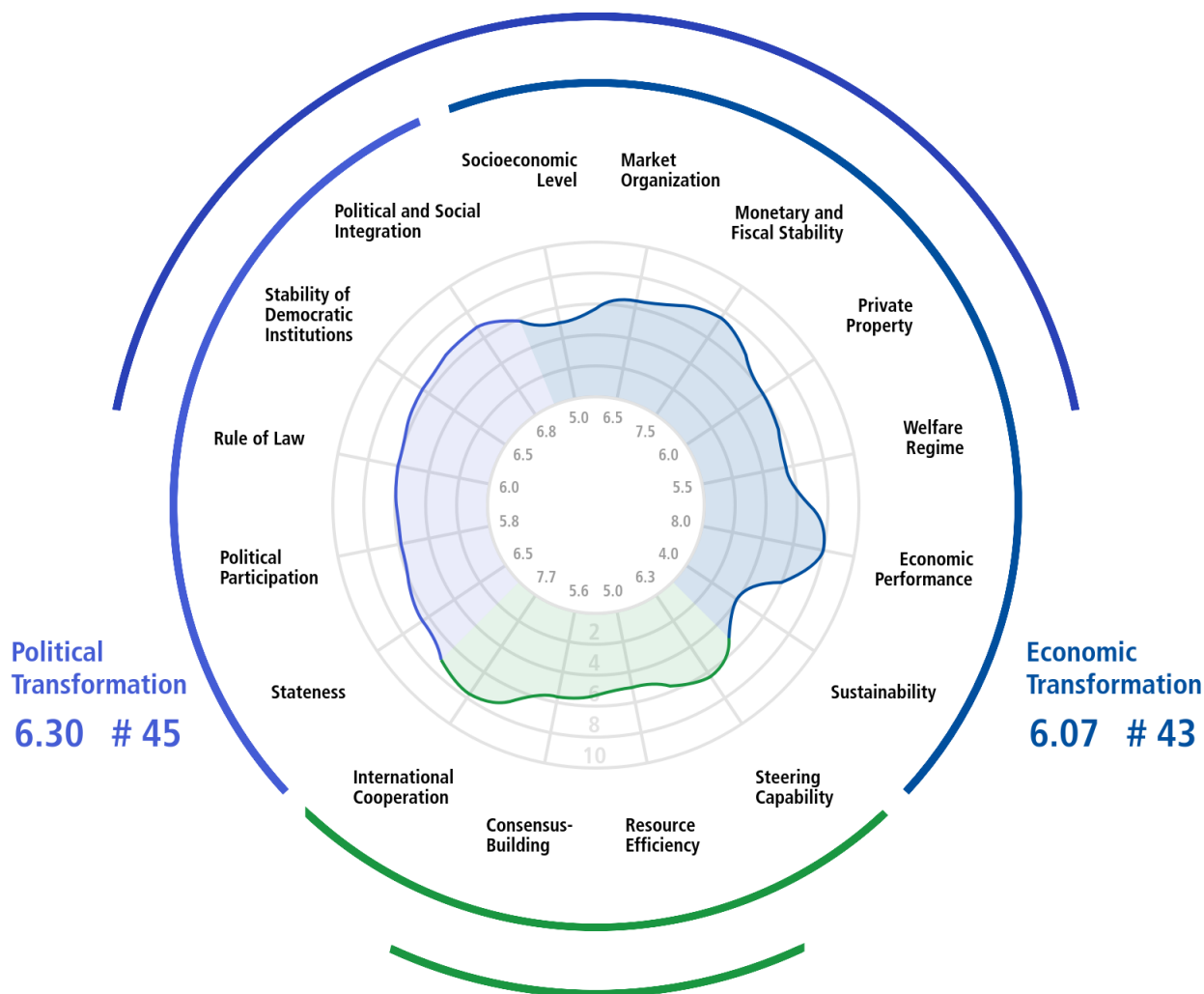


Indonesia

Status Index

6.19 # 44

on 1-10 scale out of 137



Governance Index

5.48 # 38

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2024**. It covers the period from February 1, 2021 to January 31, 2023. 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	275.5	HDI	0.705	GDP p.c., PPP \$	14653
Pop. growth ¹	% p.a.	0.6	HDI rank of 189	114	Gini Index	37.9
Life expectancy	years	67.6	UN Education Index	0.667	Poverty ³	% 20.2
Urban population	%	57.9	Gender inequality ²	0.444	Aid per capita \$	2.2

Sources (as of December 2023): The World Bank, World Development Indicators | UNDP, Human Development Report 2021-22. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.65 a day at 2017 international prices.

Executive Summary

In recent years, the quality of democracy in Indonesia has been in a gradual yet noticeable decline. In December 2022, the House of Representatives enacted a controversial new criminal code to replace an outdated one from colonial Dutch rule. This overhaul faced widespread criticism from observant critics who viewed it as a clampdown on civil liberties and political freedoms. Some anti-democratic clauses prohibit insulting a sitting president and other state institutions, expressing views contrary to the state ideology of Pancasila, holding protests without permits, engaging in extramarital sex, and cohabitation without marriage.

These legal revisions follow years of state harassment against activists and journalists, often exploiting existing questionable regulations, particularly the anti-defamation provisions in the Electronic Information Transactions Law (ITE). Additionally, Indonesia contends with an enduring culture of violence within the police and military, which civil groups claim are rarely held accountable for their actions, especially in the restive Papua region.

The crucial democratic criterion of the separation of powers, inherent in a presidential system, has been further eroded by governmental interference in the country's top judicial bodies, the Constitutional Court and the Supreme Court. The legislature, of which over 80% of its members support the president in an oversized pro-government coalition, remains subordinate to the government, thus hindering the establishment of an effective system of checks and balances.

Another issue pertaining to democratic standards is the postponement of elections for key local positions, such as the governor of Jakarta, for more than a year and a half. Instead, central government appointees have replaced elected officials to facilitate synchronized national elections scheduled for February 2024. Notably, attempts to extend the presidency of Joko Widodo beyond constitutionally permitted terms have been blocked. To date, radical Islamists, representing a latent threat to Indonesia's fragile democracy, have been managed through a combination of suppression and co-optation.

Economically, Indonesia suffered less severely from the COVID-19 pandemic than its neighboring countries. The decision to avoid stringent, prolonged, and strictly enforced lockdowns, unlike countries such as Australia or the Philippines, proved effective in preventing more severe economic repercussions for both companies and the substantial informal sector of middle- and lower-class individuals.

In 2021, the Indonesian economy managed to recover from the worst impacts of the pandemic, registering GDP growth of 3.7%. A growth rate of around 5% is anticipated for 2022, with relevant international financial institutions projecting robust annual growth rates of approximately 5% in subsequent years.

Despite these relatively positive economic trends, Indonesia grapples with several structural weaknesses. These include an underperforming education system, inadequate environmental protection policies, and widespread corruption. The ongoing establishment of a public welfare state system through the Badan Penyelenggara Jaminan Sosial Kesehatan (BPJS) or Social Health Insurance Administration Body is a positive step, considering the sizable number of people with low incomes and poor living standards.

In conclusion, while Indonesia has made economic strides, it has concurrently experienced a decline in various aspects of liberal democracy. Nonetheless, Indonesia maintains a relatively high degree of democracy compared to most other Southeast Asian countries, and the forthcoming elections in February 2024 promise substantial political changes. The present administration under President Joko Widodo will be remembered as one that delivered incremental economic growth and notable enhancements in public infrastructure. However, it also missed opportunities to deepen democracy and, instead, contributed to its regression.

History and Characteristics of Transformation

Indonesia declared its independence on August 17, 1945, but faced years of military and diplomatic struggle until the former colonial power, the Kingdom of the Netherlands, recognized the new republic. From 1966 to May 1998, Indonesia experienced a period of authoritarian rule under the leadership of General Suharto. This regime was supported by the armed forces, an extensive state bureaucracy, and the quasi-state party Golkar. Suharto's economic policies transformed the nation from an impoverished developing country into a lower-middle-income one, relying on the influence of business associates and family members. During this time, Indonesia welcomed Western capital and developed significant trade relationships with the United States, Japan, and other Western countries, particularly from the early 1970s onwards. Initially, the government prioritized labor-intensive industrialization while tightly controlling the labor movement, resulting in rapid industrial growth at the expense of human rights and democracy. Throughout the New Order era, economic development took precedence over the establishment of democratic political institutions. This trend, where state authorities played a dominant role in the development process, was observed in Indonesia and other East and Southeast Asian countries.

Significant change began with the Asian financial crisis of 1997/98. Mass demonstrations, spearheaded by student organizations, protested the economic hardships faced by ordinary citizens and the abuses of power by the Suharto administration. Simultaneously, numerous former allies of Suharto defected from the government, including leaders from the armed forces who aligned with the opposition. Faced with mounting pressure, Suharto resigned in May 1998, handing the presidency to his chosen vice president, Bacharuddin Jusuf Habibie. Habibie engaged in negotiations with moderate opposition figures, culminating in an unwritten elite pact. This process of democratization involved both former regime members and opposition elites, and led to the repeal of pivotal political laws, constitutional amendments, and the admission of new political parties.

