

White Paper

The dark truth behind Indonesia's stellar economic growth



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How do fast-developing economies deal with corruption and cybercrime?

As one of the fastest growing economies in Asia and the world, Indonesia provides potential value for investors and international trade alike, even as a trade war rages between China and the United States of America, two of its biggest trade partners. But economic growth does not equal legislative stability. In a fast-growing economy, legislators often struggle to ensure a regulatory framework keeps pace with growth. Here we hope to assess where these legislative challenges lie for Indonesia.

INTERNATIONAL RATINGS STILL SEE RISK IN INDONESIA

Indonesia is a medium to high risk country, according to the risk assessment sources Acuris Risk Intelligence uses. The Asia/Pacific Group on Money Laundering (APG) rates the country as compliant with six, largely compliant with 29, partially compliant with four and non-compliant with one of the FATF 40 recommendations, meaning that Indonesia still presents a high risk of money laundering, as not all the FATF recommended measurements have been implemented by the government¹. The Basel AML Index has rated Indonesia as medium risk in 2018, with a rank of 52 out of 129, with a score of 5.73 (0 being best and 10 worst)². According to the United States Department of State³, the country is a major money laundering concern, and Transparency International gives it a rank of 89 out of 180 with score 38 on a scale of 0-100 from highly corrupt to very clean⁴. According to the APG, Indonesia has a high risk of terrorist financing.

All this makes Indonesia a risk-associated country, forcing many businesses to perform careful checks of Indonesian citizens and local businesses. The compliance elements that seem of highest importance in the jurisdiction are corruption risk, as well as fraudulent business activities and a lack of cybersecurity. PEP screening is extremely important, as is corporate involvement in government: this encompasses having politically-associated people on the management board, ownership by the state or operating in the government procurement sector, where there is endemic bribery.

WHERE IS THE RISK?

CORRUPTION AS A HISTORICAL PROBLEM

Most Indonesians are fairly satisfied with democracy in their country, but still believe that corruption and intolerance are hindering the political system, according to a poll

¹ Asia/Pacific Group on Money Laundering (APG) – Indonesia Mutual Evaluation Report 2018, <http://www.apgml.org/documents/search-results.aspx?keywords=Indonesia>

² Basel AML Index 2018, https://index.baselgovernance.org/sites/collective.localhost/files/aml-index/basel_aml_index_10_09_2018.pdf

³ US Department of State – 2019 International Narcotics Control Strategy Report (INCSR), <https://www.state.gov/wp-content/uploads/2019/03/INCSR-Vol-INCSR-Vol.-2-pdf.pdf>

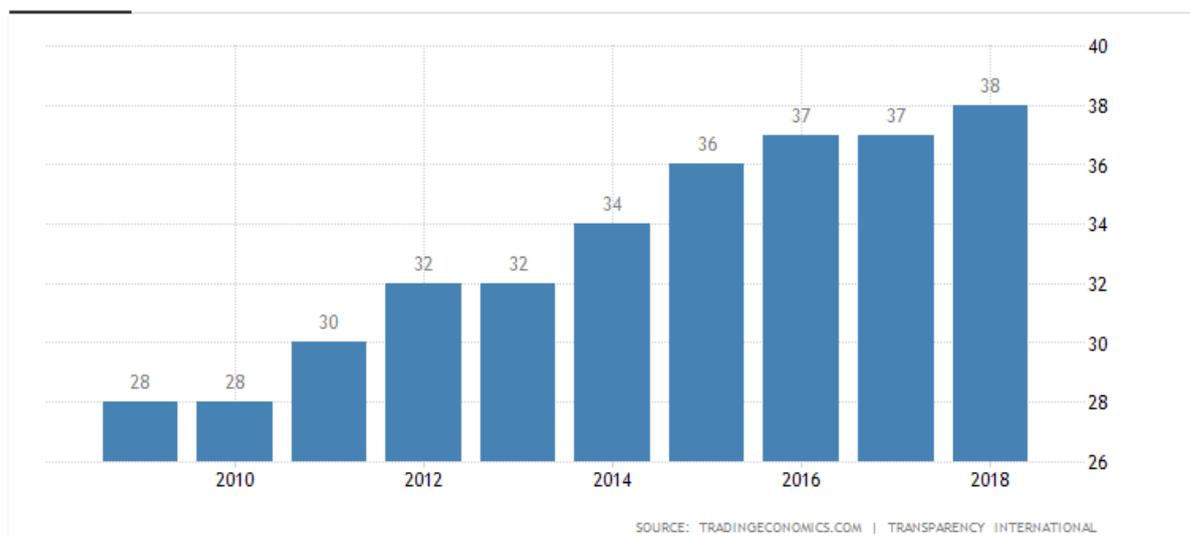
⁴ Transparency International – Perception of Corruption in Indonesia (2018), <https://www.transparency.org/country/IDN>

last year by the Indonesia Survey Institute (LSI)⁵.

Corruption in Indonesia has been most persistent since the end of the “New Order” regime, presided over by President [Suharto](#) from 1966 to 1998. Consequently, the country has a very poor international reputation for corruption. President Suharto’s regime may have been associated with strong economic growth, but was also known for extremely high levels of corruption. It is estimated that by the end of his 31-year rule, Suharto had embezzled between USD 15 and 35 billion⁶, prompting [Transparency International](#) in 2004 to name the former Indonesian president as the most corrupt world leader of the past 20 years. Suharto’s corruption also led to Indonesia’s poor Corruption Perception Index ratings:

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Indonesia	2.2	2.4	2.3	2.6	2.8	2.8	3.0	3.2	3.2	3.4	3.6

Source: Transparency International



Although the above graphic shows that the country still has a long way to go in improving its anti-corruption measurements, it also illustrates that there has been considerable and continuous improvement. In 1995, the country was last in the rankings, but it has since climbed to the top half of the chart.

