

The past six months have been the toughest for President Jokowi since his settling in period after the inauguration in late 2014

The blasphemy trial of Asuki Tjahaja Purnama (known as Ahok), the ethnic Chinese-Christian Governor of Jakarta, revealed tensions between forces favouring secular governance, an Islamic state and those who tilt in between. The trial resulted in his loss in the Jakarta gubernatorial election and a two-year prison sentence. The moves against Ahok, originating from an offhand comment about the Koran, were executed by militant Islamic networks who also drew on anti-Chinese sentiment. However, a loose coalition of political and business elites keen to embarrass and gain ascendancy over Jokowi - a staunch supporter of Ahok - provided the necessary political heft for the anti-Ahok groupings.

Most significant of these groupings was one headed by two individuals, Prabowo Subianto, a former general and erstwhile son in law of Suharto who lost the 2014 election to Jokowi, and Anies Baswedan the former Jokowi cabinet member who ultimately defeated Ahok. It also included businessman, Sandiaga Uno, who was Anies' running mate, Hary Tanoesoedibjo, who had been Prabowo's running mate in the 2014 presidential vote, and longstanding Golkar political and business figure Aburizal Bakrie. A key question arising from the trial is to what degree does the Ahok affair signal an upsurge in Islamist sentiment in Indonesia, where a tendency towards more conservative forms and practice of Islam has been influenced by transnational Islamic movements. Decentralisation in Indonesia may also have contributed to these trends, e.g. by allowing a greater application of Sharia law in areas like Aceh.

Islamist parties remain in the minority, and while mainstream secular parties have tended to tiptoe around delicate Islamist issues. Surveys show that secular matters such as good governance or economic policy typically determine voters. Moreover, while Indonesia's economic growth has seen the emergence of a new Muslim middle class, which provides a resource pool for mobilisation by those political elites whom a might claim to represent Muslim interests, this group has tended to manifest greater piety rather than significantly increased Islamic political clout. The fact that the two principal Islamic organisations *Nahdlatul Ulama* and *Muhammadiyah*, who together have 75 million members, refused to endorse the anti-Ahok moves was significant. However, their aversion to street politics allowed smaller radical groups, such as the Islamic Defenders Front, to take centre stage.

Perhaps an unforeseen consequence of the Ahok affair was that it stiffened the back of the secular forces. The Government has begun intensively promoting Pancasila (or the five principles) as the national unifying (secular) ideology of Indonesia. On 16 June, the head of the armed forces, General Gatot Nurmantyo and the chair of the Indonesian Ulama Council, while speaking to soldiers at the end of Ramadan also strongly endorsed *Pancasila*. The identity politics of targeting Ahok as a Chinese Christian may also have undesirable consequences for some Muslims of Arab descent such as Aneis Baswaden, and the Head of the Islamic Defenders Front, Rizieq Syihab. Former President Megawati

made the comment in January “If you want to be a Muslim, do not be an Arab. Keep your identity as Indonesian.”

The political turmoil surrounding the Ahok affair has not had much impact on the economy. A survey by Bank Indonesia showed consumer confidence in May was at its highest since 2000. According to the World Bank, real GDP growth is projected to increase from 5.2% to 5.3 % in 2018. Forex reserves are at a five-year high, and an improved external backdrop, higher commodity prices, and some conditional relaxation on the ban on exports of raw materials are boosting export figures.

The government is hopeful of expanding foreign investment, particularly in infrastructure. There are some promising signs:

- Standard and Poors Global Ratings have upgraded Indonesia’s sovereign bonds to BBB minus, signifying an adequate ability to repay national debts;
- In May the IMF gave a generally positive mark to Indonesia in its Financial System Stability Assessment;
- In June Moody’s changed its outlook on the Indonesian banking system from “stable” to “positive”; and
- A tax amnesty - surprisingly - resulted in 960,000 citizens declaring assets and raised the equivalent of 1.1% of GDP.

However, two central issues inherent to doing business in Indonesia remain far from resolution:

1) Corruption. The first is the political and the self-serving strength of business elites, particularly in the extractive, energy and construction sectors. Their strength became apparent in the Ahok affair, as their interests had been jeopardised by Jokowi and Ahok’s preference of State-owned enterprises over their privately owned groups. Moreover, many of the central figures in Jokowi’s administration such as Vice President Jusuf Kalla and Coordinating Minister for Natural Resources, Luhut Panjaitan are also heavily involved with business groups whose interests they seek to push.

2) Economic Nationalism. While conscious of the need for foreign investment, Jokowi attaches importance to sovereignty and self-sufficiency. However, even if he did not, economic nationalism has always been a strong political current in Indonesia and impossible to ignore- particularly in the post-Suharto period. It is most pronounced in the mining sector, where confusion about the Indonesian regulatory system has reigned since the new mining law of 2009. A recent survey by the Canadian Fraser Institute in February 2017 ranked Indonesia at 99 out of 104 countries regarding mining investment climate.

Despite the government amendment of its partial ban on the export of unprocessed minerals in January, difficulties still exist. These include the need of miners to show progress towards smelter development; confusion about the legal framework for future contacts (how the longstanding system of Contracts of Work (CoWs) will be converted

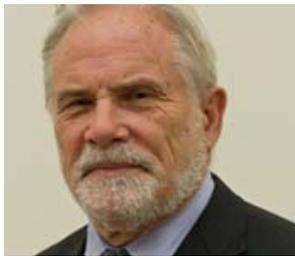
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into a new system of mining licenses -IUPKs); and complications about the rules for divestment by foreign shareholders.

The most prominent mining issue remains the future of the Freeport mine, which has been under discussion for the past five years. While Freeport has wholly or partially conceded a number of the outstanding issues between them and the GOI, some severe matters remain- including tax, royalties and divestment.



John McCarthy AO is a former Australian diplomat. Among his various postings, he was High Commissioner to India (2004-09) and Ambassador to Japan (2001-04), Indonesia (1997-2001), the United States (1995-97), Thailand (1992-94), Mexico (1985-87) and Vietnam (1981-83). He also served as the Deputy Secretary of the Department of Foreign Affairs and Trade (1994-95). He currently serves as Chair of the Australia-India Council, Co-convenor of the Australia-Indonesia Dialogue and National President of the Australian Institute of International Affairs, and has carried out a number of special missions for the Australian Minister of Foreign Affairs.