In June 1999, the first parliamentary elections were conducted with minimal irregularities, leading to a nearly completely revamped parliament. Abdurrahman Wahid was elected as the new president by the People's Assembly (Majelis Permusyawaratan Rakyat, MPR) in October 1999. Wahid's confrontations with parliament resulted in his impeachment by the MPR in July 2001, and he was replaced by former Vice President Megawati Sukarnoputri. In 2004, Indonesia held new parliamentary elections along with its inaugural direct presidential election. Retired General Susilo Bambang Yudhoyono (SBY) triumphed over incumbent President Megawati. Under the Yudhoyono administration, the political landscape further stabilized, largely due to his non-confrontational and inclusive governing approach. In the 2009 presidential elections, SBY secured re-election with a landslide victory, maintaining steady governance policies.

In 2014, Joko Widodo, often referred to as Jokowi, became Indonesia's seventh president. Hailing from humble origins with no ties to the political elite, his election heralded a new era of clean politics and the end of abuse of power and cronyism. However, these aspirations waned as key military figures and traditional party politicians gained ministerial roles and political influence. Focused on infrastructure development, President Joko Widodo was re-elected for another five-year term in May 2019, defeating Prabowo Subianto, his rival from the 2014 election. Following the elections, Jokowi appointed Prabowo to his cabinet, reducing political tensions but also raising concerns about diminishing democratic quality. Throughout the COVID-19 pandemic, Indonesia remained politically stable, and the economic repercussions of pandemic-related restrictions were less severe than in many other countries.

Economically, Indonesia witnessed significant macroeconomic progress following the end of Suharto's authoritarian regime in 1998. The nation restructured its banking sector and substantially reduced its state debts until 2010. Most influential state-owned enterprises, particularly in the commodity sector, remained state-owned and retained their crucial economic role. From around 2005 until the beginning of the COVID-19 pandemic in early 2020, Indonesia maintained solid annual economic growth rates ranging between 4% and 6%.

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 guerrilla fighters continue to oppose the Indonesian state, but their forces are small, and they exercise territorial control only over tiny parcels in remote highland areas. In recent years, there have been several armed clashes between separatist separatists and the national army in these regions.

The territorial influence of ultraconservative Islamist groups seeking to establish a religious state in Indonesia have been reduced in recent years. In some areas, particularly in remote and resource-rich regions, there are still mafia-style gangs that have close connections to local police and military, and are not under direct control of the national government.

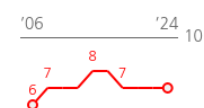
A large majority of Indonesians support the existing state format, but there are also some tensions between the idea of a nation-state based on the multi-religious Pancasila state ideology and the notion of Islam's supremacy.

Several recent surveys show that there is a rising number of Indonesians demanding that Islam play a stronger role in state organizations and politics. Despite this trend toward Islamization, none of the many religious and other minorities (e.g., Ahmadis, Shi'ites, native-faith followers, LGBTQ+ citizens and ethnic Chinese) have been denied citizenship rights. Indeed, for many minorities (including ethnic Chinese, who faced problems securing citizenship under the pre-1998 autocratic regime), the problem no longer concerns the obtaining of citizenship but rather the discrimination faced despite being citizens.

Question
Score

Monopoly on the
use of force

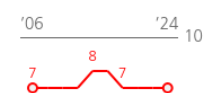
7



1

State identity

7



1

Indonesia has one of the most religious populations worldwide. Nearly all Indonesian respondents (96%) surveyed stated that belief in God was necessary to be moral and have good values (Pew Research Center, July 2020). Therefore, it comes as no surprise that religion also plays an important role in politics. 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.

Islamic conservatives have in recent years increased their influence over the workings of political and legal institutions. In late 2022, the country's new criminal code included conservative Muslim positions. Under the new laws, consensual sex between unmarried people and nonmarital cohabitation are now punishable with prison terms.

The constitutional right of freedom of religion is also undermined by a high number of prison sentences for alleged blasphemy. It is worth mentioning that there are not only blasphemy charges regarding Islam but also toward other religions. For example, ex-minister Roy Suryo was sentenced to nine months in jail in December 2022 after tweeting a modified picture of a Buddhist statue with President Jokowi's face on it.

Even Religious Affairs Minister Yaquut Cholil Qoumas became the target of an angry campaign after he issued a decree in February 2022 to regulate the volume of loudspeakers at mosques around the country. Two politicians reported him to the police for blasphemy against Islam after he had compared noisy mosques with barking dogs. In this case, however, there was no conviction.

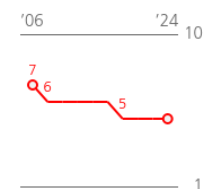
The state's fundamental infrastructure extends throughout the entire territory of the country. Far-reaching and effective decentralization in the early 2000s has vastly increased the reach of the Indonesian bureaucracy. As noted in the section Monopoly on the use of force, local clans and other groups can prevent the state apparatus from fulfilling basic state functions. Therefore, Indonesia suffers from weaknesses in collecting taxes and law enforcement. Communication, transport and basic infrastructure (water, education and health care) are available almost everywhere in the vast archipelago, but the quality of administrative services delivered is often low, particularly outside of the main island of Java.

However, most people in the country have access to a basic water source (92.4%), basic sanitation (86.5%) and to electricity (96.9%).

During the COVID-19 pandemic, the Indonesian administration managed social protection and vaccination measures (after some initial turbulences) relatively successfully.

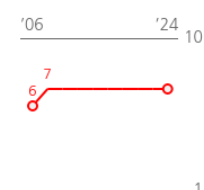
No interference of religious dogmas

5



Basic administration

7



2 | Political Participation

Every five years, Indonesians go to 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.

The elections are predominantly free, fair, and competitive. In general, there is accessible, secure and secret polling. Nevertheless, there are several weaknesses. The number of candidates for the presidential elections is limited to a great extent. Firstly, candidates can only be nominated by political parties (or more precisely, by the leader of these parties) represented in the national parliament, and secondly, there is a high nomination threshold (20% of the votes or 25% of the seats in the legislative elections five years ago). This led to the remarkable situation in the last two presidential elections in 2014 and 2019, where only two candidates were allowed to compete, and both times they were the same (Joko Widodo and Prabowo Subianto).

The decision by the Constitutional Court to postpone the local elections for 2022 and 2023 until synchronized national elections could take place in February 2024 is problematic regarding democratic standards. The decision to fill the positions (such as the governor of Jakarta) with non-elected persons appointed by the national government is even more questionable.

In elections at the national and local level, incumbents exploit their position to mobilize support and resources, thus often reducing the possibility of a level playing field. Additionally, vote-buying attempts are a common practice during election campaigns. It appears, however, that they have a relatively small impact on who voters finally vote for.

The elections are managed by the national election Commission, KPU (Komisi Pemilihan Umum). The votes are counted at tens of thousands of local election stations and then submitted to the KPU headquarters for result verification. In the last two elections, there were some technical but no major problems regarding the electoral process in the vast archipelago. After his loss in the May 2019 presidential elections, Prabowo Subianto complained about electoral irregularities, but after a relatively quick decision by the Constitutional Court, he accepted his electoral defeat.

Free and fair elections

8



1

In principle, elected leaders have the power to govern without any restraint. However, there are some informal veto players still sufficiently powerful to restrain executive actions. This refers most importantly to the armed forces, which maintain the right to interfere with the elected government if they believe the unity and stability of the Indonesian nation to be threatened. In the last few years, retired members of the armed forces (such as Luhut Binsar Pandjaitan, Prabowo Subianto, Wiranto, and recently former armed forces commander Hadi Tjahjanto) and the police (Head of Intelligence Agency Budi Gunawan and Interior Minister Tito Karnavian) have been appointed to key government positions and have extended the influence of the military and police. 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 armed forces.

As in many other countries, powerful oligarchic business groups have a significant influence on national political decision-makers. In many cases, there is a gray zone between politicians with business interests and businesspersons with political ambitions.

The example of the Job Creation Law (UU Cipta Kerja) deliberation highlights the powerful role of Indonesia's business association in formulating policy and lobbying the legislative process.

In most parts of Indonesia (with the notable exception of the Papua provinces), the freedom of association and assembly is generally upheld. Many events of civil society groups show that the right to association and assembly is widely exercised by many Indonesians. Frequent demonstrations in front of local and national department buildings and parliaments are a common feature of Indonesia's daily life.

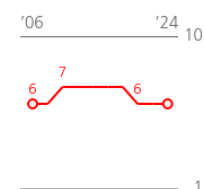
Minority religious and social groups (e.g., Ahmadis, Shi'ites or LGBTQ+ citizens), however, enjoy only very limited protection of their assembly and association rights. Their meetings are often disbanded and their members assaulted, both by law enforcement agencies and other societal groups such as conservative Islamic organizations. The powers of the latter, however, were significantly reduced when the government banned Hizbut Tahrir Indonesia in 2017 and the Islamic Defenders Front (FPI) in late 2020.

In the amended Criminal Code, which was passed in December 2022, a new regulation made it riskier to organize a demonstration. When the code becomes effective in 2026, in instances where a demonstration turns violent (even if provoked by security enforcement groups such as the police) the organizers can be sentenced to prison terms.

The law also prohibits demonstrations without police-issued permits. However, there is no clear explanation of the criteria used to issue such permits. In general, there is a lack of transparent and non-discriminatory criteria in evaluating requests for permits to assemble.

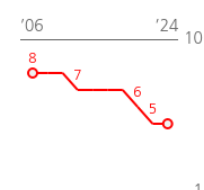
Effective power to govern

6



Association / assembly rights

5



After the end of the authoritarian Suharto regime in 1998, Indonesia enjoyed a relatively high degree of freedom of expression in comparison to other states in Southeast Asia. In the last decade, however, a series of restrictions on private comments and media freedoms have reduced freedom of expression to a great extent. Nevertheless, the structure of the media system still provides for a plurality of different opinions.

