

**INDONESIAN OUTLOOK SURVEY 2007:
POLITICS, BUSINESS AND SOCIETY
TEN YEARS AFTER THE CRISIS**

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Indonesia Ten Years Later

Background

It is now nearly 10 years since the great financial crisis of 1997 began to roll across Asia with the steep devaluation of the Thai Baht in June 1997. The five Asian “Tiger Economies” – Indonesia, Korea, Malaysia, Philippines and Thailand – that were most heavily impacted have all recovered, at least in that “per capita incomes in the crisis economies now surpass their pre-crisis peaks, social indicators are improving, and the region is again enjoying growth that is the envy of many parts of the developing world.” (ADB *Outlook 2007*).

Nevertheless, the profound impact of the devastating financial tsunami is still unfolding. The economic recovery and stability noted above are very welcome, indeed, but as the ADB points out in its excellent *Outlook 2007*, when the 2000-2006 period is compared with the 1990-1996 period, “growth has slipped by an average of 2.5% a year in the five countries that were most directly affected”.

This is certainly the case with Indonesia, the hardest hit of the crisis economies of the period. Indonesia’s economy virtually collapsed in 1998 when the country experienced a GDP decline of 14% after more than two decades of 6-7% average annual growth. Indonesia’s currency collapsed from 2,250 to 17,500 to the U.S. dollar in less than nine months and the banking system lost over \$50 billion. Over 100 of the country’s 238 banks were closed, merged or sold and thousands lost their jobs. The economic shock not only bankrupted most of Indonesia’s large banks and many hitherto successful domestic companies, it also led to the collapse of the highly centralized, rigidly authoritarian Soeharto regime which had ruled the country for 30 years.

Indonesia Today

Although Indonesia remains a country in transition, it is fair to say that Indonesia has weathered its transition to a more open and democratic political system quite well. Its political process has become vibrant and open and its legitimacy is accepted by virtually all important elements of society. Its dramatic shift to democracy and the ensuing political stability has certainly surprised the many pessimists who felt this large, sprawling, ethnically and religiously diverse country would disintegrate without a strong authoritarian government. Moreover, its strong security response to a series of bombing attacks by religious extremists and the increasing marginalization of pro-terror radicals within Indonesia society have also surprised those who felt it was likely that Indonesia would become a “failed state” and a regional hotbed of radical Islamic terrorists.

Having established a stable and credible process of political transition, however, Indonesia is still in the process of recovering from an economic collapse of historical proportions and attempting to resume its place among the rapidly growing developing economies. In this regard, it is now disappointing those who were confident political stability would bring a timely return of the large investment flows that characterized the early 1990's and generate the high growth rates of the pre-crisis years. The landslide victory of the popular, pro-reform, pro-private sector candidate Susilo Bambang Yudhoyono (SBY) in Indonesia's first direct presidential election in 2004 heightened this optimism.

Now, although the economy is growing very much within Southeast Asian economic norms that are among the highest in the world, serious problems remain. Hamstrung by a powerful, entrenched bureaucracy with a long history of anti-business bias and a corrupt and discredited legal system, and distracted by a series of natural disasters and burdened with a legacy of disastrous subsidies, SBY and his small cadre of like-minded ministers have made only modest progress with its economic agenda.

As a result, it is now clear Indonesia's political transition has progressed further than its economic recovery. Post-authoritarian Indonesia has held two very successful national elections (1999 and 2004) characterized by a high degree of voter participation (over 90%), no significant electoral fraud and no serious incidents of violence. The next national elections will be held in 2009, but a series of local elections began in 2005 and will continue on a sequential basis for the next year. There are no significant political forces, including Indonesia's powerful military, that oppose this process or are challenging its legitimacy. This bodes well for political stability when the next national elections will be held in 2009 and beyond.

The economy has performed well in that the country's banking system, shattered and bankrupt in 1998, is now sound and profitable. Foreign debt as a percentage of GDP has dropped from 150% in 1998 to under 40% today. GDP per capita of US\$ 1,500 now exceeds its previous 1997 high. The national currency, the Rupiah, is now stable in a range between 8,800 and 9,600 per U.S. dollar. It reached a low of 17,000 in 1998. GDP growth rates below six%, however, remain disappointing with 16% of Indonesia's 220 million people still living below the poverty line and 11-12% of the nation's 102 million-person work force unemployed, with another 30% seriously underemployed. While growth rates in excess of 5% the past two years are encouraging, the country needs economic growth rates of 6-7% to make significant progress in raising per capita incomes, reducing unemployment and improving the quality of life for the majority of its citizens.

The decentralization process is certainly the second most important political trend after the institutionalization of democracy. In 2000 and 2001 legislative changes favoring decentralization brought major benefits to Indonesians across the nation by mandating a

more equitable distribution of government revenues and a significant shift of financial resources away from Jakarta, the national capital, to the regions. For example, throughout the Soeharto era, Jakarta was a huge vacuum cleaner drawing virtually all tax and natural resource revenue into central government coffers. As a result, Jakarta, with about 5% of the country's total population, accounted for 70% of the deposits and credits of the banking system.

Today, because of the wealth transfers to the regions mandated by the regional autonomy laws, only 35% of the credits and 50% of the deposits are held in Jakarta. This is an historic redistribution of wealth from the center to the regions and it has taken place without violence or resistance and without any property confiscation or seizure. The result of this wealth transfer has been generally significantly higher growth rates in regions outside of Jakarta and a modest reversal of the domestic brain drain that historically has seen Indonesia's best and brightest leave their homes and families in the regions to seek opportunities only available in the capital.

Despite this very important economic success, decentralization has had negative impacts as well, chief among them, legal confusion and uncertainty as to the rights and obligations of the central and regional governments vis-à-vis each other. This has hurt investment in general and has been a particular problem for the mining industry because virtually all major existing contracts are with the central government, but the new decentralization rules give significant authority to local governments.

In this context, CastleAsia and Charney Research have undertaken a national study to assess the mood of society and its attitudes towards government and business. The results are presented in the following chapters. They are encouraging in that they clearly show that Indonesia's young democracy is taking root, most Indonesians now see economic rather than physical security as their most important concern and business and government institutions are generally viewed favorably. Many challenges remain, however, and this report is intended to help clarify those challenges and help businesses and policy-makers better understand the environment in which they operate so they can design policies and programs that are relevant and appropriate to Indonesian society today.

Executive Summary

This report represents the findings of a nationwide public opinion survey of 819 Indonesians seventeen years old and older. The survey was designed to explore Indonesians' attitudes towards public affairs and business. Among the topics examined were: views on the state of the country, President Susilo Bambang Yudhoyono and other political figures, voting intentions for the 2009 elections, the economy, consumer purchasing intentions (in general and for specific products), business, policy issues affecting business, and major firms (Indonesian, American, and of other nationalities), development organizations, corruption, security, pesantren, terrorism, anti-Americanism, and trade boycotts.

