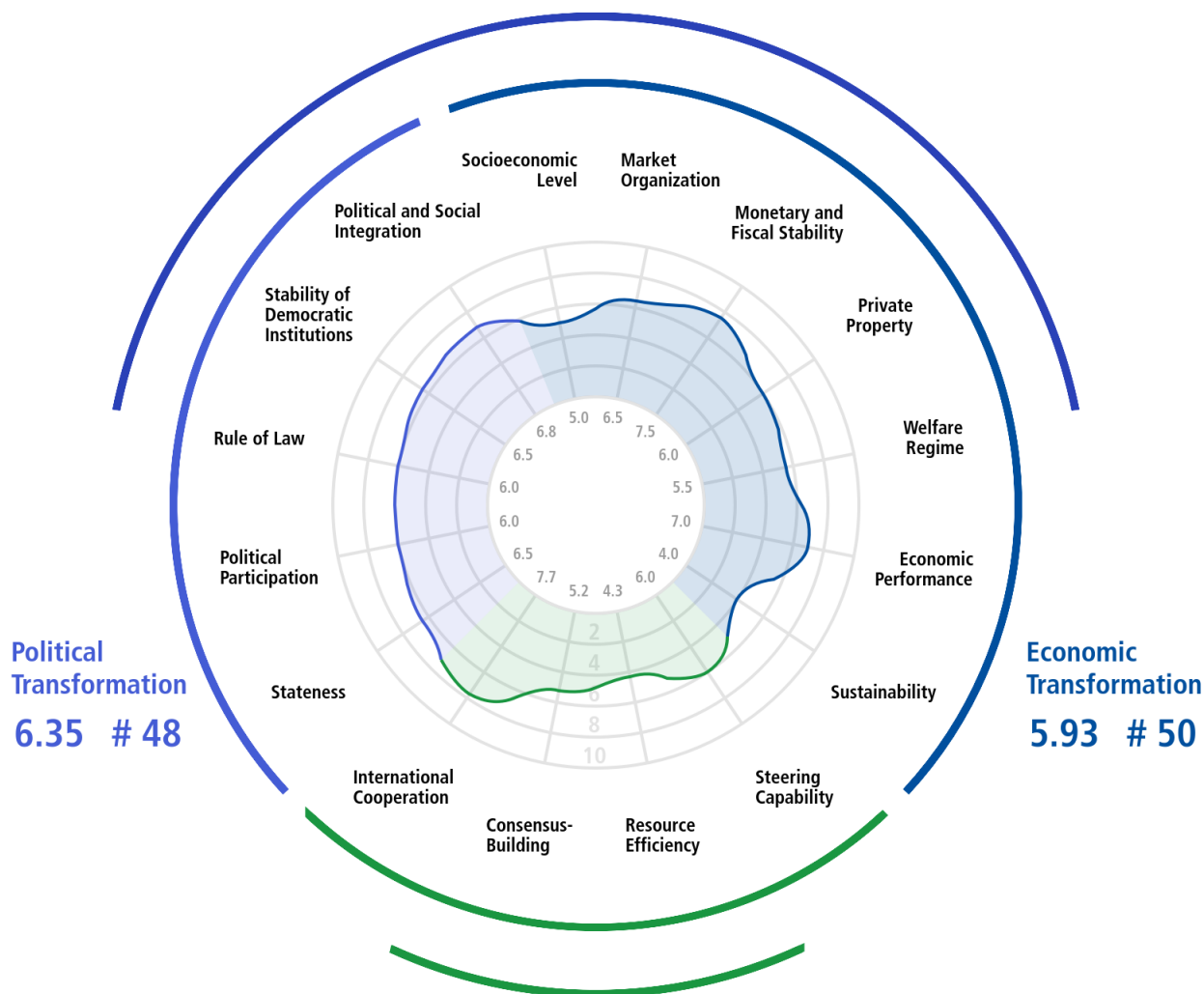


Indonesia

Status Index

6.14 # 46

on 1-10 scale out of 137



Political Transformation
6.35 # 48

Economic Transformation
5.93 # 50

Governance Index

5.17 # 52

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2022**. It covers the period from February 1, 2019 to January 31, 2021. 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	273.5	HDI	0.718	GDP p.c., PPP \$	12073
Pop. growth ¹	% p.a.	1.1	HDI rank of 189	107	Gini Index	38.2
Life expectancy	years	71.7	UN Education Index	0.650	Poverty ³	% 19.9
Urban population	%	56.6	Gender inequality ²	0.480	Aid per capita \$	-2.3

Sources (as of December 2021): The World Bank, World Development Indicators 2021 | UNDP, Human Development Report 2020. 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 2019 and 2021, the quality of democracy in Indonesia continued to slowly but noticeably deteriorate. Re-elected in 2019, President Jokowi has pursued a two-track strategy against the country's influential Islamist movement, which had become increasingly visible since the mid-2010s. On the one hand, he has integrated more centrist Islamist figures and ideas into his government, with a conservative cleric becoming Jokowi's vice president in 2019. On the other hand, the government has repressed the most radical Islamist leaders, banning a major organization in December 2020 and putting its charismatic patron behind bars. Both of these strategies undermined liberal freedoms, albeit in very different ways. While socially and politically conservative themes became entrenched in government discourse, the space for anti-regime dissent (of whatever color) has narrowed further.

The COVID-19 crisis has also allowed the government to discourage, and eventually ignore, societal protests against some of its policies under the pretext of upholding social distancing regulations. Several controversial laws were pushed through parliament in 2020 that would have been difficult to pass in normal, non-COVID-19 times. Among them was the Omnibus Law that was strongly opposed by labor unions and other activists. Moreover, critics of the government's lackluster COVID-19 crisis management claimed that the government tried to silence them. These critics pointed out, with some justification, that the government had been slow to react in the initial phase of the crisis and prioritized the economy over health concerns in later periods. As a result, Indonesia saw its case numbers rise consistently throughout 2020 (at the end of the year, the country had by far the most cases and deaths in Southeast Asia). Furthermore, while initially the Indonesian economy did not suffer as much as those of other countries, the protracted health crisis has meant that Indonesia's prospects for a quick post-crisis recovery are poorer. Domestically as well as internationally, Indonesia's response attracted particular criticism because some of its poorer regional neighbors, such as Vietnam, recorded significantly better outcomes.

It is important to note, however, that despite the decline in democratic quality – which continued throughout the COVID-19 period – Indonesia remains an electoral democracy. The 2019 presidential and legislative elections – the fifth since the fall of authoritarianism in 1998 – underscored that point once more. Unlike other states in the region, Indonesia 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. 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 by Indonesia’s own experiences of large-scale violence in the 1940s, 1960s and 1990s.

At least on paper, Indonesia made a significant shift toward free market policies after Jokowi’s re-election in 2019. Prior to the election, Jokowi and other politicians had taken protectionist stances on many issues, especially in relation to import barriers. Subsequently, however, Jokowi initiated the above-mentioned Omnibus Law, which constituted the largest deregulation package of the post-authoritarian period. It is too early to tell what the impact of these deregulation measures will be – many will require implementing government decrees – and even some multinational companies have raised concerns over the apparent reduction in environmental protections included in the law. These uncertainties combine with the continued existence of protectionist ideas and policies to warrant some caution as far as the government’s commitment to a socially and environmentally sustainable market economy is concerned.

History and Characteristics of Transformation

Indonesia’s democratic transition began in May 1998, when longtime autocrat Suharto resigned from the presidency after 32 years in office. Supported by the military, the bureaucracy and his Golkar party, Suharto had ruled the archipelago with an iron fist after bloodily 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; the military was legally depoliticized; 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 (his approval ratings hovered consistently around 70% from 2015 to 2020), the president 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. 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. After the 2019 elections, he further tightened his political control: after Prabowo split from his radical Islamist supporters, Jokowi invited the former to join his government and repressed the latter. The COVID-19 crisis, which he claimed to have managed well even though Indonesia became southeast Asia's key hot spot, gave him further reasons to sideline discussions on democratic reforms and instead concentrate on technocratic dimensions of government – which led many critics to describe Jokowi's government as a formally democratic re-manifestation of Suharto's regime.

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.