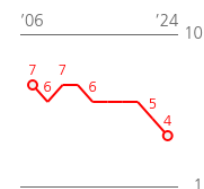
In its Freedom of the Press report 2022 by Reporters without Borders, Indonesia was ranked 117 out of 180 countries. Critical journalists face the so-called ITE law, under which journalists can be jailed for up to six years for online defamation or online hate speech, although these offenses are not clearly defined. In November 2021, for example, Muhammad Asrul was sentenced to three months in jail by a court in the city of Palopo for online criminal defamation. Previously, he has reported on financial irregularities in connection with the building projects of Farid Kisam Judas, the son of the Palopo mayor. As several recent cases have demonstrated, it can also be dangerous for journalists to cover environmental issues, particularly when local officials and powerful business interests are involved.

Ordinary citizens are also threatened by blasphemy laws, which makes it hard to criticize religious leaders and organizations (see section on interference of religious dogmas). Another blow to the freedom of expression was the amended Criminal Code passed in 2022, which means that any person who attacks the personal dignity and honor of the sitting president and vice president will be punished with a three and a half-year sentence in prison. Such regulations are clearly authoritarian and were already ruled anti-constitutional by the Constitutional Court in 2006. At that point, the court decided that the article on insulting the president was outdated and no longer in line with Indonesian democracy. The 2022 amended criminal code retains not only provisions of criminal charges for expressions of support for “Communist/Marxist-Leninist” thought but also bans the expression of “ideas that contradict the state ideology Pancasila.” Such vague formulations leave many loopholes for the malevolent suppression of freedom of expression.

Indonesia has a Freedom of Public Information Act (Undang-Undang Kebebasan Informasi Publik), which was adopted in 2008 and implemented in 2010. This law obliges all public bodies and government institutions to provide citizens with information about almost every aspect of their operations. In practice, however, there are limitations, and many government institutions still refuse to provide information to the public.

Freedom of expression

4



3 | Rule of Law

Nominally, Indonesia has an effective separation of powers. After the democratic transformation, both the parliament and the judiciary emancipated themselves 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 current President Joko Widodo's second-term government (2019 – 2024), which holds a large majority of more than 80% of seats in parliament. As there are only two smaller opposition parties, the overall willingness of parliament to scrutinize the executive has been notably reduced.

The judiciary is formally independent from the government of President Joko Widodo. But, as will be explained in the section Independent judiciary in more detail, recent cases have raised doubts about the separation of powers between the executive and the judicial branches of government.

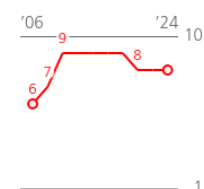
Indonesia's judiciary has two main branches: the Constitutional Court, which has the right to review and alter existing laws; and the Supreme Court, which has the authority to interpret laws. Many judges, however, are involved in corrupt practices. Bribes can influence judicial procedures at all levels, from police investigations to indictments by the Attorney General's Office to court verdicts and appeals. High-ranking judges continue to be arrested for corruption during the review period. Among them was Supreme Court Justice Sudrajad Dimiyati, who was detained for allegedly accepting bribes in return for a cassation ruling favoring two businessmen in September 2022.

The independence of the Constitutional Court was questioned after the government allowed sitting judges to remain in post until the age of 70, replacing a previous regulation that limited their term. Expectations that this would lead to the judges' approval of a number of controversial laws did not materialize, however. In November 2021, the Constitutional Court decided that the formation of the omnibus law was unconstitutional since it did not have sufficient public involvement.

More critical for the independence of the Constitutional Court were two other events. Firstly, Chief Justice Anwar Usman married Idayati, the sister of President Joko Widodo, in mid-2022. Secondly, in December 2022, a sitting justice, Aswanto, was removed for alleged poor performance by a controversial decision of the House of Representatives, which was later confirmed by the government.

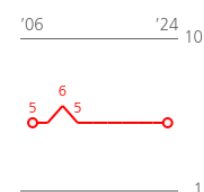
Separation of powers

8



Independent judiciary

5



Corruption and abuse of power remain widespread in Indonesia. However, in contrast to many other countries, there is also a relatively high number of officeholders who are held accountable for their criminal activities. Despite relatively low funding, the Indonesian Anti-Corruption Commission (KPK) is often successful in arresting and convicting high-ranking government officials, parliamentarians, ministers, governors and judges. In 2022 alone, KPK named 149 suspects (the figure was 111 in 2021). Among these were Mochamad Ardian Noervianto, formerly the Home Ministry’s regional finance administration director general, Papua Governor Lukas Enembe, and Supreme Court judges Sudrajad Dimiyati and Gazalba Saleh. In 2021, former Maritime and Fishery Minister Edhy Prabowo was sentenced to five years in prison. Due to its success, KPK faces a lot of resistance from the political elite, but also from other law enforcement agencies such as the police. In December 2022, Maritime and Investment Affairs Coordinating Minister Luhut Binsar Pandjaitan, for example, urged the anti-corruption agency to reduce the number of arrests to avoid tarnishing Indonesia’s image in the eyes of potential investors.

The protection of civil rights has remained volatile in recent years. Followers of non-mainstream religious groups, left-wing activists and Papuan pro-independence campaigners continue to experience severe violations of their civil rights, both by the state and other members of society. In addition, there is systematic discrimination based on sexual orientation, which is reflected in government regulations banning public activities in this regard. Discrimination based on gender usually takes the form of public pressure against activities by women by conservative Islamic organizations, which denounce feminism as a foreign Western concept not compatible with Islamic values.

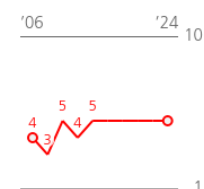
In 2022, CIVICUS Monitor, a global research collaboration that tracks fundamental freedoms in 196 countries, gave Indonesia the second lowest possible rating: “obstructed.” This score, together with the score of neighboring Malaysia, nevertheless represented one of the best results for Southeast Asia and a rating higher than those given to countries such as the Philippines or Thailand (“repressed”).

The amended Criminal Code passed in December 2022 severely limits civil liberties. Articles 411 to 413 of the code outlaw domestic partner relationships and the cohabitation of unmarried couples. Such regulations are personal space invasions by law enforcement, although the law itself states that action will only be taken if a report is filed by members of the family. Human Rights Watch states that the law that makes consensual sex outside of marriage a criminal offense is a full-scale assault against the right to privacy, permitting intrusions into the most intimate decisions of individuals and families.

Indonesia’s National Human Rights Commission (Komnas HAM) has expressed concerns about the Criminal Code, but its opinion has, as in many similar cases, been ignored by the government and legislators. The Criminal Code will enter into force in the year 2026, and it is unlikely that it will be strictly implemented.

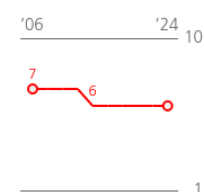
Prosecution of office abuse

5



Civil rights

6



4 | Stability of Democratic Institutions

In recent years, there have been few frictions between Indonesia's democratic institutions. Following the ideals of a consensus democracy, smooth cooperation between the executive and legislative branches of government stabilizes the whole political system. This comes, of course, with the disadvantage of reduced horizontal accountability.

Of concern are structural problems between several ministries at the national level. Due to a lack of coordination and cooperation among them, the national government often fails to act as a coherent entity, which leads to conflicting regulations and policies from the various ministries. 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 (particularly in rural, less developed and resource-rich areas) they are handicapped by corruption and incapacity.

Most relevant actors view the government and other democratic institutions as legitimate. No major political party, association, interest group or civic organization directly campaigns against the existing democratic institutions.

Some Muslim hard-liners are openly against the democratic order. They refuse the Pancasila ideology and dream of an Islamic Khalifah state. According to a September 2020 survey by Saiful Mujani Research and Consulting, 16% of respondents indicated their support for a government that operated based on the teachings of Islam, while 77% stated the government should not be based on any single religion.

As a reaction to anti-democratic Islamic hard-liners, the Indonesian government recently banned several Islamist organizations that openly questioned its legitimacy (Hizbut Tahrir Indonesia in 2017, Islamic Defenders Front in 2020). This, however, did not reduce the number of Islamist activists who view the government as illegitimate; it simply 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.

Performance of democratic institutions

7

'06 '24 10

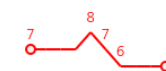


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Commitment to democratic institutions

6

'06 '24 10



1

5 | Political and Social Integration

In contrast to other political systems in Southeast Asia, political parties play a very important role in Indonesian politics. This is not least due to various constitutional and legal provisions, for example, the right of political parties to determine the presidential candidates and the proportional election system.

Indonesia's formal party system is very stable, with voter volatility considerably lower than in many other democracies around the world. During the 2019 elections, nine of the 10 parliamentary parties of the previous period were re-elected to 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).

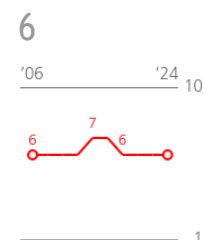
However, outside of this formal party system, powerful groups such as Islamist hardliners that are not accommodated by it have nevertheless gained support. For the upcoming 2024 elections, several new parties will campaign to enter parliament, but the 4% threshold for seats is a high hurdle. In the last elections in 2019, around 13.6 million (or nearly 10%) of the votes went to political parties that did not acquire a single seat due to the electoral threshold.