The survey interviews were conducted around the country in person by trained, professional interviewers in September 2006. Participants were randomly chosen using a stratified, multi-level drawing method to ensure an accurate representation of Indonesian society generally, as well as all key demographic subgroups. The in-depth interviews with opinion leaders were conducted in Jakarta in November and December 2006. Other details about the Methodological Approach appear in Appendix I.

Key Findings

- In Indonesia, optimists narrowly outnumber pessimists on the direction of the country, citing the calmer situation and improving economy as well as Yudhoyono's free school and anti-corruption initiatives. The economy remains the major worry of the pessimists and the country at large.
- While public education efforts to date have had an effect, the risk of a avian flu epidemic remains because many poultry owners remain ignorant of how the disease spreads.
- Although the public is disappointed with his job performance Yudhoyono retains broader personal popularity than any other leading political figure. Thus, even though those who think the President should definitely be re-elected narrowly outnumber those who say he should not, he comfortably leads other presidential contenders – Megawati, Wiranto, and Kalla.
- The President's Partai Demokrat has vaulted to the top rank of contenders for seats in the DPR in 2009, just behind the PDI-P and ahead of Golkar, while all other parties are well behind. The public is very discontented with the DPR's performance.
- Despite better economic growth, large majorities of Indonesians say both the economy and their household finances are in bad shape. They also have little

optimism about the near future; most expect to buy no more than this year or to tighten their belts in 2007.

- Nonetheless, despite the economic pessimism, stated 2007 purchase intentions are large for hand phones, substantial for TVs and radios, and significant from low bases for landline phones, satellite dishes, and computers. Brisk purchasing plans are also reported for motorbikes, with some sales growth for bicycles and cars. Refrigerators, gas cookers, and washing machines are also expected to sell well.
- Indonesians see business in general and foreign investment quite positively, with state-run enterprises receiving a slightly higher rating than business in general.
- Private businesses, foreign and domestic together, are much likelier than state-owned firms to be seen as efficient, providing good service, and offering better pay. The two sectors are roughly tied for promoting the civic good. Foreign firms are way ahead on up-to-date technology, while state-owned enterprises are overwhelmingly associated with corruption, collusion, and nepotism.
- Corporate social responsibility – giving back to the community and protecting the environment – has a big impact on corporate reputations, even more than being a good employer or a nice place to work.
- U.S.-owned Coca-Cola, Sampoerna, and Bank Central Asia are well known and very well liked. Other American owned firms, including Microsoft and ExxonMobil, are not well known, though they get positive ratings (except controversial Freeport and Newmont).
- Foreign owned Aqua, Astra Indonesia, and Bank Danamon have very favorable ratings. Foreign-owned supermarkets Hero and Carrefour are rated highly by their urban clientele.
- Foreign acquisitions of well-known Indonesian brands like Sampoerna, Aqua, Bank Central Asia and Bank Danamon have apparently been well-received by the public since the companies remain highly regarded by survey participants.
- Private Indonesian firms Indofood, Gudang Garam, Maspion, and Wings were all viewed quite favorably, although Bakrie Brothers is somewhat controversial and Medco Energy is little known.
- State-owned enterprises were viewed even more favorably than the big private firms, with electric utility PLN, Bank Rakyat Indonesia (BRI), Pos Indonesia, and Telekom getting particularly strong ratings. Bank Mandiri, Garuda Indonesia, and state oil and gas firm Pertamina also rate quite positively, although there is some negative feeling towards Pertamina.
- The public is hesitant about making the rules regarding discharge of employees more flexible, but supports shifting unemployment compensation to a state insurance plan based on payroll deductions.

- Indonesians tend to favor public ownership of key firms and resources.
- The public favors opening up the country's economy to foreign investment and world markets, but is anxious about lowering tariffs and their economic impact.
- Indonesians are very supportive of regional integration via an ASEAN regional free trade area.
- ASEAN is extremely well regarded, and the World Bank and IMP are viewed favorably. USAID, the IDB, the ADB, and the Japan Bank for International Cooperation are not well-known but are generally viewed positively by those who do know of them.
- Corruption is widely considered a major problem, though less in business than government, and many Indonesians know someone who has bribed a government official. Corruption is seen as increasing since regions were granted more autonomy in 2000-1, but as less common since Yudhoyono became president in 2004.
- Criminal victimization and fear for personal safety are little changed from 2003.
- Most Indonesians approve of regional governments passing by-laws based on sharia. However, there is widespread concern that pesantren teach extremist Islam and massive support for government licensing of such schools.
- Concern about terrorism is very widespread in Indonesia, and it is roundly condemned by most Indonesians, except for a small but significant minority. Indonesians are also supportive of the U.S.-led war on terror, even though the United States is not broadly popular among Indonesians at present.
- Many Indonesians support boycotting American products. Support for a boycott of Danish products in the wake of the cartoon controversy is also substantial, if smaller. Though these attitudes do not seem to have much impact on individual companies at present, they represent a potential source of future trouble.

The National Mood

Indonesians are divided over the direction of the country, with optimists (47%) slightly more numerous than pessimists (41%). The major reasons for optimism include improved security and stability, economic recovery, and President Yudhoyono's education and anti-corruption initiatives. The economy remains the major source of anxiety. Two-thirds of the public cited the economy as the major problem facing the country, and more than four respondents in five who said things were headed in the wrong direction offered the economy as the reason. The only other issue that generated much spontaneous resonance was avian flu and natural disasters, which were cited as a problem by one-fifth of the public. Corruption followed, mentioned by 9%

The more advantaged groups in Indonesian society are more positive in their views than the disadvantaged. There is a big gender gap in outlooks on the country. Men (52% optimistic) are more positive about the direction of the country than women (43%). There is also a large difference between urban and rural residents, with urban residents more likely to believe things are headed in the right direction than rural dwellers. Similarly, those better-off economically are more optimistic than those lower down the pile. In regional terms, Javanese (40% right direction) are less positive than residents of Sumatra (68% right direction) or Sulawesi (59% right direction).

Although avian flu is not a major concern, nearly nine Indonesians in ten think it is a problem and three-fourths have learned that it can be acquired through touching diseased poultry. Most Indonesians would follow the lead of other countries and favor preemptively slaughtering infected birds to prevent the disease. However, the poll findings reveal a serious risk of epidemic, because two-fifths of chicken owners do not know how the disease spreads, and many of those are unaware of the risk of epidemics and oppose preemptive slaughter.