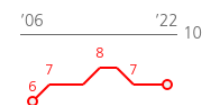
While Indonesia experiences regular terrorist attacks, such as a suicide bombing that targeted Medan's police headquarters in November 2019 and injured six people, these do not substantially undermine the state's monopoly on power. To further strengthen its authority, the state banned Hizbut Tahrir Indonesia in 2017 and the Islamic Defenders Front in 2020, ultraconservative Islamist groups that want to establish a religious state in Indonesia. 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 a July 2019 survey, 13% of Indonesians supported the idea of creating a state based on Islamic law, while an additional proportion of respondents wanted Islam to play a stronger role 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, LGBTQ+ citizens and ethnic Chinese), none of them have actively been denied citizenship rights (although some minorities reported that they found it difficult to

Question
Score

Monopoly on the
use of force

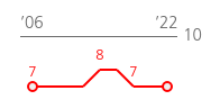
7



1

State identity

7



1

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 pluralist character of the constitution.

During the COVID-19 pandemic, the government allowed religious considerations to guide its public health decisions – it was reluctant to ban travel during the 2020 Eid al-Fitr holiday and made vaccine use dependent on a fatwa declared by religious scholars. Similarly, while the Indonesian constitution guarantees freedom of religion, this right has been increasingly hollowed out. One indication of this is the rise in the number of blasphemy cases. In the first half of 2020 alone, there were 38 such cases.

At the same time, LGBTI citizens have faced attacks and discrimination, with local state officials since 2018 introducing a range of anti-LGBTI local regulations. 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. The naming of a new minister of religion in December 2020, who promised to uphold the multi-religious spirit of the constitution, has triggered some optimism that the state might be more prepared to ignore public pressure from Muslim clerics, although the immediate pushback against the new minister from Muslim clerics indicates that the minister faces a difficult task.

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 administrative services delivered by the administration is often low. For instance, the provision of jurisdiction remains marred by corruption and the taxation system is poor (Indonesia's tax-revenue-to-GDP ratio is only 9.8%).

The low quality of public services became obvious during the COVID-19 pandemic, when the poor quality of health care infrastructure made it difficult for the government to respond effectively. For instance, Indonesia had one of the lowest testing rates in the world, which it blamed on a lack of suitable laboratories in its public health domain. In the same vein, the administration initially struggled to get social assistance to recipients – a circumstance aggravated by corruption in the bureaucracy charged with distributing social assistance. Overall, however, the much-feared collapse of public services did not occur during the pandemic and social protection measures were intensified in the second half of 2020.

No interference of religious dogmas

5

'06 '22 10



1

Basic administration

7

'06 '22 10



1

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. While this perception formally remains true, recent elections, both local and national, have seen trends that undermine the substantive quality of elections. First, there has been an ever-increasing level of vote-buying, involving a sophisticated system of brokers. Second, electoral competitiveness has narrowed. In 2020, 25 out of 270 local elections involved only one candidate (up from 16 in 2018, 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 and the police to promote his government's achievements; governors and district heads were "encouraged" to openly declare their support. 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 religious-sectarian polarized 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 a blasphemy fatwa against Jakarta governor Basuki Tjahaja Purnama in 2016, and thus legitimized mass demonstrations against him, became so influential 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 (despite the ban on the most extreme Islamist groups), adding to the expanding role of other influential actors, such as the military. Under the Jokowi administration, the military has shown greater assertiveness in non-defense missions. For instance, military figures dominated the early COVID-19 crisis team that Jokowi relied on, sidelining epidemiologists who were better qualified for such positions. The Jokowi administration also became more supportive of the military's aspiration to assume non-defense responsibilities. For example, Jokowi signed a presidential regulation that allows active officers to occupy functional posts outside of the TNI.

Free and fair elections

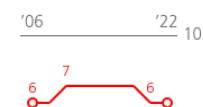
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Effective power to govern

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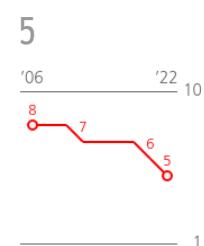
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Furthermore, given the absence of a functioning party and campaign financing system, many politicians have become highly dependent on oligarchs as sponsors. In return for contributions, they pass regulations or approve projects that benefit their donors. For instance, the 2020 Omnibus Law that deregulated the economy was strongly promoted by oligarchic actors.

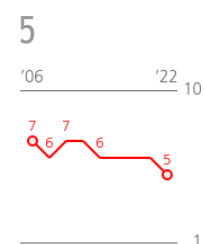
In most parts of Indonesia, the freedom of association and assembly is generally upheld. But there are important exceptions, which have increased in severity. First, groups advocating the separation of their territory from Indonesia are systematically repressed. In Papua, where such advocacy is strongest, the right to assembly and association for pro-independence activists does not exist, and those who try to gather are often arrested. Throughout 2020, hundreds of demonstrators were arrested for participating in peaceful political protests. Second, left-wing activism has been increasingly discouraged and prosecuted. In March 2020, three activists demonstrating against logging operations in Bima were arrested and charged. 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, the government has increasingly used the amended Law 16/2017 on Mass Organizations, which allows the government to ban any organization on ideological grounds. After banning Hizbut Tahrir Indonesia in 2017, it outlawed the Islamic Defenders Front in late 2020. Finally, the government exploited genuine social distancing concerns to limit the space for political protest in 2020 and push through controversial pieces of legislation (e.g., the Mining Law and the Omnibus Law), which otherwise would have attracted mass street protests. The assembly regulations varied from region to region, and often changed, but in Jakarta, for example, only five people were allowed to meet in September 2020. While regulations after December 2020 rarely included a concrete limit on the number of persons, some form of ban on mass gatherings remained in place beyond January 2021. While such regulations met the requirements of legality and medical necessity, critics pointed out that they were more likely to be enforced against political activists than against pro-government elites and ordinary citizens. In the latter two categories, enforcement was notoriously lax.

While freedom of expression is generally available to mainstream citizens, it is increasingly restricted for political dissidents and citizens living non-conformist lives. Particularly concerning has been the increase in the government's policing of the cyber sphere. The number of cases brought against citizens for online political defamation more than tripled from 74 during President Yudhoyono's second term (2009–2014) to 233 cases during Jokowi's first term (2014–2019). Of the 241 people charged under Jokowi as of the second quarter of 2020, 82 were accused of insulting the president. This trend has instilled fear in the wider population: in a September 2020 survey, 70% of respondents agreed that citizens are now increasingly afraid to express their opinion and 74% thought it was now more difficult to protest than in

Association / assembly rights



Freedom of expression



the past. Part of the problem has been the emergence of so-called pro-government “buzzers” (or influencers), who attack critics of the Jokowi administration on social media. The government has denied that it pays such influencers, but it has provided budgets for buzzers to help with other campaigns, such as the work substitution program run by the executive during the pandemic. As noted earlier, the ability of religious and sexual minorities to express themselves remains particularly constrained.

During the COVID-19 crisis, the government benefited from another trend that further restricted the free circulation of ideas: the concentration of media ownership, with almost all important outlets adopting a pro-Jokowi reporting bias during the 2019 election. This trend ensured that during the pandemic mass media coverage of the government’s response was generally friendly (with the exception of the TEMPO news outlets, which remained independent). Nevertheless, criticism of the government from several epidemiologists has been cited in the foreign press, much to the dismay of the government. In August 2020, the Indonesian embassy in Canberra strongly criticized the Indonesia correspondent of the Sydney Morning Herald for his use of data provided by such epidemiologists.

3 | Rule of Law

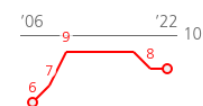
Nominally, post-authoritarian Indonesia has an effective separation of powers. After 1998, both the parliament and the judiciary emancipated itself from the previously excessively strong presidency. But post-Suharto presidents have tried to neutralize the power of parliament by building oversized legislative coalitions. This includes Jokowi’s post-2019, second-term government, which holds a large majority in parliament. As a result, parliament’s willingness to scrutinize the executive has notably reduced.