Due to the prevailing patron-client-based societal structures in Indonesia, clientelism within political parties is very high. With a multiparty system, polarization is usually not very high. In the last two presidential elections in 2014 and 2019, however, the narrowing of choice to only two candidates led to a serious polarization between a more moderate candidate standing in the nationalist Sukarno tradition (Joko Widodo) and another candidate who had the full support of the Islamic camp (Prabowo Subianto). This polarization will most likely not be so serious in the 2024 elections when more than two candidates will be running and support from the Islamic parties/groups will be split amongst more than one candidate.

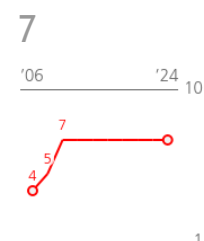
Indonesia has a wide variety of interest groups that reflect competing societal interests. There are Islamic organizations such as Nahdlatul Ulama and Muhammadiyah, which are among the largest Muslim groups in the world; hundreds of labor unions, many of them highly influential; as well as grassroots groups, women's rights associations, church networks, human rights NGOs, agrarian organizations, think tanks, mass media organizations, and many more associations that mediate between society and political parties at the national and local levels.

Overall, however, non-state societal groups struggle to form an effective counterweight to the rising influence of oligarchic business interests represented by groups such as the Indonesia Employers Association (APINDO) and the Indonesian Chamber of Commerce (KADIN).

Party system



Interest groups



In general, the degree of cooperation among various interest groups is relatively high. On environmental issues, for example, conservative Muslim interest groups have no problems working together with rather leftist NGOs.

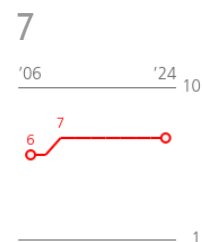
Formally, most Indonesian citizens strongly support democracy. In a survey by the Lowy Institute from mid-2021, 60% of Indonesian respondents agreed with the sentence “Democracy is preferable to any other kind of government,” while only 20% disagreed. Additionally, support for the administration of President Joko Widodo (which declined to some extent during the height of the COVID-19 pandemic and the related economic downturn) returned to over 70% by 2022. Of particular note were the results of a representative March 2022 survey from the Indonesian Survey Institute (LSI), which found that despite Joko Widodo’s high popularity, 64% of the Indonesians rejected a (constitutionally forbidden) third term for the incumbent president.

Most Indonesians, be they politicians or the general public, however, have an electoral rather than a liberal conception of what constitutes a democracy. Hence, clear authoritarian tendencies such as the reduction of civil rights or the rise of strong military leaders are seen as compatible with democracy. This explains the high rates of support for autocrats such as Saudi Arabian Crown Prince Mohammed bin Salman or Russian President Vladimir Putin in the before-mentioned survey of the Lowy Institute.

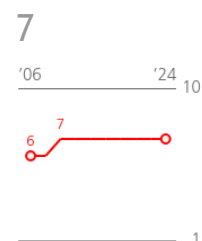
Indonesia has a widespread and heterogeneous network of autonomous, self-organized groups, associations, and organizations. As in other Southeast Asian societies, many elements of social capital, such as mutual networks, trust among people, informal societal structures and volunteerism, are widespread in Indonesia. All citizens are usually integrated into a large web of religious, social, ethnic, and issue-based organizations that operate at both the national and local level.

Of particular importance are the two moderate Muslim mass organizations Nahdlatul Ulama and Muhammadiyah with officially more than 100 million members, who are important in the fields of education and public welfare. However, the prevalence of networks of social interaction does not automatically translate into collective trust between citizens. In general, the existence of social networks, which offer bonds between similar people and bridge differences between diverse people, contributes rather positively to the functioning of a diverse and multiethnic society like Indonesia.

Approval of
democracy



Social capital



II. Economic Transformation

6 | Level of Socioeconomic Development

In recent decades, Indonesia has witnessed a significant reduction in poverty, particularly in urban areas and the western parts of the country. Like many other countries worldwide, the COVID-19 pandemic temporarily stalled economic development and poverty alleviation efforts. According to data from BPS (Badan Pusat Statistik), the official national poverty rate declined from 9.2% in September 2019 to 9.8% in September 2020. By March 2021, this number had slightly increased to 10.1%, but the subsequent economic recovery after the lifting of most pandemic-related restrictions led to a decline in the poverty rate to 9.5%.

Poverty is particularly high in the Papua provinces and in other parts of Eastern Indonesia, such as the Nusa Tenggara Timur (NTT) province. There is no official data available on the ethnic and religious distribution of poverty in Indonesia, but it seems that non-Javanese Muslims are more likely than average to experience poverty, whereas other religious groups (except those living in Papua and NTT) are less affected.

Inequality did not change significantly during the COVID-19 pandemic, as the Gini coefficient of income inequality increased only slightly from 0.380 just before the COVID-19 outbreak to 0.381 in September 2022 (BPS).

In the 2022 U.N. Human Development Index, Indonesia ranked 114 out of 191 countries, just ahead of its Southeast Asian neighbors Vietnam and the Philippines. This represents a slight decrease compared to 2020, when Indonesia ranked 107 out of 189 countries. In the 2021 Gender Inequality Index, Indonesia was ranked 110, slightly improving from its position of 121 in 2020.

Economic indicators		2019	2020	2021	2022
GDP	\$ M	1119099.9	1059054.8	1186505.5	1319100.2
GDP growth	%	5.0	-2.1	3.7	5.3
Inflation (CPI)	%	3.0	1.9	1.6	4.2
Unemployment	%	3.6	4.3	3.8	3.6

Question
Score

Socioeconomic
barriers

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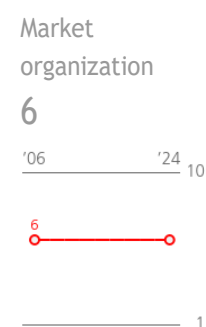
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Economic indicators		2019	2020	2021	2022
Foreign direct investment	% of GDP	2.2	1.8	1.8	1.6
Export growth	%	-0.5	-8.4	18.0	16.3
Import growth	%	-7.1	-17.6	24.9	14.7
Current account balance	\$ M	-30279.1	-4433.3	3510.7	12670.1
Public debt	% of GDP	30.6	39.7	41.1	40.1
External debt	\$ M	402106.4	417046.2	416470.7	-
Total debt service	\$ M	81769.2	67398.4	72999.0	-
Net lending/borrowing	% of GDP	-2.2	-6.1	-4.6	-
Tax revenue	% of GDP	9.8	8.3	9.1	-
Government consumption	% of GDP	8.8	9.7	9.2	7.7
Public education spending	% of GDP	2.8	3.5	3.0	-
Public health spending	% of GDP	1.4	1.9	-	-
R&D expenditure	% of GDP	0.3	0.3	-	-
Military expenditure	% of GDP	0.7	0.9	0.7	0.7

Sources (as of December 2023): 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

Given the dominance of state-owned enterprises, there are rather unequal opportunities for all market participants in Indonesia. In late 2020, the country attempted to reduce trade barriers and investment hurdles by passing the so-called omnibus law (Law on Job Creation), which changed 76 laws through one major revision. In December 2021, however, the Constitutional Court declared the law unconstitutional because the preparation and deliberations of the draft legislation did not include major stakeholders as prescribed by law. As the law was stalled and no major progress was made, President Jokowi Widodo signed a regulation in lieu of law (Perppu) to replace the omnibus law on December 30, 2022. The government stated that the issuance of the Perppu aims to restore investor confidence and act as a critical tool to support economic growth. Legal experts, however, commented that the issuance of the Perppu repeats the same mistake on deliberation as the omnibus law, highlighting the lack of transparency and public participation.



Despite the free market impetus of the law, many uncertainties remain regarding its actual implementation due to the absence of implementing regulations and legal uncertainty. Additionally, national ministries, local governments, and most economic experts are resistant to implementing the law, as they still favor a more protectionist national economic policy. Consequently, discrimination based on foreign ownership and excessively intricate administrative hurdles persist in relation to foreign investment. Moreover, existing laws impose significant restrictions on the cross-border mobility of labor and capital.

According to recent ILO (International Labour Organization) information, the informal sector accounts for more than 60% of the Indonesian workforce. Prices for many food products, particularly rice, are heavily subsidized by the Indonesian government to keep them affordable for poorer segments of the population. An ongoing debate revolves around governmental fuel subsidies, as they benefit not only the mobility of poor people but also that of affluent middle and upper classes. Prices for other goods tend to be determined by market forces.

State-owned enterprises (SOEs) dominate the Indonesian economy, and private businesses face significant challenges in competing with these SOEs. The SOEs are protected by a widespread patronage network of political and administrative decision-makers. Under the administration of Joko Widodo, the role of SOEs has been further strengthened. A significant portion of the government's infrastructure development initiatives since 2015 have been entrusted to SOEs, which receive regular cash injections to enhance their operations. Additionally, the SOEs played a crucial role in fostering economic resilience and facilitating recovery during the COVID-19 pandemic.

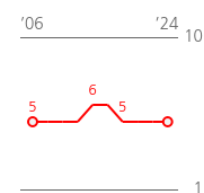
Indonesia's anti-monopoly measures are extremely limited. The country boasts a Commission for the Supervision of Business Competition (KPPU), established in 2000 under Indonesia's Anti-Monopoly and Unfair Competition Law. However, given its limited budget, the KPPU can only manage a small number of cases annually, and a few of its rulings have been overturned by the Supreme Court. Represented by the KPPU, Indonesia is a member of the International Competition Network.