Comparing recent disaster relief efforts to those after the 2004 tsunami, roughly similar proportions thought they had improved (29%) or have been less effective (31%). But there are important regional differences; Sulawesi residents complained relief was worse, those in earthquake-hit Java were split as to whether there had been improvements, while on Sumatra – which suffered most from the tsunami – residents said relief efforts had improved.

The Political Landscape

The poll shows that President Yudhoyono's honeymoon with the voters is over. Only 34% view his performance as excellent or good, while 41% rate it only as fair and 21% as poor. They split almost evenly on his re-election, 41% in favor and 37% opposed. But Yudhoyono remains more popular personally than his major opponents, although all are well regarded. Yudhoyono is viewed positively by 80% (very positively by 27%), Megawati Sukarnoputri by 76% (15% very positively), Yusuf Kalla by 62% (16% very positively), and Wiranto by 42% (5% very positively). Among other leaders, Amien Rais is well respected (63% positive, 7% very positively), while other figures – Sutiyoso, Sutanto, and Sutrisno Bachir – are liked but much less well known.

Yudhoyono is the clear front-runner in the coming 2009 election race, as his personal popularity overcomes his modest job performance rating. Yudhoyono easily defeats Megawati 53% to 30%, Wiranto 65% to 14%, and Yusuf Kalla 70% to 9% in hypothetical presidential match-ups.

The six leading parties vying for seats in the DPR received fairly similar overall popularity ratings from the electorate, with the top five tightly bunched and PAN trailing somewhat. Partai Demokrat's rating was 74% positive (16% very positive), PDI-P 72% (11% very positive), PPP 72% (11% very positive), PKS (69% (11% very positive), and PKB (69%, 8% very positive). PAN has a rating of 59% positive (5% very positive) and 30% negative, the highest negative rating of any of the major parties. These findings suggest that voters are not very polarized between the parties, despite the ideological and religious differences between them. The lack of differentiation between the parties may also reflect general dissatisfaction with the performance of the DPR: two-thirds of the public gives it a fair or poor rating, much more than in 2003.

Merely having a positive overall popularity rating does not necessarily translate into electoral success for a party. Voting intentions appear much more closely aligned with very positive views. Reflecting this, the president's Partai Demokrat has leapt into second place in preferences for the DPR election in 2009, with 19% of the vote, an impressive achievement for a party that was not in the parliament four years ago. PDI-P is in first place, slightly ahead with 20%, while Golkar is in third place with 16%, the PKS has 7%, and the PKB 6%. All other parties trail at 3% or less.

The mainstream Muslim organizations have very high popularity ratings: 80% for Nahdlatul Ulama, 72% for Muhammadiyah. They are well liked generally, except among Christians. On the other hand, Islamic extremists – Abubaker Ba'asyir and Osama bin Laden – are not very well known and fairly unpopular among those who do know them. One-third of the population is hostile to them, while 25% are favorable to Ba'asyir and 15% to bin Laden. However, those favorable to them include a sizable proportion of educated, elite men and Indonesians with strongly anti-American views, who represent a potential base for extremism numbering in the millions.

The Economic Landscape

Indonesians say the economy still is in poor shape and do not think this is a good time for them to spend it back into health. Nine out of ten respondents indicated that the economy is in fair or poor condition, with a distressing 61% saying it is poor. This attitude is widespread throughout the country, but is particularly strong in the rural areas. The people differentiate their personal economic situation from the national situation only in degree. Nine in ten called their family's finances fair or poor, though only 40% termed their own situation poor compared to 60% who said the same of the national economy. Nine in ten also think this is not a good time to be buying things and more than half say they are buying less now than a year ago. Rural residents are less likely to be spending more, especially on Sulawesi, although residents of Sumatra are somewhat more optimistic. Indonesians who expect to spend less next year (33%) far outnumber those

who expect to spend more (8%), although the largest proportion (41%) expects to spend about the same.

Indonesians already own household durables in fairly high proportions (refrigerator 69%, gas cooker 49%, washing machine 40%). They are most likely to own home electronics such as televisions (86%) and radios (69%), cell phones (29%) and landline telephones (15%). About half the country's households have basic transportation such as a bicycle (51%) or a motorcycle (46%) while few possess cars (3%).

Despite the gloomy overall attitude toward the economy and spending, a fair number of families would like to make major purchases in the coming year. This includes substantial demand for consumer durables, chiefly among those who do not own them, with 8% saying they plan to buy refrigerators, 7% gas cookers, and 6% washing machines. Home electronics seems to be an area where consumers are ready to spend, with cellular phones (23%); televisions (13%), radios (8%), and landline phones (7%) the items they say they are most likely to purchase in the coming year. One-fifth of the public is talking about buying a motorcycle. Sumatra, where consumer confidence was highest, is also the area where there is the highest level of planned consumer spending. Although these numbers should not be taken at face value, they are useful indicators of consumer sentiment.

The Business Landscape

Indonesians regard business positively, and definitely favor foreign investment and state-owned firms. Almost half the people indicated a favorable attitude toward business generally (49%), while fewer than three in ten had a negative attitude (29%). Investment from outside Indonesia was looked at even more favorably, with 54% in favor and 24% opposed. There is considerable confidence in government-run enterprises, as nearly two-thirds of the citizens favor these businesses (64%), with under one-fifth (18%) viewing them unfavorably. Generally, the higher the socioeconomic status, the more support there is for business, both foreign and domestic.

The private sector taken as a whole (local and foreign) easily tops the state-owned sector on the attributes of productivity, quality of service, pay and promotion prospects, and modern technology by substantial margins in the eyes of the public. The two sectors were nearly tied for promoting the good of society (38% said state firms did the most, 36% private firms). State-owned enterprises did, however, rank highest on one attribute: they were seen as the most corrupt and nepotistic, by a margin of 63% to 20% who said the same of the private sector. Looking at foreign and local private firms separately, foreign firms ranked the highest of the three types of companies on modern technology, but the lowest of the three on promoting the good of society. State firms scored higher

than foreign or local private firms on service, efficiency, and pay, although ranked lower than the private sector as a whole.

A substantial majority of Indonesians value corporate social responsibility as a desirable attribute for businesses. Three-fifths of the citizenry would have a more positive view of a company that helped with education; sizable if slightly smaller numbers would have a similar reaction to a company that aids community causes, protects the environment, and provides workers with training.