During the pandemic, the government declared a health emergency, but not a general state of emergency. In doing so, it followed the regulations outlined in various laws and parliament was in full agreement. Parliament had the right to monitor the government’s measures during the health emergency but did little to use this authority. Indeed, parliament signed off on a stipulation that absolved government officials of culpability in the potential misuse of emergency funds. Far from being scrutinized for heavy-handedness, the government was criticized for not doing more to enforce strict social mobility restrictions, with Jokowi keen to project normalcy in order to protect the economy. Thus, the government’s refusal to declare a full state of emergency was mostly the result of its intention to suppress the impression that the COVID-19 pandemic was a major emergency, rather than an expression of structural respect for the continued separation of powers.

The judiciary, too, was reluctant to provide strong checks and balances during the pandemic, with the Constitutional Court delaying deliberations on a judicial review of the regulations governing the use of emergency funds mentioned above. The court did, however, function normally in handling non-pandemic cases.

Separation of powers

8



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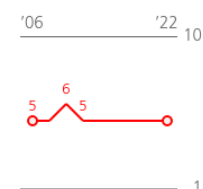
Indonesia's judiciary has two main branches: the Constitutional Court, which has the right to review and alter existing laws, and whose nine judges are appointed proportionately by the president, parliament and the Supreme Court; and the Supreme Court, which has the authority to interpret laws and whose judges are elected by parliament to 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 May 2019, a judge in Balikpapan was arrested for accepting bribes while presiding over a fraud case. Critics were also alarmed by a swift amendment to the Constitutional Court Law in September 2020. The sitting judges are now allowed to serve on the bench until the age of 70, replacing a previous regulation that limited their term to five years and two periods. Many legal academics viewed this revision as the government's attempt to purchase the judges' approval of a number of controversial laws that are certain to come before them over the next few years.

Corruption and abuse of power remain endemic in Indonesia. However, in contrast to the early post-Suharto period, some 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 2019, the commission had handled cases involving 257 parliamentarians, 28 ministers, 21 governors, 119 regents and mayors or their deputies, 225 high-ranking bureaucrats, and 22 judges. But three 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 seven months, which (after sentence reductions) means that most convicts spend only one and a half years in prison. And third, through a revision of the relevant law, the government and the legislature reduced the authority of the Anti-Corruption Commission in September 2019, leading to fewer arrests in 2020.

Protection of civil rights remained volatile between 2019 and 2021. 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. This did not change significantly during the COVID-19 crisis. The fundamental patterns of civil rights violations (i.e., who is targeted, by whom and to what extent) remained in place. Similar to countries all around the world, Indonesia restricted social mobility in some parts of its territory, but enforcement of the restrictions was generally lax. There were, however, several cases of political exploitation of these social mobility restrictions. While many ordinary citizens and officials got away with violating these rules, Rizieq Shihab, the leader of the Islamic Defenders Front, was arrested for violating the rules following his return from exile in late 2020. In the meantime, the main institution to observe

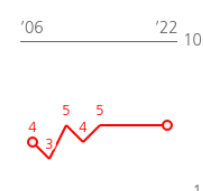
Independent judiciary

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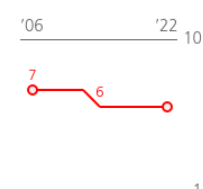
Prosecution of office abuse

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Civil rights

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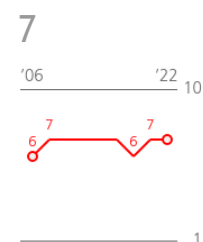
the protection of civil rights, the National Commission of Human Rights (Komnas HAM), has seen its role declining in recent years, with many of its recommendations ignored.

4 | Stability of Democratic Institutions

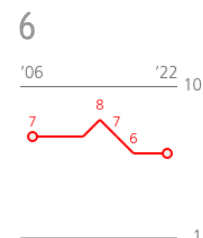
The level of friction between Indonesia's democratic institutions is currently low, with many critics pointing out that it is too low for each institution to function properly. There is, at this point, very little friction between the executive and the parliament, and – while this stabilizes the polity as a whole – it leads to reduced horizontal accountability. In the same vein, the destabilization created by the Islamist mobilizations of 2016 and 2017 has passed, but largely because Jokowi has either accommodated or repressed its leaders. 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. Since 2017, the government has banned several Islamist organizations that openly questioned its legitimacy (e.g., it outlawed the Islamic Defenders Front in late 2020). This, however, did not reduce the number of Islamist activists that view the government as illegitimate – it just drove them underground. Indeed, it is plausible that their perception of the government as being illegitimate has hardened as a result of their organizations being banned. During the COVID-19 pandemic, the government stayed largely within the legitimate corridors of democratic processes, seeking no major emergency powers. Given its already extensive powers, and the low level of opposition from parliament, political parties and most mainstream organizations, such emergency powers were unnecessary. Even prior to the pandemic, the government was tightening its control over fringe groups that challenged its legitimacy and during the COVID-19 crisis it intensified this approach.

Performance of democratic institutions



Commitment to democratic institutions

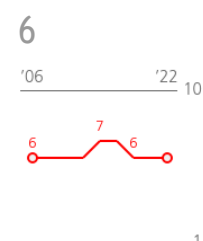


5 | Political and Social Integration

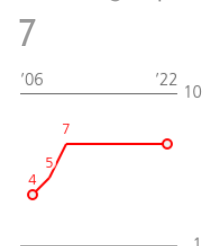
Indonesia's formal party system is fairly stable, with voter volatility considerably lower than in many other new democracies in Eastern Europe, Latin America or East Asia. During the 2019 elections, nine of the 10 parliamentary parties of the previous period re-entered the legislature and none of the new parties gained seats. 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 Islamic Defenders Front (which was subsequently banned in 2020) 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. These non-state actors also played a significant role during the COVID-19 pandemic, organizing grassroots assistance when the state was late to respond. Overall, however, non-state societal groups have struggled to form an effective counterweight to the rising influence of oligarchic business interests represented by groups such as the Indonesia Employers Association (APINDO) or the Indonesian Chamber of Commerce (KADIN), 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, militant organizations have successfully used the mushrooming of NGOs to masquerade their attacks on minorities as legitimate expressions of civil society activism.

Party system



Interest groups



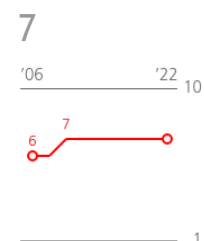
Formally, most Indonesian citizens strongly support democracy. In an August 2020 poll, 71% of respondents stated that they viewed democracy as the best form of government. Moreover, 67% of Indonesians expressed satisfaction with the way democracy functioned. While these numbers are slightly lower than in the pre-COVID-19 period, there are few indications that COVID-19 has led to a dramatic erosion in public trust in democratic institutions. Indeed, two-thirds of Indonesians expressed satisfaction with the way that the Jokowi government handled the pandemic, despite widespread criticism from experts.

There are two caveats to this general pattern of continued support for democracy and its leaders, however. First, there is no joint understanding among Indonesians of what democracy means. In some surveys, many respondents have defined democracy as the state's satisfactory provision of welfare. Second, the high levels of support for democracy seemingly collide with the simultaneously strong support for nondemocratic stances. For instance, in a September 2019 survey, 52% of Muslim respondents objected to the idea of a non-Muslim becoming governor. 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.

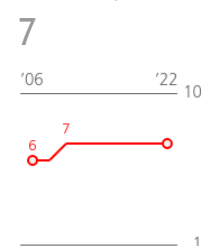
Indonesians are traditionally integrated into a large web of religious, social, ethnic and issue-based organizations that operate at both the national and local level. In a 2019 survey, 45% of Indonesian Muslims said they belonged to Nahdlatul Ulama, while 5% stated they associated with Muhammadiyah. 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. For instance, one person was killed in a clash between two village communities in Jambi in October 2020.

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 Islamic Defenders Front. In August 2020, hundreds of members of a Nahdlatul Ulama militia surrounded the house of an Islamist leader in Rembang who had allegedly insulted Nahdlatul Ulama figures and was close to the Islamic Defenders Front. Violence was averted, but tensions remained high for several days. The level of such intra-societal tensions remained relatively stable during the COVID-19 pandemic, with some groups blaming each other for the spread of the virus. For example, the conservative Jamaah Tabligh movement was accused of

Approval of democracy



Social capital



having held a super-spreader event at the beginning of the crisis. At the same time, however, there is also substantial evidence that groups cooperated to mitigate the impact of the COVID-19 crisis.