Indonesia has traditionally focused more on domestic consumption rather than foreign trade as its primary driver of economic growth. Indeed, this trend has strengthened during the review period. Indonesia's trade-to-GDP ratio fell from 48% in 2014 to 33% in 2020 before rising again to 40% in 2021. These data are relatively low compared to the world average trade-to-GDP ratio of 57% (World Bank 2021).

Indonesia has frequently employed tariffs and nontariff measures to safeguard its domestic market, demonstrating a strong inclination toward protectionism within its political and societal spheres. For instance, in 2021, the Indonesian government imposed a ban on the exportation of bauxite and nickel ore. The latter instance was

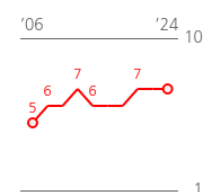
Competition policy

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Liberalization of foreign trade

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brought before the World Trade Organization (WTO), where a panel ruling deemed Indonesia's decision to be inconsistent with WTO regulations. Nonetheless, Indonesian President Joko Widodo has already declared another export prohibition, this time concerning copper, slated to be enforced in June 2023.

Despite these protectionist tendencies, the Jokowi government has also endeavored to open up the country's markets, at least in areas where it believes the country would benefit – that is, in areas that would witness Indonesian exports and FDI into Indonesia increasing. The Omnibus Law on Job Creation serves as a regulatory example of this approach.

Indonesia was also a co-founder of RCEP (Regional Comprehensive Economic Partnership), a large free-trade zone established between the Association of Southeast Asian Nations (ASEAN) and several other states, including China. In August 2022, Indonesia's parliament approved the country's membership in RCEP, and the pact entered into force for Indonesia on January 2, 2023. The private sector can now utilize preferential tariffs under the agreement when exporting to and/or importing from Indonesia.

Thus, while significant (nontariff) trade barriers remain and the importance of foreign trade is relatively low, Indonesia has also initiated some meaningful measures that will foster international trade liberalization in recent years.

Due to a comprehensive restructuring and consolidation process after the Asian financial crisis of 1997/98, Indonesia's banking system is, despite economic turbulence caused by the COVID-19 pandemic, in good condition, and its current indicators point to overall stability.

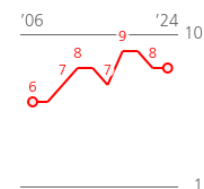
The capital adequacy ratio (CAR) in the banking industry remained high in June 2022 at 24.7%. This benchmark, indicating a bank's soundness in relation to risk, is well above the Basel II requirements. The banks' share of nonperforming loans to total gross loans rose during the pandemic to 3.1% in September 2021 but then declined to 2.8% in September 2022 alongside a wider economic recovery.

During the pandemic, an intensive political debate emerged concerning whether the central bank (Bank Indonesia) should regain authority for banking supervision from the Financial Services Authority (OJK), which is considered relatively independent from the government and was recently granted this authority. Ultimately, no significant revisions were made, and OJK remains responsible for regulating the capital market and overseeing the banking sector.

The Indonesia Stock Exchange (IDX) is a stock exchange based in the central business district of Jakarta. In recent years, the IDX has witnessed one of the fastest membership growth rates in Asia. This growth indicates the emergence of a thriving capital market outside the traditionally dominant banking sector in Indonesia's financial system.

Banking system

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8 | Monetary and fiscal stability

Indonesia has maintained its traditionally prudent anti-inflation and foreign exchange rate policies. During the COVID-19 pandemic, inflation remained very low at 1.6% during 2021. After the end of most COVID-19-related restrictions in mid-2022, however, the annual inflation rate rose to 5.5% (year on year) by December 2022, the highest value since 2016. This is relatively low compared to many other countries worldwide. Coordinating Minister of Economic Affairs Airlangga Hartarto stated in September 2022 that Indonesia's inflation rate was 5.95% (year on year), placing it "among the five countries with the lowest inflation rate in the world."

As a reaction to rising inflation, the central bank raised its benchmark interest rate four times by 0.75 percentage point hikes in June, July, September, and November 2022. In December 2022, the central bank undertook another increase in the key interest rate, raising it to 5.50%, in an effort to curb inflation.

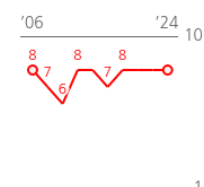
Indonesia's national currency, the rupiah (IDR), remained stable from 2021 to 2023. In early 2021, the exchange rate to the U.S. dollar was approximately IDR 14,000. However, the global strengthening of the U.S. dollar in the second half of 2022 resulted in a slight depreciation, with an exchange rate of around IDR 15,000 to the U.S. dollar by early 2023.

As in many other countries, the economic downturn caused by the COVID-19 pandemic has destabilized Indonesia's fiscal position, which was solid prior to the pandemic. In 2021, Indonesia, whose government increased the deficit level to mitigate the effects of the COVID-19 pandemic, recorded a high budget deficit of 4.65% of GDP. As this was above the legal ceiling of 3%, the government and parliament passed a law in early 2022 allowing a higher state budget deficit in the case of an urgent economic crisis. As the COVID-19 pandemic retreated in mid-2022, the overall budget deficit for 2022 was lowered to 2.38%, below the 3% legal threshold.

As a result of pandemic-related interventions, government debt-to-GDP rose from 30% in January 2020 to 40.4% by January 2023. The growing state debts sparked extensive internal discussions in Indonesia, and critics of the current government accused President Joko Widodo of adopting a debt-driven policy. Nevertheless, when viewed comparatively, a debt-to-GDP rate of approximately 40% remains one of the lowest in Southeast Asia and indeed globally.

Monetary stability

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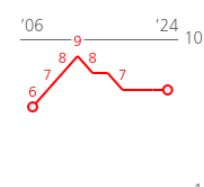


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Fiscal stability

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9 | Private Property

Property rights are generally well protected in Indonesia, but their documentation and registration remain volatile. In the land sector, hundreds of conflicts, particularly in the plantation sector and around government infrastructure projects, destabilize the country. President Jokowi tried to address long-existing property registration problems by distributing land ownership and usage certificates to citizens and legal entities that had previously attempted, unsuccessfully, to acquire them. While his critics dismissed this action as a publicity stunt, the program helped to formalize land rights in Indonesia.

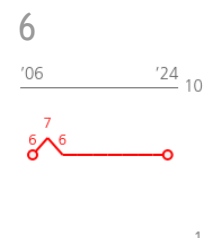
In the 2022 International Property Rights Index by the Property Rights Alliance, Indonesia ranked 67 out of 129 countries, representing an improvement from its position of 98 in 2020. The Physical Property Rights Subindex decreased by -1.402 to 5.592, with scores of 6.154 for perception of Property Rights Protection, 4.8 for Registering Process, and 5.822 for Access to Financing. The lowest values were recorded for copyright protection.

Generally, the Indonesian state supports private enterprises, which are seen as the main engines of economic production alongside state-owned enterprises. In fact, the government assigns a significant role to investments by private businesses and acknowledges their role in its long-term economic planning.

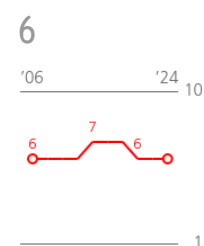
The government's share of spending to GDP has remained in line with the global average at 18.2% in 2021 (IMF), with the remaining portion being allocated to the private sector. Nonetheless, private businesses have encountered a recurring challenge due to the influential role of state-owned enterprises (SOEs) during the Jokowi administration and the sluggish pace of privatization. In response to the COVID-19 pandemic, the government provided emergency funds to SOEs to mitigate their financial struggles. Throughout the evaluation period, no privatization initiatives were implemented by the Indonesian government.

According to a recent ADB report, over 50% of Indonesia's private sector companies, primarily micro and small enterprises, operate in the informal sector. The existence of such a substantial informal sector weakens productivity growth over time and ultimately diminishes the country's global competitiveness.

Property rights



Private enterprise



10 | Welfare Regime

While Indonesia's social safety nets remain underdeveloped compared to those of many European countries, 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 the government covers these costs for the poor or unemployed. Thus, the primary focus is to provide health care, but the approach could also be interpreted as an anti-poverty measure. According to the Coordinating Ministry for Human Development and Cultural Affairs, 89.4% or 246,464,342 Indonesians were included in the BPJS scheme in October 2022.

In 2015, the second BPJS component was launched, offering accident and life insurance as well as pension programs for persons older than 56 years. However, the existing pension schemes are at a very basic level, resulting in state-sponsored pensions of less than \$200. As more and more health and social assistance programs need to be supported, the Indonesian government has faced significant increases in health and welfare expenditures. 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.

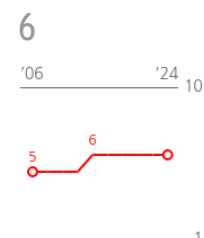
The Indonesian state maintains that equal opportunities exist for everyone to access education, public office, and employment; however, specific hurdles exist for women, the poor, rural citizens, the LGBTQ+ community, and ethnic and religious minorities.

In terms of gender equality, Indonesia is ranked 92 out of 146 countries in the 2022 Global Gender Gap Index from the World Economic Forum. In the Economic Participation and Opportunity subindex, Indonesia is ranked 80, slightly better than in the overall index. A higher percentage of women than men in tertiary education shows equal education opportunities exist for both sexes. However, the fact that in 2021, women comprised only 39.6% of the Indonesian workforce indicates that women more frequently stay at home as housewives. Additionally, women are underrepresented in parliament, comprising only 20% of the members elected in 2019.