American-owned consumer goods firms evaluated in the poll were very well known and have very positive images in Indonesia. Some 84% see Coca-Cola positively, as do 81% Bank Central Asia and 76% Sampoerna. Other U.S. firms involved in business-to-business sales or resource extraction were less well known. Microsoft was known by only 18% of the respondents, but every single one of them had a positive rating of the company, a remarkable result. The same was not true for controversial mining firms Freeport McMoran (17% positive, 19% negative) and Newmont Mining (5% positive, 8% negative). In both those cases, awareness and hostility, were much higher among the educated, urbanized informed public. ExxonMobil, on the other hand, was viewed favorably on balance (8% positive, 7% negative), and received favorable reactions in many groups critical of Freeport and Newmont.

Among other foreign firms, Aqua was almost universally liked (94% positive). The poll also revealed high positive ratings for Bank Danamon (81%) and Astra (59%), with very low negatives. Supermarket firms Hero and Carrefour were less well known but also enjoyed very positive reactions (Hero 43% positive, 6% negative; Carrefour 31% positive, 3% negative) from those who knew them, largely composed of residents of the urban areas where the stores are located.

Consumer goods producers among private Indonesian firms enjoyed very favorable images: Indofood (86% positive), Gudang Garam (79% positive), Wings (76% positive), and Maspion (75% positive), all with very low negatives. Bakrie Brothers, on the other hand, was less well known and more controversial due to its connection to politician Aburizal Bakrie: 17% of Indonesians were favorable, 12% unfavorable. Medco Energy was also little known outside the cities but well liked.

State-owned enterprises in the poll received the most favorable ratings of all, taken as a group. These included Bank Rakyat Indonesia (93% positive), Telkom (90% positive), Pos Indonesia (89% positive), and PLN (88% positive). Second-tier firms had only slightly lower ratings (Bank Mandiri, 82% positive, Garuda Indonesia, 80% positive, and Pertamina, 82% positive but with a slightly higher negative rating 15%.) Semen Gresik was somewhat less well known, but still enjoyed a 65% favorable rating.

Business, Government, and Trade

Indonesians appear to be cautious regarding liberalizing employment regulations. They favor protecting jobs, even at the expense of labor market flexibility and higher employment, by 46% to 37%. The public appears to prefer a system of state unemployment insurance based on payroll deductions to the current system of unemployment compensation via employer payouts, 49% to 36%. The higher income (A/B) groups tended to favor these reforms, while the less economically secure were more opposed.

When it comes to privatization, a plurality of Indonesians favors retaining money-losing state owned industries (46%) rather than selling off pieces of the companies to save taxpayer funds and increase efficiency (34%). Similar results emerged on a question about selling off profitable state firms to increase employment and reduce corruption: it was rejected 45% to 34%. Along the same lines, more people favor the provision in the 1945 Constitution that mandates public ownership of resources (43%) than oppose it (37%). Support for state-owned businesses is surprisingly uniform across the population, including among those who favor liberalizing trade or employment. The legacy of Indonesia's history of state-led development remains felt.

By an almost two to one margin, 50% to 27%, Indonesians support opening up the economy to world markets and foreign investment. This is impressively broad support, as agreement includes the young, the educated, and the unemployed. However, the public does not seem to understand that reducing protection for local firms is part of the process of opening the economy. Freer trade is favored only narrowly when the possibility of Indonesian firms not being able to compete is part of the question, with 37% indicating lower duties are good and 32% saying they are bad. It is particularly striking that 32% of the public has no opinion on this question, an indication of the need for more public discussion of the advantages of freer trade if a consensus in favor of an open economy is to displace the tradition of economic nationalism and protection.

Regional integration remains an attractive goal to Indonesians. They are very open to a regional free trade area under the auspices of ASEAN (68% are in favor). ASEAN itself is by far the best known and best regarded international organization in the region (74% positive, 1% negative).

Other development organizations have much weaker images in Indonesia. The World Bank is known to about two-fifths of the population and is looked upon quite favorably (36% positive, 6% negative). Slightly fewer than half the people are aware of the IMF, which is well regarded by most of those knowledgeable about it (32% positive, 13% negative), although educated and anti-American Indonesians have reservations. The

other development organizations in the poll (USAID, IDB, ADB, and JBID) are little known, although they are liked by the few who know them.

Social Issues

Indonesians think corruption is pervasive: 84% say it is common in government and 71% say the same about business. (This is consistent with the above-noted findings that the public thinks that government-run companies are more corrupt than private enterprise.) Slightly more than one-quarter of respondents indicated they know of someone who had paid a bribe in the last year, and one-fifth said they could not remember, which may reflect a reluctance to reveal awareness of bribes. Indonesians also think that corruption in regional and local government has increased since regional government got increased autonomy in 2000 and 2001, though they also say that corruption has been reduced somewhat since Yudhoyono became president.

Some 5% of respondents say someone in their family was the victim of physical aggression or some criminal act in the last year. This is the same level recorded in 2003 and is generally thought to be well above the crime rate prior to the economic crisis of 1997-98. However, while most Indonesians are not afraid for their personal security -- two-thirds say they never worry about it -- 15% do worry about security at least sometimes. These tend to be people in the groups most at risk for crime (high-income individuals, Christians, city dwellers, and Sumatra residents).

Attitudes to Islamic legal and educational institutions are complex. Over half (54%) of the respondents associate sharia with Islamic law and 19% with the pillars of Islam, while 12% see it as basic moral principles. Whatever their views of the nature of sharia, almost two-thirds (63%) support regional by-laws that incorporate sharia to regulate sex, alcohol, dress, and public behavior. However, a majority of the public (54%) is concerned that *pesantren* might be propagating Islamic extremism. There is overwhelming support (92% in favor) for government regulation of the religious schools and requiring them to teach secular subjects as well as religion.

While personal security is not an everyday worry for most, 72% of the population is concerned about terrorism (though only 37% are very concerned). Anxiety over terror is highest in groups the most at risk, physically or economically, (urbanites, the jobless, the least educated, Christians, and people on Sulawesi or Sumatra) or those most strongly opposed ideologically (those against Islamic extremism, favorable to the War on Terror, and economic liberals). Indonesians overwhelmingly reject violent attacks like the Bali and JW Marriot bombings: 85% indicated that they are never justified. However, the 12% who support violence (10% sometimes, 2% often or always) include many of those

most hostile to business or America and most favorable to Islamic extremism – a troubling fact.

Concern about terrorism is so widespread that Indonesians support American-led anti-terror efforts by a plurality of 47% to 34%, even though they view America unfavorably (53% negative, 21% positive). But although Indonesians need not like America to support the War on Terror, opinions about America overall and the War on Terror rise and fall together over time – when favorability toward America increases, so do favorable opinions of the U.S.-led anti-terrorism efforts. Opposition to both was at a peak in 2003, after the U.S. invasion of Iraq. Attitudes toward both were most favorable in early 2006, when there was positive media play for American disaster relief efforts and U.S. development assistance, and the situation in Iraq appeared hopeful.