II. Economic Transformation

6 | Level of Socioeconomic Development

The COVID-19 crisis has reversed previous trends that had seen poverty declining and inequality decreasing, and thus had integrated more citizens into the societal network of beneficiaries of economic growth. The official poverty rate had declined from 10.9% in March 2014 to 9.2% in September 2019 but returned to 9.8% in March 2020. Most projections anticipated the trend exceeding 10% in 2021. The increase in poverty reflected the contraction of GDP during the crisis, with the economy shrinking by 5.3% in the second quarter and by 3.5% in the third quarter of 2020. Inequality has also increased slightly during the crisis, with the Gini coefficient of income inequality increasing from 0.380 just before the COVID-19 outbreak to 0.381 in March 2020.

Most observers project a stronger increase for 2021. These reversals highlighted the difficult path that Indonesia had been on in terms of achieving higher socioeconomic development even prior to the COVID-19 pandemic. In the 2020 Human Development Index, Indonesia ranked 107 out of 189 countries, only slightly up 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 121 in the 2020 Gender Inequality Index, down from 103 in 2013. LGBTI citizens and other non-conformist minorities continue to be discriminated against in Indonesia and find it difficult to gain employment.

Economic indicators		2017	2018	2019	2020
GDP	\$ M	1015618.7	1042271.5	1119091.3	1058423.8
GDP growth	%	5.1	5.2	5.0	-2.1
Inflation (CPI)	%	3.8	3.2	3.0	1.9
Unemployment	%	3.9	4.4	3.6	4.1

Question
Score

Socioeconomic
barriers

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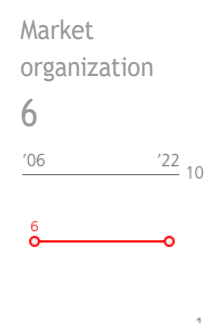
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Economic indicators		2017	2018	2019	2020
Foreign direct investment	% of GDP	2.0	1.8	2.2	-
Export growth	%	8.9	6.5	-0.9	-7.7
Import growth	%	8.1	12.1	-7.4	-14.7
Current account balance	\$ M	-16195.6	-30633.1	-30279.1	-4341.5
Public debt	% of GDP	29.4	30.4	30.6	36.6
External debt	\$ M	353563.8	379589.0	402106.4	417531.7
Total debt service	\$ M	58806.9	55468.7	81769.2	67411.0
Net lending/borrowing	% of GDP	-2.5	-1.8	-2.2	-
Tax revenue	% of GDP	9.9	10.2	9.8	-
Government consumption	% of GDP	9.1	9.0	8.8	9.3
Public education spending	% of GDP	2.7	3.0	2.8	-
Public health spending	% of GDP	1.3	1.4	-	-
R&D expenditure	% of GDP	0.2	0.2	-	-
Military expenditure	% of GDP	0.9	0.7	0.8	0.9

Sources (as of December 2021): 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 took significant steps in 2020 to reduce trade barriers and investment hurdles. The Omnibus Bill on Job Creation changed 76 laws through one major revision, with the aim to make investment and trade easier. However, while investors generally welcomed the majority of the stipulations contained with the Omnibus Law, several corporations criticized the dismantling of environmental protections. Moreover, the law was pushed through parliament against massive protests by unions, as workers protections were also weakened. Despite the free-market impetus of the law, many uncertainties remain. First, for the law to be enforced, it requires dozens of implementing regulations, which will only be issued in 2021 or later. The second uncertainty concerns the persistently large size of the informal sector, with around 55% of workers engaged in the informal sector in 2020, only a slight reduction from previous years. Third, the government continues to intervene in the market by providing direct and indirect fuel subsidies. While Jokowi abolished subsidies for



premium petrol in January 2015, his government continues to subsidize other forms of fuel. In 2020, the government paid about \$10 billion in subsidies for diesel, liquified petroleum gas and electricity.

Overall, however, there have been signs that Indonesia wishes to open up its markets more consistently (despite continued protectionist tendencies inside and outside the administration). Thus, the 2019 Global Competitiveness Report ranked Indonesia a respectable 50 out of 141 countries. Starting a business takes 19.6 days and 10 procedures, and costs 6.1% of GNI per capita. The passing of the Omnibus Law was largely aimed at reducing these numbers and making the process of starting a business more flexible. The jury is still out on whether it will succeed in doing so.

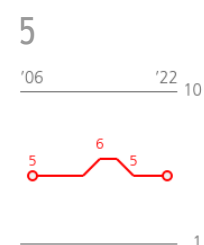
Indonesia's anti-monopoly measures are more solid than under pre-democratic rule, but their effectiveness remains limited. The country has a Commission for the Supervision of Business Competition (KPPU), established in 2000 under Indonesia's Anti-Monopoly and Unfair Competition Law. However, equipped with a small budget, the KPPU can only handle a small number of cases each year, and some of its decisions have been overturned by the Supreme Court. In 2019, the KPPU decided only 32 cases, most of them of an administrative nature and involving small fines.

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. SOEs were also situated as one of the main vehicles of economic resilience and recovery during the COVID-19 pandemic. In 2020, the government injected \$3 billion into SOEs in response to the COVID-19 crisis, expecting that spending by SOEs would stimulate the economy. However, the prioritization of SOEs over private companies seems particularly risky given the SOEs' debt exposure. In late 2019, according to the State-owned Enterprise Ministry, SOEs faced debts of IDR 1.6 quadrillion (\$98 billion). Thus, not only do SOEs limit the competitiveness of the private sector, but they also appear to be burdens on the national budget.

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 37% in 2019, against a world average of 60.2%. Furthermore, Indonesia has frequently used tariffs and non-tariff measures to protect its domestic market, reflecting a deep affinity toward protectionism among elites and within society.

However, the Jokowi government has recently tried to open up the country's markets, at least in areas where it believes the country would benefit (i.e., in areas that would see Indonesian exports and FDI into Indonesia increasing). In 2020, Indonesia was a co-founder of RCEP, a large free-trade zone established between the Association of Southeast Asian Nations (ASEAN) and several other states, including China. In the

Competition policy



Liberalization of foreign trade



same year, Indonesia ratified a free-trade agreement with Australia and signed another one with South Korea. In addition, the Omnibus Law passed in October 2020 included provisions to deregulate Indonesia's agricultural sector, making imports easier. Thus, while significant barriers remain and the role of foreign trade is low, Indonesia initiated some meaningful measures to reduce tariffs in the surveyed period.

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 15.6% in 2019, up from 12.5% in 2013. Its capital adequacy ratio (CAR) also increased from 21.3% in 2015 to 23.5% in August 2020, in the middle of the COVID-19 pandemic. However, the banks' share of non-performing loans to total gross loans rose from 2.1% in 2014 to 3.1% in September 2020, indicating that bank clients were struggling to repay their loans, as in other parts of the world.

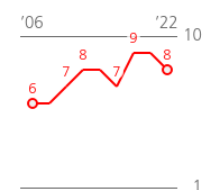
While the banking sector overall remained stable during the pandemic, critics raised alarm over the role of Bank Indonesia, the country's central bank, in financing the government's debt. In mid-2020, Bank Indonesia agreed to buy \$27 billion worth of government bonds and pay the costs of another \$13 billion stimulus program for businesses. Critics conceded that the government had few alternatives to this approach but warned that it might also set a tempting precedent for post-COVID-19 governments. Moreover, banking analysts were concerned by a draft bill on Bank Indonesia debated in parliament in 2020. The draft bill suggested that the central bank could retake authority for banking supervision from the Financial Services Authority (OJK), which had been given this authority only a few years ago. Several legislators also proposed that the bill should give the government a greater role in Bank Indonesia decisions. While it is unclear what the final Bank Indonesia Law will look like, the discussions on it have led to some irritation and uncertainty in the banking sector.