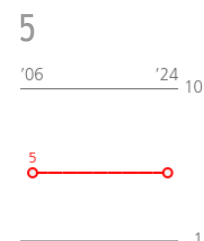
Underprivileged citizens attending low-quality public schools face similar constraints as private school graduates when seeking employment or public office; however, private school graduates are structurally better positioned in these pursuits.

Rural Indonesians face more challenging conditions than their urban counterparts. In September 2022, 7.5% of urban citizens were living in poverty, compared to 12.4% of the rural population.

Social safety nets



Equal opportunity



The LGBTQ+ community faces severe discrimination. In early 2021, a police officer lost his legal challenge against the national police, which had terminated his employment due to his sexual orientation. Similarly, ethnicity and religion continue to play a role in facilitating or impeding access to employment and public positions, depending on one's location. Minorities can encounter substantial hurdles in areas where there is a dominant ethnic or religious majority, while ethnic Chinese individuals have encountered difficulties in attaining legislative and executive positions nationwide, with a few exceptions in district-level areas where they form a sizable minority or even the majority.

11 | Economic Performance

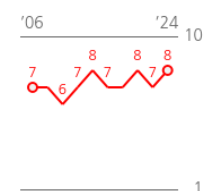
Before the outbreak of the COVID-19 pandemic, Indonesia experienced significant economic growth, with average annual GDP growth rates of around 5%. However, due to lockdowns and mobility restrictions, the GDP growth rate in 2020 turned negative, falling to -2.1%. Fortunately, by the following year, 2021, the Indonesian economy had recovered, with GDP growing by 3.7%. For 2022, the World Bank predicted a respectable GDP growth of around 5.2%. Overall, Indonesia was less economically impacted by the COVID-19 pandemic than many other countries.

Economic recovery in Indonesia is predicted to be faster and at a higher growth rate than in many other parts of the world. Bank Indonesia projects solid national economic growth in Indonesia in 2023, ranging from 4.5% to 5.3%, and 4.7% to 5.5% in 2024. This growth is attributed to private consumption, investment, and positive export performance.

Most economic outlooks, such as those from the Asian Development Bank (ADB) and the World Bank, highlight external economic troubles. These troubles include global financial volatility caused by American and European markets, as well as continuing shocks from the Russian invasion of Ukraine. These factors can negatively affect economic developments in Indonesia. However, in general, and despite some external risks, the macroeconomic performance of Indonesia is viewed very positively by the aforementioned financial institutions.

Output strength

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12 | Sustainability

Environmental concerns have some influence on government and business practices, but they remain firmly subordinate to the overall goals of economic development and social stability. This is evident in the Environmental Performance Index (EPI) 2022, where Indonesia is ranked 164 out of 180 countries. The report specifically criticizes the increasing emissions of sulfur dioxide (SO₂) and nitrogen oxides (NOX).

Indonesia's energy policy focuses heavily on coal-fired power plants. In 2022, coal accounted for over 40% of Indonesia's energy mix. It was projected that Indonesia's power consumption would reach 301 terawatt hours in 2022, with an estimated annual growth rate of around 5% until 2030. The Indonesian government has set renewable energy targets of 23% and 31% for total electricity generation by 2025 and 2050, respectively. However, as of mid-2022, renewable energy resources, primarily hydroelectric and geothermal power production, only contributed approximately 13% of nationwide power generation.

Consequently, Indonesia has been unable to significantly reduce its carbon emissions. Carbon dioxide emissions per capita increased from 0.27 metric tons in 1970 to 2.32 metric tons in 2019. Currently, Indonesia is the fifth-largest greenhouse gas emitter worldwide and emitted 602.6 million tons of carbon dioxide in 2021.

The country has recently made significant investments in palm oil, resulting in its emergence as the world's largest exporter of this product. Initially praised for its environmental friendliness, palm oil is now strongly linked to deforestation and social conflict, sparking serious tensions between the Indonesian government and the European Union. The EU aims to gradually eliminate the import of palm oil.

In addition, the government has streamlined the environmental impact analysis (AMDAL) requirement for business permits through the Job Creation Law (UU Cipta Kerja), which limits public participation in the assessment.

Indonesia has a broad network of education and research facilities, but they are generally of poor quality by international standards. The PISA (Programme for International Student Assessment) project typically includes Indonesia among the poorest performers in its tests. Nevertheless, it should be noted that Indonesia has experienced significant progress in education in recent years.

The nation's U.N. Education Index score was 0.650 in 2019, which represents a noteworthy improvement compared to 10 years ago (0.579 in 2009). From 2000 to 2021, the proportion of 25- to 34-year-olds with tertiary education in Indonesia rose (albeit at a slower rate than the average across OECD countries) by almost 13 percentage points (from 6% in 2000 to 18.7% in 2021).

Environmental
policy

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Education policy /
R&D

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The education sector in Indonesia remains underfunded. According to the World Bank, the ratio of education spending to GDP was 3.5% in 2020, which is well below the world average of 4.3%. To address these shortcomings, President Joko Widodo appointed new individuals responsible for education and research after being re-elected in 2019. Education Minister Nadiem Makarim, a young start-up entrepreneur, has implemented a series of unorthodox reforms in an effort to modernize the sector since his appointment. For instance, he has granted more autonomy to teachers, schools, and universities and attempted to reduce state control. Unfortunately, many of these reforms were initiated during the COVID-19 pandemic, when most schools and universities had to close. Online teaching became the only option, but in numerous cases, technical issues such as limited internet access and teachers' insufficient pedagogical capacities compromised educational quality for over 80 million pupils and students.

In terms of research and development, spending has increased marginally to 2.8% of GDP, which is above the world average of 2.6%. In mid-2021, a presidential regulation merged several previous research institutes into the National Research and Innovation Agency (Badan Riset dan Inovasi Nasional, BRIN), which became the sole national research agency of Indonesia directly reporting to the president.

Governance

I. Level of Difficulty

With more than 270 million inhabitants, Indonesia is the fourth most populated country in the world and has a remarkable diversity of ethnic, religious and linguistic groups. Indonesia is an archipelago stretching approximately 5,000 kilometers from west to east, consisting of more than 17,000 islands around the equator. While some areas, particularly the main island of Java, are heavily overpopulated but relatively well developed, other more remote islands, especially in the eastern part of the country, are sparsely populated and significantly less developed.

Lying at the center of the so-called Ring of Fire, Indonesia is one of the most volatile regions in the world for natural disasters (e.g., earthquakes, volcanic eruptions, tsunamis, floodings, and landslides). These regularly occurring incidents pose a severe threat to the stability of the country. In the Weltrisiko-Index 2022 of the University of Bochum, Indonesia is ranked third, behind only the Philippines and India, on a scale of countries most vulnerable to natural and other disasters. It is obvious that under these geographic and demographic conditions, it is difficult for any government to provide adequate infrastructure and public services (e.g., health care and education) to all parts of the country.

Beside these geographical factors, other major constraints on the Indonesian leadership's governance capacity are structurally ingrained social inequality and weak state capacity, particularly in rural areas. Despite remarkable GDP growth in recent years, the poverty rate is declining only slowly. 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. Rampant corruption and the weak rule of law continue to sabotage the development of a democratic state and a well-developed economy.

During the colonial period before independence in 1945, Indonesia had a high number of civil society organizations. This continued during the first years of independence until the start of the authoritarian Orde Baru period under President Suharto in the mid-1960s, which severely limited civil society activities. In the Era Reformasi, which began after the resignation of Suharto in May 1998, a huge number of civil society organizations (re-)emerged, particularly in larger cities and in Java.

Structural
constraints

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Civil society
traditions

6

'06 '24 10

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While urban organizations are usually led by educated persons, the people in rural areas have other forms of social cooperation, such as the principle of mutual assistance (*gotong royong*). Rural life, particularly in Java, is often dominated by cooperatives (*koperasi*) as the basis of economic activities. These forms of social capital play an important role in protecting the poor and vulnerable from economic hardship as well as from sociopolitical conflict escalation. Moreover, local-based interest groups can contribute to political decision-making at the communal level.

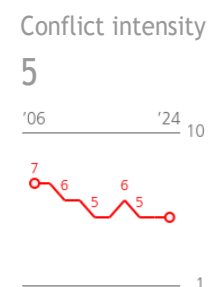
At the national level, numerous NGOs address contested issues such as human rights abuses and social justice. By far the biggest and most important organizations in the field of social welfare and education are moderate Muslim mass organizations like Nahdlatul Ulama and Muhammadiyah. However, not all civil society groups are supportive of principles of good governance. Some groups openly pursue nondemocratic goals, such as limiting the rights of religious minority groups. Other groups are under the control of politicians and are used to support their sponsors' interests.

In general, the extent of social trust within the population is relatively high, and the extent of a civic culture of participation is higher than in most other Southeast Asian countries.

The level of violent tension between sociopolitical groups has declined since the 2019 elections. This is not only because of restrictions imposed on mobility during the COVID-19 pandemic but also because of the carrot-and-stick policy of the Joko Widodo administration toward the political opposition spearheaded by radical Islamists.

On the one hand, Joko Widodo appointed his two-time electoral competitor Prabowo Subianto and several former opposition parties to his cabinet, which reduced political conflict intensity to a great extent. On the other hand, two hard-line Islamist organizations (*Hizbut Tahrir Indonesia* and *Islamic Defenders Front*) were banned. Habib Rizieq Shihab, a very popular and maybe the most dangerous anti-democratic actor, was arrested for violating COVID-19-related rules following his return from exile in late 2020. In May 2021, he was sentenced to four years in prison. In January 2023, a year before elections scheduled for February 2024, the political competition among several candidates and parties has somewhat increased, but the conflict intensity seems to be lower than before the 2014 and 2019 elections.