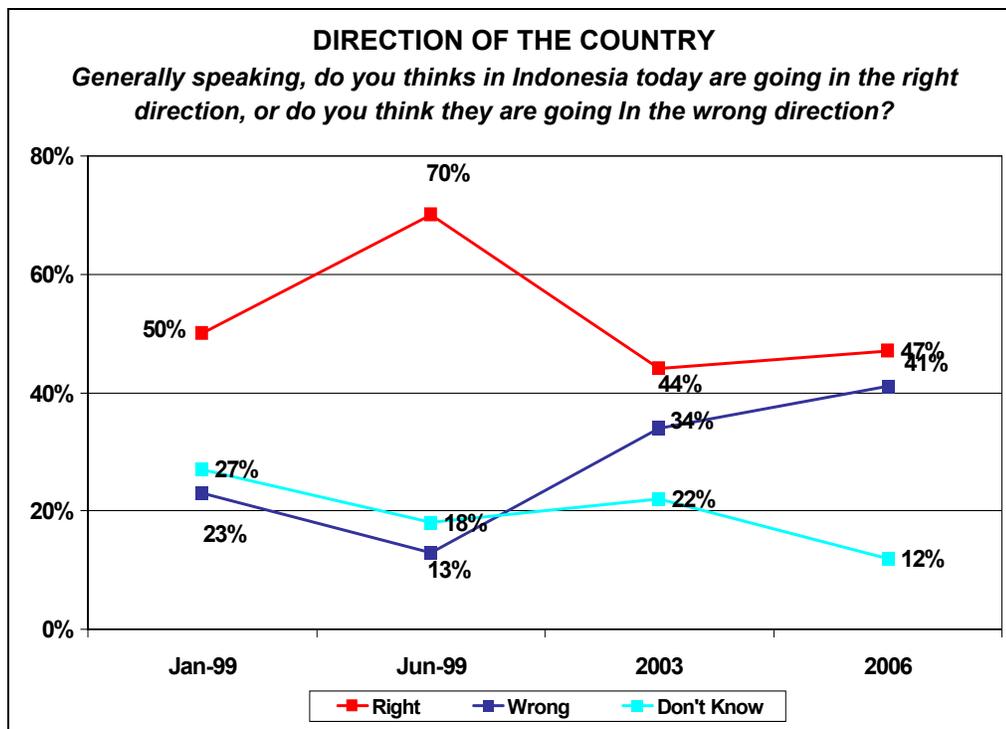
A substantial part of the Indonesian population supports a boycott of both American and Danish companies, the latter in the wake of the cartoon controversy. Two-fifths of Indonesians favor a boycott of American companies (41%), while an equal proportion is opposed (41%). Boycott supporters are most common among the young, urban, Javanese or Sumatrans, those opposed to economic liberalism and the U.S., or those favorable to Islamic extremists. Support for boycotting Danish firms is slightly lower than that for a boycott of American companies: one-third would boycott Danish products (35%), while not quite half disagree (46%). The profile of Danish boycott supporters is similar to that of those who favor a U.S. boycott. While these poll findings supportive of a boycott should not be taken at face value since no boycotts actually occurred, they do indicate a disturbing development. Those who declare support for a boycott undoubtedly also include many of those who also voiced positive feeling about leading U.S. brands like Coca-Cola. Although these findings do not indicate that every Indonesian who declares sympathy for a boycott is now boycotting American or Danish goods or will do so in the future, they suggest a worrying potential for commercial problems, particularly if anti-American or anti-Danish sentiment continues at a high level.

Part I: The National Mood

Executive Summary

- Optimists narrowly outnumber pessimists on the direction of the country, with the more advantaged groups (men, urbanites, upper income, outer islands) most optimistic.
- Increasing stability, economic progress, and presidential initiatives on education and corruption are the principal reasons for optimism, while the economy is the main cause for concern, followed by natural disasters.
- Large majorities are concerned about avian flu, know how it spreads, and support preemptively killing chickens in outbreak areas. However, the risk of an epidemic is serious, as ignorance about transmission and risks is substantial among the groups most likely to be in contact with poultry (poultry owners, farmers, rural people), as is resistance to culling flocks if outbreaks occur.
- Although Indonesians are split on whether disaster relief is better or worse than in 2004, reactions vary by area. Sulawesi residents feel things were worse, Javanese were divided, and residents of Sumatra, which was severely affected by the 2004 tsunami, reported improvement.

This section examines the overall national mood, including whether people think the country is headed in the right direction, the biggest problems facing Indonesia, as well as attitudes on topical issues facing Indonesia today, avian flu and disaster relief. On the whole there is a modest optimism, reflecting improved security, economic growth, and President Yudhoyono's programs, but the economy remains a very serious concern. Although the majority of Indonesians are aware of the risk of avian flu, a serious risk of an epidemic remains. Opinions are split on whether disaster relief work has improved since the aftermath of the 2004 tsunami.



Among Indonesians today, optimists narrowly outnumber pessimists about where the country is headed. Almost half the population (47%) says the country is headed in the right direction, while 41% thought things were headed in the wrong direction and 12% were not sure. These results are similar to the findings of a Charney Research poll in 2003 when the government headed by President Megawati Soekarnopoetri was in charge. Then 44% said the country was going the right way, 38% said wrong direction, and 18% were undecided. However, optimism has waned since the euphoria just after the country's first democratic election in July 1999 when 7 Indonesians in 10 thought the country was on the right track. It is more comparable to that in January 1999, when half said things were headed the right way.

Generally, the "winners" in Indonesian society are more optimistic: men, city residents, and upper income (A and B level) people, those whose purchasing power has grown or remained stable, who are outside Java, who support President Yudhoyono, and who favor an open economy. Men think things are going the right way, 52% to 39%, while women are evenly split, 43% each way. The difference between urban and rural residents is similar: urban residents are optimistic by 52% to 41% and rural Indonesians fairly equally divided, 43% positive, 40% negative. A majority (54%) of the AB income group is positive about the country's direction. Residents of Sumatra (68% positive, 25% negative) and Sulawesi (59% positive, 32% negative) also have a positive outlook, perhaps because of the significantly greater autonomy they have enjoyed since

the highly centralized powers of the national government in Jakarta were sharply reduced by law in 2000 and 2001, while Javanese are more pessimistic (46% wrong direction, 40% right). Supporters of the President's Partai Demokrat were quite optimistic (61% right direction), as were those of Golkar and the Partai Keadilan Sejahtera (PKS), both 54% right direction – a sharp contrast to PDIP supporters, of whom only 28% were positive . Those with a more liberal economic outlook -- who favor business (60% right direction) and foreign investment (57% right direction) -- are markedly more optimistic than the public in general.