8 | Monetary and fiscal stability

During the COVID-19 crisis, Indonesia maintained its traditionally prudent anti-inflation and foreign exchange rate policies. Indeed, as a result of low demand in the domestic market, inflation in 2020 was the lowest in the country's history, at 1.7%. But even prior to the pandemic, Indonesian policymakers have generally been praised for keeping inflation under control. Similarly, the central bank – although its purchases of government bonds raised some eyebrows – managed to preserve the stability of the national currency, the rupiah, during the pandemic. While the rupiah briefly reached a low of 15,500 to the U.S. dollar in April 2020, it quickly recovered and stabilized around the 14,200 mark for the rest of 2020. The real effective exchange rate stood at 93% in 2020 – roughly the same as in 2019, prior to the pandemic. The central bank was helped in its efforts to maintain the stability of the

Banking system

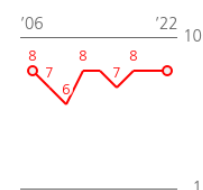
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Monetary stability

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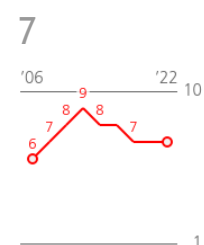
currency by a current account surplus in mid-2020 – the first since 2011. This surplus was largely the result of imports declining while exports (especially natural resources) remained stable.

Regarding the independence of the monetary authority (i.e., the central bank), we have already noted concerns about the repercussions of the central bank buying government debt as a source of future problems, while the ongoing debates about a new bill on the central bank (during which some legislators raised the possibility of a larger role for the government in determining monetary policy) could also have a negative impact on the bank's autonomy. As of early 2021, however, the independence of the central bank remains intact.

As in many other countries, the COVID-19 crisis has destabilized Indonesia's fiscal position, which was solid prior to the pandemic. In 2019, the budget deficit was 2.2% of GDP, well below the legal ceiling of 3%. However, the government was forced in late March 2020 to issue an emergency law that suspended this ceiling. Projections suggest that the budget deficit for 2020 and 2021 will be around 6%. State revenues declined mostly because of shrinking domestic consumption, with travel restricted and tourism almost entirely suspended. This was despite President Jokowi's insistence that tax restrictions (he refused to impose a full lockdown) would protect the economy. Health experts, by contrast, warned that the lack of lockdowns risked an explosion in cases, which would further damage to the economy – a fear that manifested itself in early 2021, just as the country prepared its first vaccinations. Expenditures, on the other hand, grew because of increased health care, social assistance and economic stimulus costs.

As result of its declining income base and growing expenditures, Indonesia faced a significant increase in its debt. Government debt-to-GDP shot up from 30% in January 2020 to 37% in September 2020. In 2011, that debt level had been 23%. While Indonesia received no aid from the IMF to stabilize its budget, it sought help from other countries and institutions. The Asian Development Bank provided a total of \$2 billion in COVID-19 relief funds, while Australia granted a loan of AUD 1.5 billion.

Fiscal stability



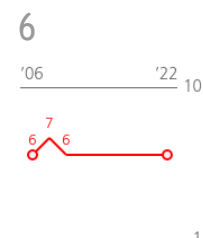
9 | Private Property

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 late 2019, his administration handed out 26.7 million certificates (out of 80 million that were still outstanding in 2015) – often the president did so personally during trips to the regions. While his critics dismissed this move as a publicity stunt, the program helped to formalize land rights in Indonesia. It should be noted, however, that agrarian conflict remains rampant. In 2019, there were 279 land conflicts (covering 734,000 hectares of land), with most cases involving the plantations and government infrastructure projects. Between 2015 and 2019, 55 people were killed in such conflicts.

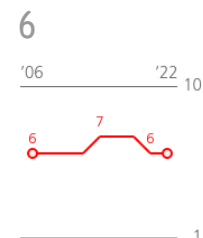
In addition, the country made little progress in protecting intellectual property rights. In the intellectual property rights segment of the International Property Rights Index of 2020, the country ranked 98th out of 137 countries, the same rank as in 2016. Indonesia did particularly poorly for copyright piracy, where it was ranked 100th.

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 16% in 2019, the share of government spending to GDP has remained in line with the world average, with the rest spent by the private sector. However, a persistent problem for private business has been the strong role of SOEs under the Jokowi government and the slow pace of privatization. While listed SOEs make up around a quarter of the Indonesia Stock Exchange’s market capitalization and are therefore significant players on the stock market, many other SOEs have repeatedly postponed plans to go public, with the pandemic in 2020 serving as a further excuse to delay such plans. As stated previously, the government injected emergency funds into SOEs to help them to stay afloat during the COVID-19 pandemic. This included \$607 million for the national airline Garuda, which has received regular injections even in non-emergency situations. The government has not, however, taken over private businesses (or demanded shares) in return for economic support during the COVID-19 crisis. Such support was largely distributed through stimulus packages and debt restructuring offers by state-owned banks.

Property rights



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. In 2019, 83% 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 July 2020, 53% of eligible workers had joined this program.

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. In order to reverse this trend, the executive has tried to raise premiums despite widespread societal opposition (once in early 2020 and then, after it failed, in early 2021), leading to legal challenges and some participants downgrading their coverage or stopping payments altogether.

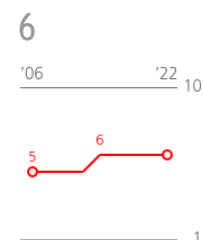
During the COVID-19 pandemic, the government offered additional social protections, first in the form of food aid and later in the form of cash payments. The minister for social affairs was arrested in late 2020 because he had siphoned off money from the social assistance budget, leading to outrage among the broader population.

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 2020, women comprised 39% of the Indonesian workforce, as opposed to 48% in Vietnam.

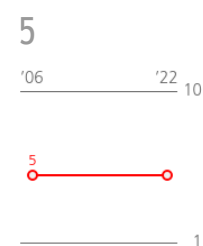
There are strong indications that layoffs during the COVID-19 pandemic hit women particularly hard, as garment factories (which overwhelmingly employ women) were severely affected by the downturn. Women also remain under-represented in parliament, with women comprising a mere 20% of the members of parliament who were elected in 2019 (this was up three percentage points from the last parliament, but only because of the success of female relatives of male officials).

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 cities. In March 2020, 7% of urban citizens were poor versus 13% of the rural population. The LGBTI community has experienced

Social safety nets



Equal opportunity



severe discrimination, too. In early 2021, a police officer lost his legal challenge against the National Police, which had fired him for being gay. Similarly, ethnicity and religion remain factors that can either enable or obstruct entry into the workforce or public positions, depending on a citizen's location.

Minorities can face significant obstacles in areas dominated by a large ethnic or religious majority, while ethnic Chinese have struggled nationwide to gain legislative and executive positions, except in a few district-level areas in which they constitute a large minority or even the majority. It needs to be noted, however, that Indonesia has strived to close some general inequality gaps by systematically extending educational opportunities. As a result, in 2019, 18% of 25- to 34-year-old women in Indonesia had attained a tertiary education compared to 14% of 25- to 34-year-old men; the literacy rate was 96%; and the gross enrollment ratio was 106% for primary, 89% for secondary and 36% for tertiary education

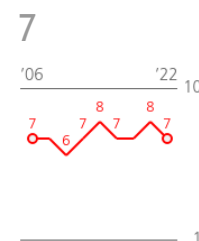
11 | Economic Performance

As with almost all other countries, Indonesia's economic performance was severely affected by the COVID-19 crisis. In the last quarter of 2019, the Indonesian economy grew by 4.97% – very close to its average growth rate since 2018. This growth rate was generally seen as solid but below Indonesia's potential as one of the largest consumer markets in the world.

Beginning with the second quarter of 2020, Indonesia slipped into negative growth territory and it recorded its first recession since 1998. Ironically, however, in the middle of the pandemic, Indonesia graduated to become a higher middle-income country, crossing the GNI per capita threshold of \$4,046 in mid-2020 (although it is likely that it will drop out of this category again as a result of the crisis).

The official unemployment rate stood at 7.07% in the third quarter of 2020, up from 4.99% in the first quarter. Foreign direct investment (FDI) net inflow was \$23 billion in 2019 and was projected to be significantly below that in 2020. The first and second quarters of 2020 saw declines in FDI net inflow of 9.2% and 6.9%, respectively. As indicated earlier, inflation stood at a low 1.7% in 2020, government debt to GDP increased to 37% and the budget deficit to 6%. Thus, Indonesia warrants a downgraded score for the period under review, although it declined along a global trend in economic contraction.

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 around 12–13% since 2007. Consequently, Indonesia has not been able to significantly reduce its carbon emissions. CO₂ emissions per capita increased from 0.27 metric tons in 1970 to 2.32 metric tons in 2019, growing at an average annual rate of 4.66%. Indonesia has also strongly invested in palm oil, becoming the world's largest exporter of the product. 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.