Former conflict areas, such as Aceh, Central Sulawesi, South Kalimantan and the Moluccas, have been relatively peaceful in recent years. This is not the case in the Papua provinces, where there are regular clashes between the national army and police and the militant Papua groups. Several people have been killed, and the conflict intensity remains high.



II. Governance Performance

14 | Steering Capability

The current administration under President Joko Widodo has clearly outlined its priorities for its second and last term from 2019 until 2024. During the first term, the development of physical infrastructure such as highways, train tracks, airports, harbors, and public transport was the top priority, but the development of human resources was also at the center of the government's targets. In addition, economic prosperity and the creation of new jobs for millions of young Indonesians were clear government priorities. The Job Creation Law (Undang-Undang Cipta Kerja), popularly known as the Omnibus Law, was an attempt to reach these targets.

Very important for President Joko Widodo was the transfer of the Indonesian capital from overcrowded Jakarta to Nusantara in East Kalimantan. In his view, moving the capital would create a new balance between Java and the outer islands, both politically and economically.

Many observers commented that Joko Widodo wanted to leave the new capital as his personal legacy for his country. As a result of the COVID-19 pandemic, however, the plans for a new capital have been delayed, but it is relatively certain that a successor of President Joko Widodo will inaugurate the new capital in the late 2020s.

In general, the government's strategic priorities can be seen as long-term oriented and are not sacrificed in favor of short-term political benefits. This might be different in the future, but the current situation, with a long-term president since 2014 who has an overwhelmingly secure parliamentary majority (since 2015), benefits the pursuit of long-term strategies.

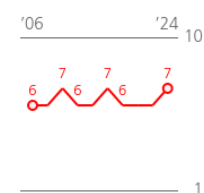
Compared to Southeast Asian neighbors such as the Philippines, the Indonesian government under President Joko Widodo is generally effective in implementing its policies. This refers in particular to the rapid implementation of several infrastructure projects. The administration, however, remains dependent on fiscal resources and bureaucratic capacity when trying to realize its ambitious programs.

Both of these constraints have been long-standing but became more pronounced during the pandemic. As a result of its reduced revenues and increased COVID-19-related spending, the government had to delay many planned projects (e.g., moving the capital to East Kalimantan before the end of President Joko Widodo's term in 2024). A thorough reform of the education system has also been delayed not least because of the negative impacts of the COVID-19 pandemic.

Question
Score

Prioritization

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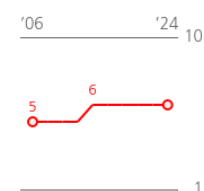


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Implementation

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A more constant problem for reform implementation is the country's bureaucracy, which is often an obstacle to effective policy implementation due to vested interests, red tape and corruption. In nearly all ministries and executive agencies, the significant predatory interests of powerholders prevent the implementation of policies not because of technical difficulties or bureaucratic resistance but because the policies run counter to their personal agenda. The aforementioned fiscal and bureaucratic limitations on policy implementation are likely to remain a structural problem in the near future.

In the area of economic and technical development, the government has demonstrated some ability to learn from international experiences. Focusing on the improvement of physical infrastructure like highways, harbors and public transport as the basis for economic development was an approach adapted from successful models in neighboring Malaysia and Singapore. Additionally, policy-learning can be seen in the Indonesian government's support for innovative and creative business startups. Promoting e-commerce and domestic champions such as Gojek, Bukalapak and Tokopedia are highly likely to pay off for the Indonesian economy in the near future.

Politically, however, the Jokowi administration increasingly resembles the Orde Baru of former President Suharto, whose prioritization of economic development over human rights and environmental protection was relatively successful for decades but unsustainable in the long run. The erosion of civil liberties, repression against opposition groups, and the increased importance of military and police staff around the president show that President Joko Widodo has not learned from the mistakes of the authoritarian past.

In terms of the government's performance in responding to the COVID-19 pandemic, the government learned from other countries to strike the right balance between individual/economic freedom and state rigidity in containing the spread of the virus. In contrast to other countries like the Philippines, the government did not pursue an overly authoritarian police-led lockdown policy but rather a moderate course. From an ex-post perspective, this policy was successful in so far as it kept the economic damage of the pandemic relatively low from a comparative perspective and at the same time respected individual/economic freedom.

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 been unable to make significant progress in this regard.

Natural resources still represent the largest share of the national budget. Improvements in the areas of excavation and refinement inside the country have been lacking. Despite several government interventions to promote the building of smelters and refineries, a large number of natural resources, particularly oil and coal, leave the country untreated and for a relatively low price.

Restrictive and unclear policies discouraged many investors, both foreign and domestic, from investing in a wide range of economic sectors, which remain underdeveloped.

In terms of human resources, the civil service, which comprises 4.3 million employees, continues to be overstaffed, ineffective and corrupt. The appointment of public servants is in many cases not in accordance with competitive recruiting procedures but rather a tool of patronage.

The COVID-19 pandemic led to a decline in and reallocation of available resources, both human and fiscal. To a large extent, the government was transparent about these reallocations, but there were cases of corruption in which emergency funds were redirected and spent (e.g., in social assistance provision). Due to the pandemic, the state budget deficit and public debts increased significantly. It can be expected, however, that both the national budget as well as state debts will decrease as the economy recovers in the near future.

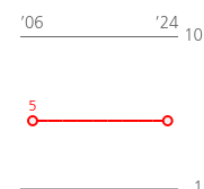
In recent years, there have been no major problems in terms of policy coordination for the national government. With a large and stable majority in the national parliament, President Joko Widodo and his administration did not need to mediate between conflicting groups.

What makes policy coordination difficult in Indonesia is that there is a large number of government ministries, which are run by a wide range of different parties and actors with their own interests. These parallel structures often lead to redundancies and frictions.

Indonesia's highly decentralized state organization causes some difficulties for policy coherence. During the COVID-19 pandemic, for example, the central government often came into conflict with provincial and district governments over the right containment approach, with the central government prioritizing individual and economic freedom, while some local leaders, such as then Jakarta Governor Anies Baswedan, demanded a more restrictive policy.

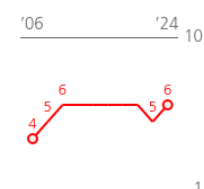
Efficient use of assets

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Policy coordination

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Corruption is still endemic in the Indonesian political and economic system. However, there is also (at least compared to neighboring countries such as Malaysia and the Philippines) a relatively large number of effective convictions of high-level people for corruption.

Despite low funding and staffing, the Indonesian Anti-Corruption Commission (KPK) is still relatively successful in its work. Several high-ranking government officials were arrested and sentenced to prison in the last two years as noted in the section Prosecution of office abuse. The number of convictions might be only the tip of the iceberg, but it sends a strong message to many politicians and businesspersons that corrupt activities can lead to jail time. Many experts predicted that the KPK would become less effective or even unimportant in the struggle against corruption after a legal revision in 2019, which stripped the KPK of significant powers (e.g., the authority to wiretap suspects without a court order). However, so far these fears have not materialized. Overall, the revision of KPK's powers has not led to a significant decline in investigations and prosecutions. The KPK, despite being less powerful than previously, is still at the forefront of the anti-corruption struggle.

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.

There is a major lack of transparency in the field of public procurement and in the sluggish implementation of the Freedom of Public Information Act from 2010, which regulates public access to information (see point 2.4). There are clear regulations governing private contributions to political parties and candidates during election campaigns, but these regulations are not (or very rarely) implemented in practice.

16 | Consensus-Building

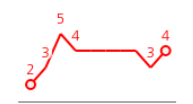
Except for a relatively small group of Muslim hard-liners who advocate for a theocratic caliphate state, the majority of Indonesians openly support democracy. Several surveys in recent years have found levels of support at nearly 90%. The answer to the question of what the meaning of democracy is varies to a great extent though. While most people support elections and majority rule, the other components of a liberal, fully-fledged democracy are more disputed.

President Joko Widodo and his administration have not shown a high degree of adherence to the ideals of a liberal democracy, and civil liberties and political rights have been reduced in recent years. There is a broad consensus in Indonesia to stick to democracy in the future, but it is a rather minimalist version of an electoral democracy.

Anti-corruption policy

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Consensus on goals

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There is no general consensus on the market economy since major political parties, such as PDI-P and Gerindra, openly reject the idea of economic liberalism and propose a more state-led economy dominated by the government and state-owned enterprises. Unsurprisingly, Indonesia's economic system shows some similarities with this model, including protectionism from foreign trade and no public political support for the privatization of powerful state-owned enterprises.

In general, there are two powerful anti-democratic veto actors in Indonesia: the military and radical Islamic forces. Traditionally, Indonesia's post-Suharto governments followed a policy of co-opting these influential anti-democratic actors 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. President Jokowi, for example, was elected as a reformer in 2014, but once in office, he accommodated anti-democratic actors (such as the authoritarian New Order generals Wiranto and Prabowo Subianto) to such an extent that his reformist image rapidly disappeared.

At the same time, key persons in many national ministries and state agencies are now conservative and intolerant Islamists. As a result, anti-democratic actors are part of the political establishment and partly responsible for the incremental erosion of democracy.