RIGHT DIRECTION REASONS

Why do you say that? (reasons given by 5% or more)

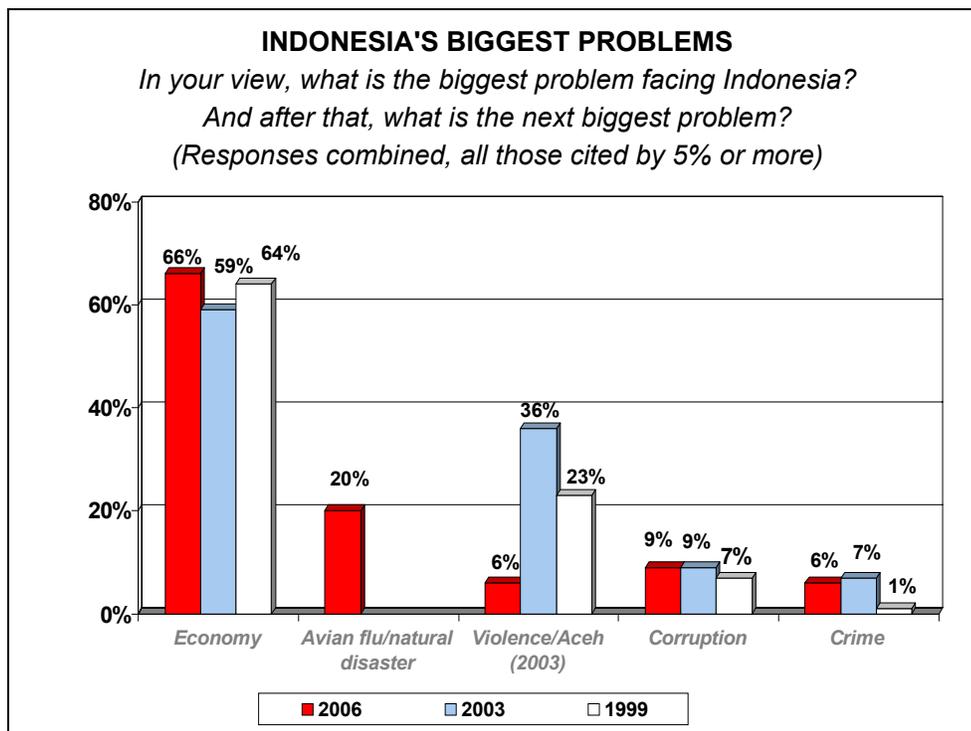
- | | |
|----------------------------|-----|
| • Calmer Situation | 32% |
| • Economy recovering | 30% |
| • Education | 21% |
| • Anti-corruption measures | 16% |
| • Freedom | 12% |
| • Reforms | 11% |
| • Elections happened | 7% |
| • Democracy working | 7% |

WRONG DIRECTION REASONS*Why do you say that? (reasons given by 5% or more)*

• Economic Problems:	86%
• Natural disasters	28%
• Corruption	15%
• Riots	13%
• Crime	8%
• Government disappointing	6%

The consolidation of stability in democratic Indonesia, the economy, and the achievements of President Yudhoyono are the key factors when the public judges the country's direction. Among the optimists, one-third say this is because the country is calmer, there is no more violence and rioting, nearly as many (30%) mention the economy, and free schooling and anti-corruption measures – the new president's signal accomplishments – are mentioned by 21% and 16% respectively. The president himself is cited as a reason for hope by 11% of the public, with similar proportions citing freedom and *reformasi* in general. The security situation is particularly important to those who are more settled – over 35 (40%) or married (40%) – as well as those in Sumatra (37%) and Sulawesi (42%), with their histories of conflict in recent years. Economic gains are particularly important to those in the most economically dynamic groups: post-primary educated under-35s, big city (over 1-million) residents, those in the AB income groups, and those whose incomes are rising or steady. Expanded schooling and anti-corruption steps appeal most to younger rural men, for whom they are opening doors to opportunity.

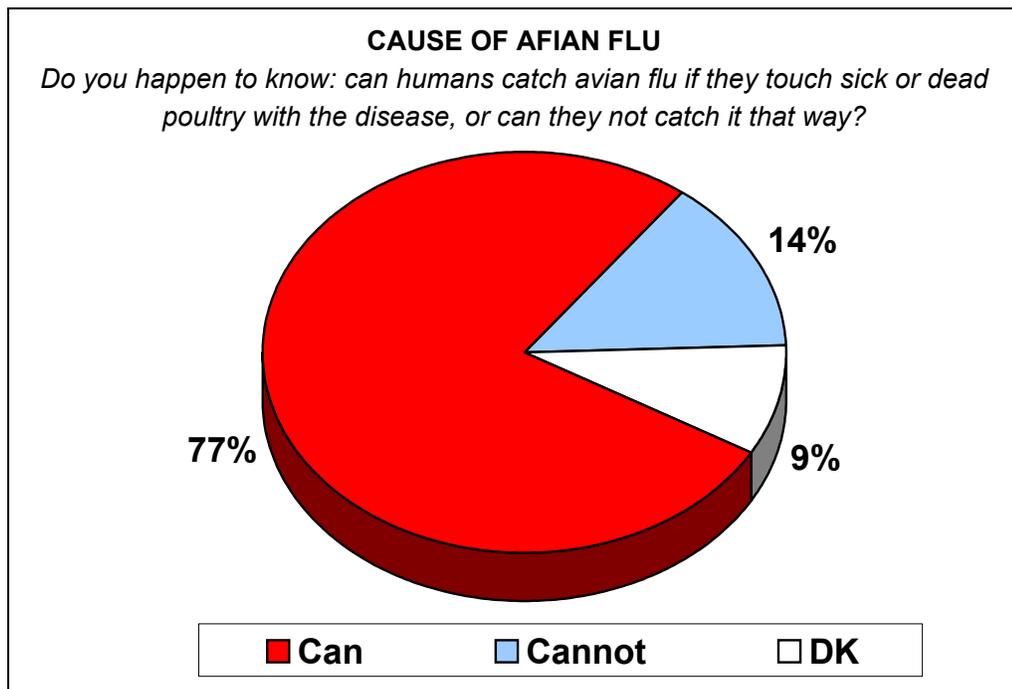
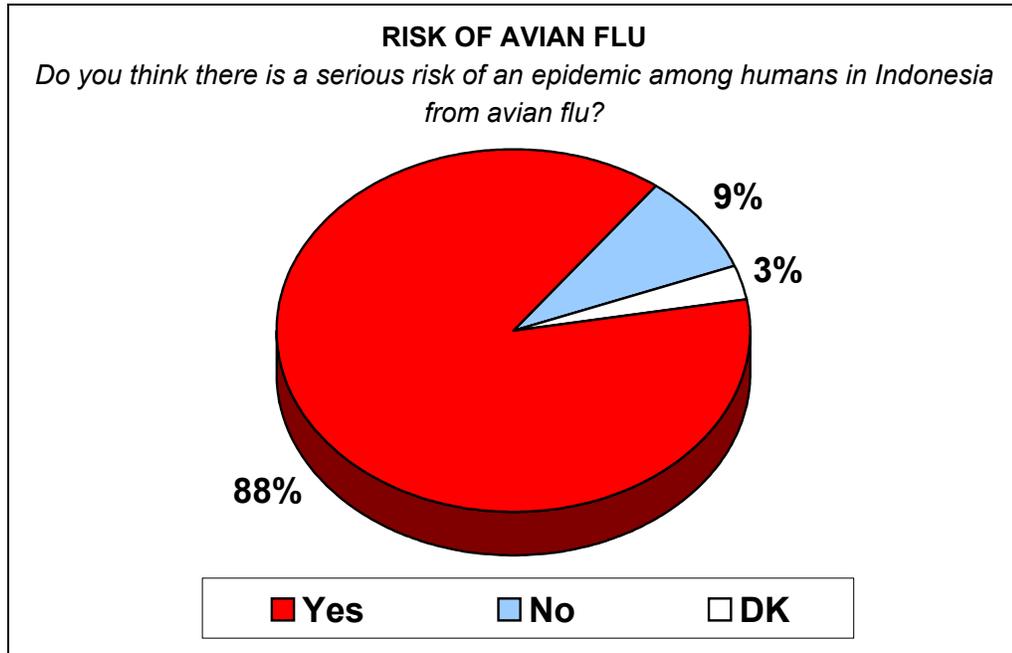
For those who think the country is headed in the wrong direction, the economy is paramount, as 86% gave that as their reason. The next most often mentioned reason for pessimism was natural disasters (28%). After that came crime (15%) and violence (13%).