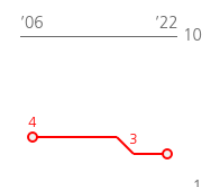
As indicated earlier, environmentalists have expressed concerns over the impact of the Omnibus Bill passed in 2020, which will “streamline” the process by which companies have to obtain environmental assessments for their business projects. Under the new regulations, local populations have been excluded from the process, leading to widespread criticism when the law was promulgated.

Indonesia has a wide network of education and research facilities, but they are generally of poor quality. As noted earlier, the PISA (Programme for International Student Assessment) project typically lists Indonesia among the poorest performers in its tests. It is not surprising, then, that Indonesia's ratio of education spending to GDP (3.6% in 2015, as the latest available data point) is below the world average. Similarly, the levels of research and development spending (0.2% of GDP in 2018) are substandard. The nation's UN Education Index score is 0.650, which constitutes a significant improvement compared to 10 years ago (0.579 in 2009).

The highest-ranking Indonesian university is Gadjah Mada University in Yogyakarta, ranked 254 in the 2021 QS World University Rankings – pointing to the lack of international competitiveness of the Indonesian tertiary education sector. Underlining this point further, in the 2019 Global Competitiveness Report, Indonesia ranked 87 out of 141 countries for the number of international co-invention applications per million inhabitants (0.03). In order to address many of these shortcomings, President Jokowi appointed new ministers for education and research in October 2019. The education minister, a young start-up entrepreneur, has attempted to modernize the sector through a series of unorthodox reforms since his appointment, but concrete results have so far been scarce. The challenge of reforming the education system was made harder by the fact that most schools remained closed throughout the pandemic, with home study arrangements sketchy, and dependent on access to the internet and/or home visits by teachers.

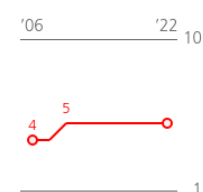
Environmental
policy

3



Education policy /
R&D

5



Governance

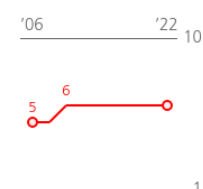
I. Level of Difficulty

The major constraints on the Indonesian leadership's governance capacity are poverty, low education levels, limited public infrastructure (especially in regions outside Java and the eastern part of Indonesia), endemic corruption and geographic factors. While the official poverty rate is around 10%, about a third of the population live close to the poverty threshold. Similarly, the lack of an educated workforce remains a challenge, although tertiary education enrollment rates have been on the rise, reaching 30% in 2019. 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.

Having said that, it is worth noting that Indonesia became a higher middle-income country in 2020 and it was thus widely criticized for using structural constraints as an excuse for its slow response to the COVID-19 crisis. The Jokowi government did very little between January and March 2020 to prepare for the imminent outbreak and offered a lackluster response after that – while poorer neighbors, such as Vietnam, reacted swiftly and decisively. As a result, the number of infections spiraled out of control. By early 2021, Indonesia had by far the highest number of infections and deaths in Southeast Asia, and its economy was in recession. With 850,000 infections, Indonesia had recorded 25,000 deaths at that stage, while Thailand had suffered only 66 fatalities.

Structural
constraints

6



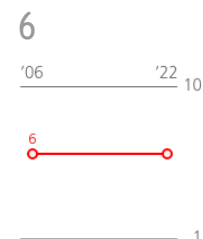
While Suharto's authoritarian regime sought to control and suppress civil society activism, regime change led to an explosion in the number of NGOs and other societal organizations. In July 2019, the Home Ministry reported that there were at least 420,381 NGOs in Indonesia, up from 139,507 in July 2013. 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 openly pursue non-democratic goals, such as limiting the rights of religious minority groups. Other groups are under control of politicians and are used to support their sponsor's interests. Since giving itself the right to ban civil society groups without a court order in 2017, the government has used this authority twice. As noted, both cases involved hardline Islamist groups, although pro-democracy activists have also expressed concern that the government could use the instrument in the future to move against a broader spectrum of political dissent.

The level of violent tensions between sociopolitical groups has declined during the review period, especially following the 2019 elections. But this was largely because the Jokowi government adopted an increasingly repressive stance toward the fringes of the Islamist movement, whose mobilization had destabilized Indonesia in 2016 and 2017. The government also succeeded in splitting Prabowo Subianto, Jokowi's challenger in the 2014 and 2019 elections, from his Islamist supporters by integrating him into the government as minister of defense. However, the banning of two Islamist organizations in 2017 and 2020 does not mean that their followers will go away, nor will the legal prosecution of their leaders discourage further recruitment. If anything, the sense of the Islamists' victimization by a repressive government is likely to attract more sympathizers. Thus, the current stability is superficial rather than substantive. The potential for polarization in Indonesia to re-emerge around another major event – such as the 2024 elections, in which Jokowi will not be able to run again – remains significant.

During the COVID-19 pandemic, the fault lines in Indonesian politics remained visible, with Jakarta governor Anies Baswedan – a 2024 presidential contender and the preferred candidate for Islamists – regularly clashing with Jokowi over the best approach to containing the virus. While there were no violent incidents surrounding the Jokowi-Baswedan rivalry, in December 2020, police killed six bodyguards of Rizieq Shihab, the Islamic Defenders Front leader who was under observation for violating COVID-19 social mobility rules. Before this controversy could trigger more unrest, the government banned the organization and put Shihab in prison.

Civil society traditions



Conflict intensity



II. Governance Performance

14 | Steering Capability

The re-election of President Jokowi for a second (and his last) term in 2019 has allowed him to push through the government's priorities without much concern for their electoral consequences. Holding a supermajority in parliament and without the pressure of needing to win another election, Jokowi seems determined to leave a political and economic legacy. For instance, Jokowi had supported the development of the Omnibus Law on Job Creation long before the 2019 election but had held back because of its unpopularity. After the election, by contrast, he ensured that it was passed, despite widespread societal opposition, using the COVID-19 pandemic restrictions on public gatherings to suppress mass protests.

But the COVID-19 crisis also obstructed the realization of some of the government's priorities. Most importantly, Jokowi wanted to build a new capital in Northeast Kalimantan, leaving behind the overcrowded Jakarta. In his view, moving the capital would create a new balance between Java and the Outer Islands, both politically and economically. As a result of the COVID-19 crisis, however, the plans for a new capital have been shelved and, given how closely the idea is tied to Jokowi personally, it is unlikely that the next president – after 2024 – will revive it. This is despite the fact that the new capital was integrated into the country's long-term development plans drafted by the Planning Ministry (Bappenas), but such plans are often thrown out when the government changes or when short-term interests gain priority.

The government is generally effective in implementing its policies, but it remains dependent on fiscal resources and bureaucratic capacity when trying to realize its programs. Both of these constraints have been long standing but became more pronounced during the pandemic. As a result of its reduced income and increased COVID-19-related spending, the government had to delay or cancel many planned projects (e.g., moving the capital). Similarly, the bureaucracy – which even during normal times was often an obstacle to effective policy implementation due to vested interests, red tape and corruption – became overstretched. The distribution of social assistance, for example, was hampered by poor data analysis and corruption, and the health bureaucracy was also slow to establish functioning testing and treatment regimes. These fiscal and bureaucratic limitations on policy implementation are likely to remain a structural problem for some time, even after the pandemic is over.

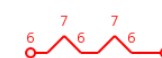
It should also be noted that there remain significant predatory interests in the government (whether in ministries or other executive agencies) that prevent the implementation of policies not because of technical difficulties or bureaucratic

Question
Score

Prioritization

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Implementation

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resistance, but because they run counter to their own agenda. Jokowi's first post-2019 health minister, Terawan, for instance, was widely criticized for blocking a better, more decentralized health response to the COVID-19 outbreak because he wanted his ministry to monopolize the available resources and capacities. Terawan was replaced in December 2020, but by then he had already done substantial damage to the government's overall crisis response.

In the area of economic and technical development, the government has shown some ability to learn from international experiences and create innovative responses as a result. For instance, the government identified the development of electronic cars and their batteries as a major opportunity for Indonesia, and it has recorded some successes in this regard. In January 2021, Hyundai decided to close its Asia-Pacific headquarters in Malaysia and move it to Indonesia because of this focus on electronic cars.