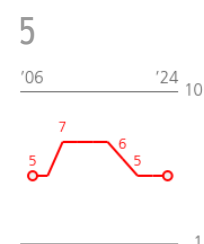
Not all anti-democratic actors are part of the system. Some stand in opposition to it. Some of the radical Islamic groups have even been banned under the Jokowi administration, such as Hizbut Tahrir Indonesia and the Islamic Defenders Front, whose leader Habib Rizieq Shihab was sentenced to four years in prison in 2021.

In the early 2000s, ethnic conflicts and the center-periphery conflict between Java and the other islands were dominant. These conflicts have reduced significantly (except for the situation in Papua) through the granting of autonomy to the regions (decentralization) and providing a budget distribution scheme that allocates more funds to resource-poor regions than to those that can generate sufficient income.

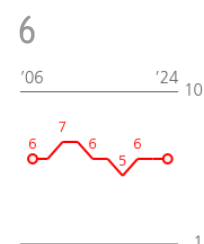
Currently, the most important sociopolitical cleavage is between supporters of a greater role for Islam in state organization and those who want to maintain the country's existing pluralist constitution. As described previously, the current administration has attempted to solve this conflict partly by including some Islamists in the administration, while at the same time excluding and punishing others. However, the conflict remains and is likely to play a significant role in the upcoming elections in 2024.

Class divisions are significant but are generally not expressed politically. This is due to the lack of a significant leftist political party, a legacy of the anti-Communist propaganda during the authoritarian New Order (Orde Baru) era.

Anti-democratic actors



Cleavage / conflict management



Compared to other Southeast Asian countries, the political environment for civil society activism is considerably more benevolent in Indonesia. 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 of cooperation between government and civil society.

At the national level, however, the willingness of the Jokowi government to take into account and accommodate the diverse interests of Indonesia's vibrant civil society has significantly declined in recent years. This was not only caused by the restrictions during the COVID-19 pandemic but also due to less openness on the government's side.

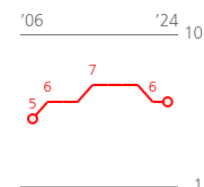
Significant new legislation or changes, such as the Omnibus Law, were rushed through parliament in a few weeks without intensive exchange with civil society members. In November 2021, the Constitutional Court consequently declared the omnibus law unconstitutional since the public was not sufficiently consulted during its drafting.

In a public declaration in January 2023, President Jokowi expressed deep regret over gross human rights violations in Indonesia during the last 60 years, including the mass killing of communists and suspected sympathizers in the mid-1960s. He cited 11 other rights incidents, including the killing and abduction of students blamed on security forces during protests against New Order strongman Suharto's autocratic rule in the late 1990s (in which, for example, his minister of defense, Prabowo Subianto, was actively involved).

Such a step will certainly contribute to societal reconciliation, particularly for the victims, who achieved moral justice for past acts of injustice. It was a long time coming. Almost 10 years ago, the president promised to resolve past human rights violations during his first election campaign. After coming to office in 2014, however, he kept silent for a long time. Powerful persons from the military and police (involved in human rights violations in the New Order and now in his cabinet), and within Muslim organizations (involved in the anti-Communist massacres and now also in government positions) warned him against addressing the human rights violations of the past.

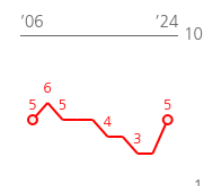
Public consultation

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Reconciliation

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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, among them the new capital Nusantara in East Kalimantan. Despite enormous efforts by the administration of President Joko Widodo, these loans have not been secured at the scale hoped for.

The reason for this is that international cooperation is still heavily constrained by corruption, an inefficient bureaucratic system and red tape within the implementing organizations. Evaluations of aid programs have demonstrated misuse of the assets among bureaucrats as well as some implementing organizations.

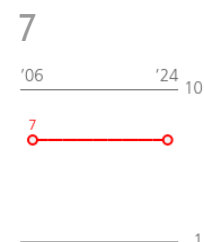
Indonesia's primary donor is the People's Republic of China, whereas American and European cooperation has stagnated in recent years. Overall, the government has a road map for utilizing international cooperation to further its development, but this road map no longer includes support for good governance but rather for technological cooperation. Foreign sociopolitical organizations such as the German foundations for political education (Konrad Adenauer Stiftung, Friedrich Ebert Stiftung, etc.) find it increasingly difficult to work in Indonesia since the government severely limits their cooperation topics and choice of local partner organizations.

Generally, Indonesia is seen as a credible diplomatic partner. Typically, it is a moderate, noncombative actor that consistently promotes multilateral solutions to international problems. All post-authoritarian governments, including the current one, have placed great emphasis on portraying Indonesia as a key partner of the West, despite a deepening Islamist sentiment within segments of society.

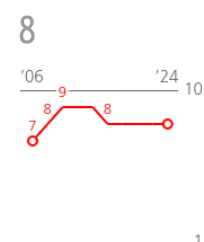
At the international level, Indonesia gained a lot of prestige by chairing the G-20 group in 2022 and hosting a successful summit in Bali in November 2022, which could somewhat bridge the global tensions caused by the Russian invasion of Ukraine.

In the economic realm, however, Indonesia's credibility is lower than that of many neighboring countries. Foreign investors have complained about frequent policy flip-flops, abrupt commodity export bans (such as for palm oil in April 2022) and continued legal uncertainty. A main objective of the Omnibus Law was to reduce these weaknesses, but it is rather unlikely that Indonesia's low economic credibility (which is reflected in relatively low rates of foreign direct investment) will increase anytime soon. Additional barriers include controversial regulations such as the new Criminal Code with its conservative Islamic regulations. United States Ambassador to Indonesia Sung Kim cautioned in December 2022 that "morality clauses attempting to regulate what occurs in a household between consenting adults can have a negative impact on Indonesia's investment climate."

Effective use of support



Credibility



As by far the largest (by population and size of economy) Southeast Asian country, Indonesia remains the key actor in the Association of Southeast Asian Nations (ASEAN). In 2023, the country took over the ASEAN chairmanship and intends to navigate ASEAN through the ongoing U.S.-China rivalry in the South China Sea, with the aim of preventing the bloc from becoming a proxy of either superpower.

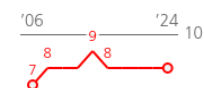
Indonesia took the lead within ASEAN to find a resolution to the ongoing Myanmar crisis after the military coup in early 2021, with Myanmar currently having made no progress on ASEAN's five-point consensus (of which Indonesia was one of the main initiators). In January 2023, Indonesia's Foreign Ministry announced plans to set up a special office dedicated to Myanmar led by Foreign Minister Retno Marsudi. In addition, Indonesia asked ASEAN to establish a permanent office in Myanmar to advance working-level talks.

The Jokowi administration intends to continue supporting the accession of Timor-Leste to ASEAN. Indonesia also contributes to the Asia-Pacific Economic Cooperation (APEC) and is a member of the important regional trade agreement RCEP (Regional Comprehensive Economic Partnership).

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 and cooperative, as is the case between Indonesia and its other Southeast Asian neighbors.

Regional cooperation

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Strategic Outlook

Indonesia's political system can still be classified as a democracy, but over the past decade, the quality of this democracy has gradually declined. This shift can primarily be attributed to the administration of incumbent President Joko Widodo, who, since taking office in 2014, has prioritized social stability and economic growth over political rights and civil liberties.

These policies, however, have garnered significant support among ordinary Indonesians. President Joko Widodo consistently maintains a support level above 70%. It appears that certain vital components of a fully-fledged democracy, such as freedom of speech and assembly, the right to peaceful opposition against the government, and the safeguarding of minority rights, are perceived as less crucial. Enhancing political education that underscores the (presumed socioeconomic) advantages of a functional democracy is thus essential to raising awareness among the general populace regarding democratic and nondemocratic policies.

Unfortunately, Indonesia's education system remains generally subpar. While the current education minister, Nadiem Makarim, is oriented toward reform, deeply ingrained obstacles to modern learning persist, including hierarchical teacher-student relationships and the prevalent use of memorization and repetitive teaching methods. Revamping the education sector is crucial to Indonesia's developmental progress. Efficient allocation of state funds for education is imperative, coupled with a reduction in politically motivated yet less relevant curricula content, such as an excessive focus on inward-looking nationalism and religious teachings.

Radical and anti-democratic Islamists still present a substantial threat to Indonesia's democratic fabric. The most effective approach to diminishing their political influence involves averting widespread socioeconomic instability while actively promoting tolerance and respect for diverse faiths within the education sector. National and private boarding schools must adhere to nondiscriminatory curricula.

One of the most pressing challenges in the realms of politics and the economy is pervasive corruption. Effectively combating this issue necessitates consistent enforcement of the law. Strengthening the valuable work of the national Anti-Corruption Commission is crucial; recent years have seen a reduction in its scope, which needs to be reversed.

On the economic front, domestic consumption, crucial for sustained growth, has stalled in recent years, partly due to mobility restrictions amid the COVID-19 pandemic. Consequently, the government should focus on bolstering wide-ranging domestic consumption to stabilize the economy in the years ahead.

Indonesia's relatively limited inflow of foreign direct investments is a weakness. To address this, the country should formulate a clear and cohesive trade and investment policy framework. The interplay between protectionist and free market policies has caused confusion for both domestic and international investors. President Joko Widodo exacerbated this confusion by endorsing a substantial deregulation package in 2020 while maintaining some protectionist stances. This lack of clarity has hindered investment potential and restricted Indonesia's economic growth. Therefore, a consistent medium- to long-term economic blueprint is imperative, outlining the government's commitment to free market regimes like the RCEP, ASEAN Economic Community, WTO regulations, and bilateral trade agreements.