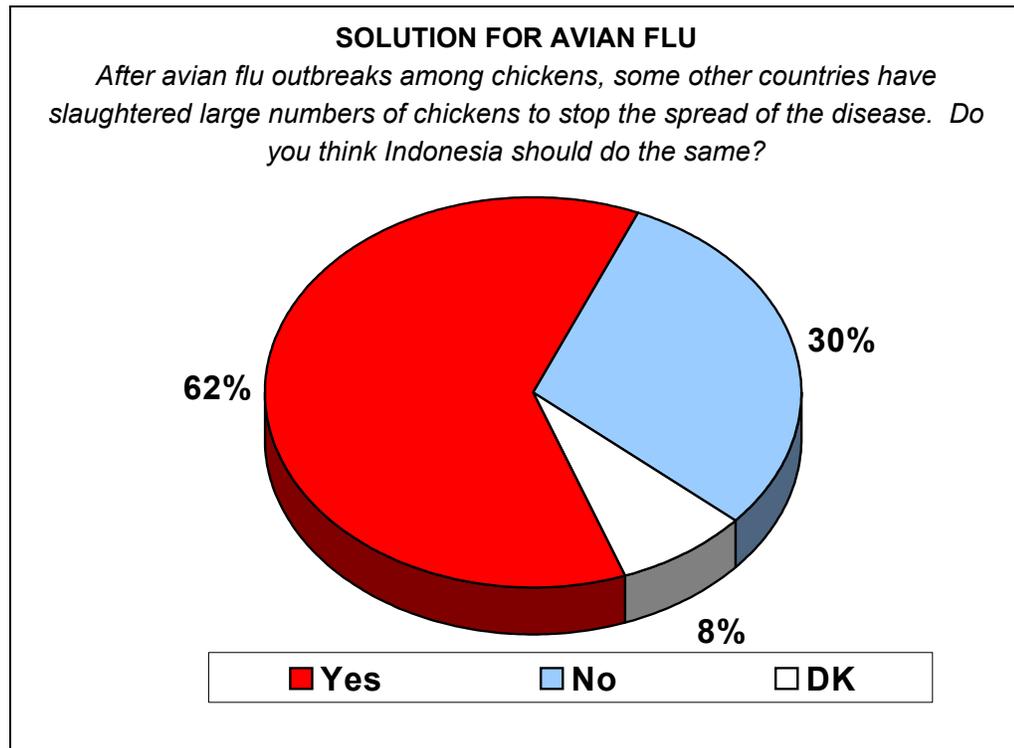


The economy is clearly still the great public preoccupation. When asked what the most important problem is in Indonesia, two-thirds say it is the economy (including jobs, prices, poverty, basic necessities, the debt crisis, and the economy in general). The next most serious problem was natural disasters (avian flu, tsunamis, earthquakes, and volcanoes) at 20% followed by corruption at 9% and crime and riots, 6% each.

These figures point both to the continuing centrality of the country's economic problems and the changing nature of the other issues facing post-Soeharto Indonesia. The proportion of Indonesians concerned about the economy is unchanged since 2003, despite better overall growth, and down only two points from the figure for January 1999, in the depths of the economic crisis. On the other hand, riots and violence have declined very substantially as a perceived problem, from second place, mentioned by 46% four years ago to fourth place, mentioned by just 6% today, reflecting the stabilization of the country and the success of the Aceh peace effort. The unexpected disasters that have revealed how poorly the country was prepared for such crises have meant that natural disasters have become the second biggest problem in public consciousness, though they were not even cited four years ago. Corruption, which had risen to preoccupy 10% in 2003 after receiving less priority from the public during the transition years of 1999, remains, but at a slightly lower level of public concern in this survey. All these changes reflect the increasing "normalization" of Indonesian politics, as questions of the survival

of the political order have given way to the sorts of issues about state effectiveness typical in a developing country like Indonesia.