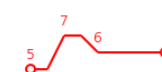
Politically, however, the Jokowi government has demonstrated a declining capacity (and willingness) to learn from the mistakes of the pre-1998 authoritarian order. The Jokowi government's repression of Islamist actors uses the same rhetoric the Suharto regime deployed and is likely to produce similar results. Under authoritarianism, radical Islamists went underground rather than reform, and there are indications that the same thing is occurring today. Similarly, Suharto's prioritization of economic development over human rights and environmental protection is echoed today in some of Jokowi's approaches, albeit still within a formally democratic framework.

During the COVID-19 crisis, this prioritization of economic development was evident, with Jokowi rejecting stricter public health measures because he feared it would damage the country's growth opportunities. There has also been little evidence that the government has learned from, or even admitted to, mistakes in its handling of the pandemic. Despite continuously increasing infection numbers, Jokowi claimed that his government had done better than most around the world and that Indonesia was "lucky" that he had decided not to impose stricter social mobility restrictions. The latter claim, made on a day in January 2021 when daily infections in Indonesia reached another record, led to strong criticism of the president from experts.

Policy learning

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15 | Resource Efficiency

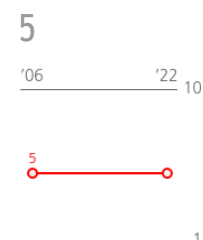
Traditionally, Indonesia has used its vast human and natural resources ineffectively, and the incumbent Jokowi government has not been able to make significant progress in this regard. Its civil service, which comprises 4.3 million employees, continues to be viewed as overstaffed, ineffective and corrupt. The government announced in September 2019 that local governments spend an average of 36% of their budget on civil servant salaries, 13.4% on travel and other official purchases, as well as 17.5% on office expenses. This means that two-thirds of local government budgets are used to cover personnel costs, leaving very little for investment. Indonesia's labor productivity also remains low.

In a 2020 study by the Japan External Trade Organization, Indonesia scored lower in labor productivity than Singapore, Thailand, Vietnam, Singapore, Malaysia and even Laos. In terms of natural resource management, restrictive and unclear 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 \$12 billion in 2019. Instead, investors rushed into cheaper coal and palm oil extraction, causing severe damage to the environment.

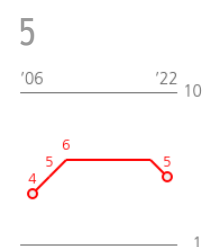
The COVID-19 crisis has led to a decline in and re-allocation of available resources – both human and fiscal. To a large extent, the government was transparent about these re-allocations, but there were cases of corruption in which emergency funds were redirected and spent (e.g., in social assistance provision).

There are two major problems with regard to the quality of policy coordination in Indonesia, both of which became visible during the COVID-19 pandemic. First, government ministries are run by a wide range of different parties and actors, and the autonomy of the latter in policy formulation is significant. For instance, in April 2020, the Trade Ministry issued 200 special permits that allowed companies to continue operating during a period of social mobility restrictions, although these companies were not on the list of exceptions the Health Ministry or Manpower Ministry had signed off on. This led to a situation in which controllers of the Manpower Ministry were surprised to be presented with Trade Ministry permits when they went to specific companies to shut them down. The second major policy coordination problem is related to Indonesia's highly decentralized state organization. During the COVID-19 crisis, the central government often came into conflict with provincial and district governments over the right containment approach, with the central government prioritizing the economy and many local leaders instead prioritizing public health. As a result, a highly fragmented regime of weakly enforced regulations emerged that allowed infection numbers to rise and the economy to decline in line with that trend.

Efficient use of assets



Policy coordination



The government's commitment to fighting corruption, which was already weak to begin with, declined further in 2019. After a decade of trying to undermine the Anti-Corruption Commission (KPK) through a revision of the law that governed it, elite actors finally succeeded with this effort in 2019. Based on an agreement between the president and the legislature, the KPK lost significant powers (e.g., the authority to wiretap suspects without a court order) and a police general known for his hostility toward the KPK was installed as its leader. These changes to the KPK were reflected in its case statistics. While the KPK launched 30 sting operations in 2018, that number dropped to just seven in 2020 (with most of these occurring in December in an obvious attempt to boost the end-of-year statistics).

There had been large student demonstrations against the change in the KPK law and five people were killed when the police tried to stop them – demonstrating the determination of elite actors to weaken the KPK. These elite actors have also defended the status quo in the regulation of party financing, with only minimal state subsidies granted, and parties and candidates largely self-financing or being externally sponsored. Under this system, political actors have greater flexibility in managing their finances and engaging in clientelistic relationships, as they can avoid the transparency that comes with state funding and strict reporting regimes.

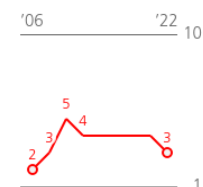
Meanwhile, the auditing of state expenditure remains mostly inconsequential, with findings of the State Auditing Board (BPK) often purely administrative in nature and rarely leading to legal prosecutions of perpetrators.

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 democracy. President Jokowi's support for democracy, for example, has often been heavily qualified. He stated in August 2020 that democracy had to operate “without disturbing the speed of [government] work and legal certainty as well as the traditional values of our forefathers.” Reflecting such qualifications, some segments of the political establishment have in recent years expressed their support for “Pancasila democracy,” as named and practiced by longtime autocrat Suharto. In essence, Pancasila democracy is a tightly controlled form of elite democracy, in which the masses are kept in line in order to prevent chaos and disintegration. Suharto's 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 (but also increasingly challenged by the government). Thus, while “democracy” is still a key element of elite and popular discourses, there are significant disagreements over its most fundamental meaning.

Anti-corruption policy

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Consensus on goals

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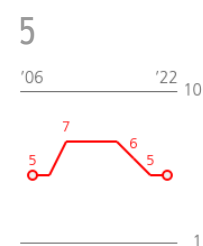
Similarly, support for a market economy remains volatile. While the passing of the Omnibus Law and its deregulation packages could indicate increased support for a market economy among the elites, such support is conditional on political contexts. Increased competition ahead of the 2024 elections could easily lead to a return of protectionist rhetoric and policies. In the 2019 election campaign, for instance, Prabowo Subianto pledged that, if elected president, he would stop all imports. After he joined the government in October 2019, however, he quietly shelved such demands and his party voted for the deregulation measures contained in the Omnibus Law. But given that he appears to be seeking another presidential run in 2024 in a coalition with the PDI-P (Jokowi's party which only grudgingly supported the Omnibus Law), it is likely that he will turn against unpopular aspects of the Omnibus Law during the election campaign and promise to revise them.

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 infrastructure. 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) that his reformist image rapidly evaporated. While accommodating some Islamists, he repressed others, further damaging his reformist credentials. Politically and ideologically, he now leads the most conservative post-Suharto government, with anti-democratic actors holding key positions in his administration.

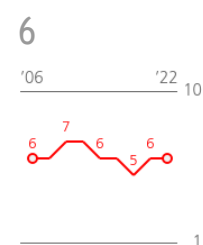
The most important sociopolitical cleavage in modern Indonesia is between supporters of a greater role for Islam in state organization and those who want to maintain the country's existing pluralist constitution. President Jokowi, a pluralist, has tried to moderate potential conflicts arising from this cleavage by integrating some Islamist leaders and ideas into his government. He nominated a conservative Muslim cleric to be his vice president for his second term and appointed his rival in the 2014 and 2019 elections, Prabowo Subianto, to the cabinet. While this has appeased some Islamists, others have continued to oppose the government and have been repressed.

Other cleavages are managed in a more effective, institutional way. Imbalances between regions, for instance, are mitigated by a budget distribution scheme that allocates more funds to resource-poor regions than to those that can generate sufficient income. Class divisions are significant but are generally not expressed politically due to a surprisingly persistent societal sentiment against the class rhetoric

Anti-democratic actors



Cleavage / conflict management



used by the Indonesian Communist Party in the 1960s. The party was destroyed in the wake of the military's takeover in 1965 and 1966, and the Suharto regime subsequently led a highly successful ideological campaign against the alleged threat of leftist thinking to the Indonesian state and society.