This is not an argument in favour of easing compliance, but rather illustrates that strengthening the regulatory framework works, despite the country’s persistent difficulties. And there are still great problems for Indonesia to tackle if it is to catch up to other Asian countries, never mind internationally.

Laode Syarif, one of the few anti-corruption commissioners in Indonesia’s Komisi Pemberantasan Korupsi (Corruption Eradication Commission (KPK) has said that his job is so dangerous that his children go to school with bodyguards, and that one of his colleagues, Novel Baswedan, while in the middle of a big case, was attacked by two men

⁵ 24 September 2018, The Straits Times, *Survey in Indonesia indicates corruption and intolerance are threats to democracy in the country*, <https://www.straitstimes.com/asia/se-asia/survey-in-indonesia-shows-corruption-and-intolerance-are-threats-to-democracy-in-the>

⁶ 20 July 2016, Jeremy Sandbrook, Integritas 360, *The 10 Most Corrupt World Leaders of Recent History*, <https://integritas360.org/2016/07/10-most-corrupt-world-leaders/>

on a motorcycle, who threw acid on his face.⁷

Syarif remains optimistic about the anti-corruption drive and wants to continue fighting, but admits it is hard, especially as the government is not funding their investigations. He believes the situation has improved compared to Suharto's time, and that people are aware change is needed. The KPK receives about 7,000 corruption tip-offs each year but the investigative team only manages to deal with one case a week.

CYBER RISK – LOW DATA PROTECTION IN THE COUNTRY

Cybersecurity is also a concern in Indonesia. Despite being the nation with the fourth fastest internet user growth in the world, as seen in the below table provided by Datareportal's collection of Digital 2019 Reports, Indonesia has poor levels of cybersecurity. The technology used by Indonesians is highly susceptible to cybercrime, espionage, cyber warfare etc.



In fact, in the first ten months in 2018, the country experienced more than 200 million cyber-attacks⁸. And some of these attacks targeted government organs, such as the General Election Commission⁹, the Defence Ministry¹⁰ and the Indonesian Association of Muslim Intellectuals¹¹. These attacks turn the issue into a matter of national security.

What can be done? The first and most logical step is to define a national cybersecurity strategy and to focus on stronger laws that prevent and prosecute cybercrime. The country already has a legislative base for cybersecurity, with the 2016 Law on Electronic Information and Transactions and the 2012 Government Regulation on the Implementation of Electronic Systems and Transactions. Last year the National Cyber

⁷ 31 August 2018, Gabriel Wilder, The University of Sidney, *The challenge of eliminating corruption from Indonesia*, <https://sydney.edu.au/news-opinion/news/2018/08/31/the-challenge-of-eliminating-corruption-from-indonesia.html>

⁸ 13 December 2018, Detikinet, *Indonesia Dibombardir 207 Juta Serangan Siber dalam 10 Bulan*, <https://inet.detik.com/security/d-4340493/indonesia-dibombardir-207-juta-serangan-siber-dalam-10-bulan>

⁹ 10 April 2014, Tempo.co, *Antisipasi Peretas, KPU Gandeng Jagoan Dunia Maya*, <https://pemilu.tempo.co/read/569480/antisipasi-peretas-kpu-gandeng-jagoan-dunia-maya>

¹⁰ 11 May 2013, Detiknews, *Situs Dirjen Kementerian Pertahanan RI Di-hack*, <https://news.detik.com/berita/2243078/situs-dirjen-kementerian-pertahanan-ri-di-hack>

¹¹ 09 June 2016, Kompas.com, *Situs ICMI Disusupi "Hacker"*, <https://tekno.kompas.com/read/2016/06/09/08410357/situs.icmi.disusupi.hacker>

and Encryption Agency (BSSN) was established¹².

Now, the relevant bodies need a stronger and more collaborative framework within which to work together. But investing in technology and competence is crucial. Without adequate technology and the relevant expertise, a strong regulatory framework is useless. The country needs skilled, technically proficient staff, armed with good technology and the requisite authority, to build and develop good collaboration between the government and the private sector. This cooperative approach would not just share human resources, but information as well, as effective cyber protection has to reach out to all sectors, especially banks, payment services, insurance providers, transportation services, hospitals and other entities that deal with large volumes of personal data.

BEST PRACTICES WHEN DOING BUSINESS IN INDONESIA

But corrupt influences in Indonesia are not fully in retreat. Under recent legislation, any investigation of a parliamentarian must first be approved by the Indonesian parliament's ethics council and then receive written permission from the president.

The law also allows prosecution of Indonesians deemed to have been disrespectful of parliament or parliamentarians. Although President Joko Widodo did not sign the legislation, the legislation raises a red flag for businesses.

Similarly, companies should pay attention to cybersecurity, measures for which are still weak. Indonesia is still a country recovering from corruption – any activities there, especially in sensitive, high-risk, operations should be undertaken with great care.



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¹² 18 February 2018, Resty Woro Yuniar, This week in Asia, *Can Indonesia's new cybercrime unit win its war on fake news?*, <https://www.scmp.com/week-asia/geopolitics/article/2132683/can-indonesias-new-cybercrime-unit-win-its-war-fake-news>