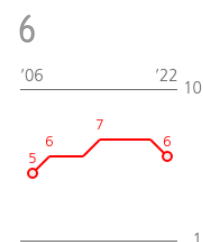
In contrast to most other Southeast Asian countries, the political environment for civil society activism is much more beneficial. Legal regulations are less strict than in the authoritarian regimes of the region and, in contrast to the Philippines, the government has not pursued a policy of intimidation and coercion. At the national and especially the subnational levels, there are a myriad of examples for government–civil society cooperation.

However, in recent years, the willingness of the Jokowi government to take into account and accommodate the diverse interests of Indonesia's vibrant civil society has significantly declined. At the same time, as there are reformist and non-reformist elements in Indonesian civil society, accommodation of their interests by government is not always helpful for the promotion or entrenchment of democracy. Over the last decade or so, Indonesian governments had generally been more responsive to non-reformist, conservative civil society actors than to their progressive counterparts. However, since his re-election in 2019, President Jokowi has shown that he wants to reduce his responsiveness to both conservatives and progressives. His clear determination to ignore societal objections to the revision of the anti-corruption law and the passing of the Omnibus Law highlighted his intention to complete his second term without paying much attention to criticism from civil society of whatever ideological or political color. During the pandemic, the government used civil society activism to fill gaps in its provision of social assistance, but otherwise exploited the restrictions on social mobility to enact unpopular policies. For example, the Omnibus Law, a new mining law and a revised Constitutional Court law were rushed through parliament without noteworthy civil society participation (or even recognition of civil society dissent).

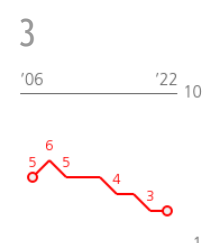
While Jokowi promised early in his presidency to resolve past human rights abuses and consider issuing an apology for the state's role in the killings of hundreds of thousands of communists in 1965 and 1966, there are no signs that he will live up to that promise before his second term expires in 2024. Powerful interests in the military and police, and within Muslim organizations have warned him against revisiting the 1965/66 events, and urged him to instead maintain the anti-communist rhetoric adopted by the Suharto and most post-1998 governments.

There have also been no credible initiatives to bring justice to the victims of human rights abuses perpetrated during the 1998/99 political transition or in Papua, where the military and police continue to commit abuses. While the government announced in late 2019 that it planned to revive the Truth and Reconciliation Commission legislation that had been scrapped by the Constitutional Court in 2006, such promises have been routinely made by successive post-2006 cabinets only to be shelved amidst

Civil society participation



Reconciliation



significant opposition from both inside and outside the ruling political elite. Most human rights activists are, therefore, skeptical that this time will be any different, especially since the pandemic has shifted the government's attention (once again) elsewhere.

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 and create the Anti-Corruption Commission. But after Indonesia repaid its debt to the IMF in 2006, 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 line between Jakarta and Bandung, after the government rejected a more expensive proposal from Japan. In 2020, when the chaos surrounding the project became fully apparent, the government offered Japan a chance to join a different project that seeks to extend the line to Surabaya – an offer that was met with surprise and frustration in Tokyo. Similarly, the Indonesian government relied on the development of the Chinese Sinovac vaccine as its main vaccination instrument, initially missing out on other vaccines with higher levels of efficacy.

Overall, the government has a roadmap for utilizing international cooperation to further its development, but this roadmap no longer includes democratic reforms and its technical aspects are often adjusted to the limitations of its own resources. It is also noteworthy that Indonesia launched its own Indonesian Agency for International Development (AID) in October 2019, but – with an endowment of \$200 million – its program is still very limited.

Generally, Indonesia is seen as a credible diplomatic partner. Typically, it is a moderate, non-combative actor that consistently promotes multilateral solutions to international problems. All post-authoritarian governments, including the current one, have put great emphasis on portraying Indonesia as a key partner of the West, despite a deepening Islamist sentiment within segments of society. In the economic realm, however, investors have complained about frequent policy flip-flops and continued legal uncertainty. In September 2019, for instance, Indonesia moved forward a proposed ban on nickel-ore by two years, hitting unprepared investors. The Omnibus Law passed in 2020 was supposed to bring more stability to investment policies, but it remains to be seen whether this will actually occur.

Effective use of support

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Credibility

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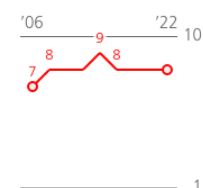
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Indonesia's credibility also suffered somewhat during the COVID-19 crisis, with the government insisting from January to early March 2020 that the country was COVID-19 free, despite most experts believing that the virus was already circulating in the population. Once Indonesia announced its first cases in early March, it maintained one of the lowest per capita testing numbers in the world, leading to artificially low case statistics. While the Jokowi government took these low case numbers to mean that it was handling the crisis well, the WHO and international governments warned that Indonesia was simply not testing enough. In April 2020, the Australian ambassador to Jakarta left the country, as he had pre-existing health conditions that meant COVID-19 posed a very risk to him. This earned Australia a rebuke from the Indonesian Foreign Ministry, which (correctly) viewed the withdrawal as an expression of a lack of confidence in Indonesia's ability to control the virus. Other ASEAN countries, which generally did significantly better in containing the virus, also did not respond to Indonesia's frequent requests to discuss the re-opening of borders. In short, the Indonesian narrative of the government successfully managing the COVID-19 pandemic was not shared internationally.

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 Asia-Pacific Economic Cooperation (APEC), and has generally stable relations with its largest neighbor, Australia. A free-trade agreement with Australia was ratified in 2020, after years of negotiations and several delays due to occasional diplomatic tensions. Jokowi also visited Australia in early 2020, just before the COVID-19 crisis made most international travel impossible. Similar to the Indonesia-Australia relationship, 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 other Southeast Asian neighbors.

Regional
cooperation

8



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, populist tendencies, poverty and low educational standards. These problems remain pressing and attempts to overcome them need to be relaunched if Indonesia is to speed up its recovery from the COVID-19 crisis. This is because many of the problems mentioned above were partly responsible for Indonesia's much-criticized response to the COVID-19 crisis in the first place. For instance, corruption in the health care sector and social assistance delivery (the minister for social affairs was arrested in the middle of the pandemic for siphoning off food assistance funds) meant that Indonesia was ill-prepared for a major pandemic such as COVID-19. Thus, dealing with the legacies of the COVID-19 outbreak – an overstretched health care infrastructure, widespread mismanagement in social protection programs and weakened economic foundations – requires a full assessment not only of the pandemic's impacts, but also of the causes for the government's fragmented reaction. Given the government's self-congratulatory tone – it claims Indonesia did better than most other countries – there does not seem to be much interest among the ruling elite to investigate the structural weaknesses of its COVID-19 policies. However, such stock taking will be crucial to putting the country on a path to recovery and improving the government's crisis response capacities in the future.

As the cases of corruption involving social assistance delivery during the COVID-19 crisis demonstrated, Indonesia needs to reform its dysfunctional party and campaign financing system. Significantly, the minister of social affairs, who was arrested during the pandemic, was concurrently the deputy treasurer of the government party and in charge of fundraising for the 2024 elections. Under the current party funding regime (which provides almost no state subsidies for parties and fails to enforce oversight regulations), Indonesia's policymakers have become dependent on siphoning state funds or receiving money from oligarchs to pay for their political operations. As a result, legislators and executive leaders have often prioritized their own monetary interests over those of the general public. 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. Consequently, Indonesia should consider introducing substantial and institutionalized state subsidies for parties and electoral candidates to mitigate predatory funding.

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 have left both domestic and international investors confused. Jokowi has exacerbated this confusion by backing a massive deregulation package in 2020, while retaining some of his protectionist stances. 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, a consistent economic blueprint

for the medium to long term is required – one that lays out the extent to which the government is committed to free market regimes, such as the RCEP, ASEAN Economic Community, WTO regulations and bilateral agreements (e.g., the one with Australia, which was ratified in 2020). As long as Indonesia commits rhetorically to free market ideas but opposes the practical implications of free markets (Jokowi expressed his rejection of more imports in December 2019 shortly after the major deregulation package passed) other countries are unlikely to drop their continued reservations to increasing trade with and investment in Indonesia.