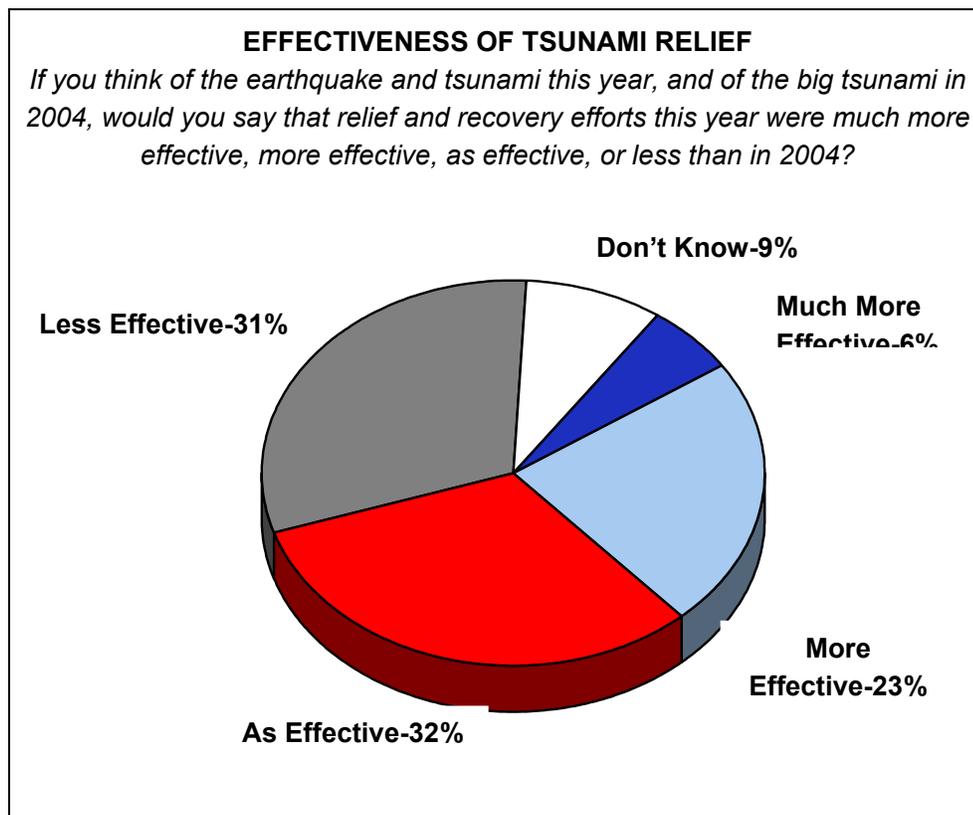




An avian flu epidemic, which Indonesians consider one of the most serious issues facing the country, worries much of the population: 88% indicated that it is a risk. Further, over three-fourths (77%) knew that humans can contract avian flu by touching diseased poultry. However, despite this widespread public awareness, the poll findings reveal the serious risk of an avian flu epidemic in Indonesia, because the proportions unaware of how the disease spreads are highest among those most likely to be in contact with poultry: rural residents (45%), farmers (27%), the lowest (D/E) income groups (31%), men who did not finish primary school (35%), and Sulawesi residents (31%). Most alarming, two in five Indonesians who own chickens or roosters do not know they can get the disease by touching infected birds. Moreover, among those who did not know how the illness spreads, 36% saw no epidemic risk either – a pointer to the connection between ignorance of transmission and ignorance of risk on this issue.

Over three in five Indonesians (62%) favor following the lead of other countries and slaughtering chickens in case of outbreaks as a precautionary measure, while three in ten (30%) oppose this. Awareness of how avian flu is passed on is the key factor determining support for culling the chickens: 70% of those who know how the flu is spread support preemptive slaughter, while those who are unaware oppose it, 49% to 35%. Men who did not finish primary school also oppose killing the birds, 49% to 29%. Opposition also runs high among farmers (42%), rural people over 35 (47%), and Sulawesi residents (46%). Among poultry owners in general it is 36%. The survey

findings thus show the clear and urgent need for effective and substantial public education efforts on how avian flu spreads. It should be targeted to the specific, hard-to-reach groups who need it most, much like the voter education efforts conducted in Indonesia prior to the 1999 election.



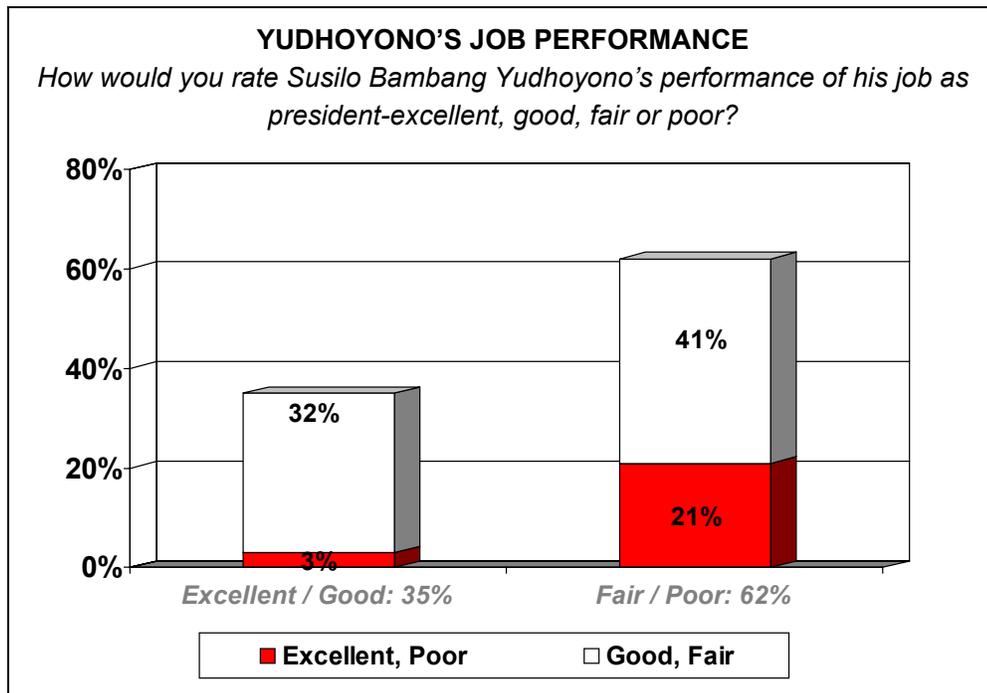
Overall, the Indonesian public rates effectiveness of the relief efforts for this year's natural disasters as similar to those of 2004: 29% [23% in pie chart] say they were more effective, 31% less effective, with one third indicating they were about the same. However, these statistics conceal some important differences among different groups of the public. The less educated and poorest (E income) groups tended to see tsunami and earthquake relief efforts as less effective, while the better educated and better-off rated them as more successful than in the past. Sulawesi residents were very unhappy with the government's efforts, as 60% indicated they were less effective than in 2004. People in Java, touched by another earthquake, were divided over the response, 31% seeing it as worse, 26% as better. However, residents of Sumatra were much more likely to give the government improved marks for disaster work. Half (50%) of the residents of the island, where the damage from the 2004 tsunami centered, said that work was more effective this time, while under one in five (19%) saw it as worse.

Part II: The Political Landscape

Summary

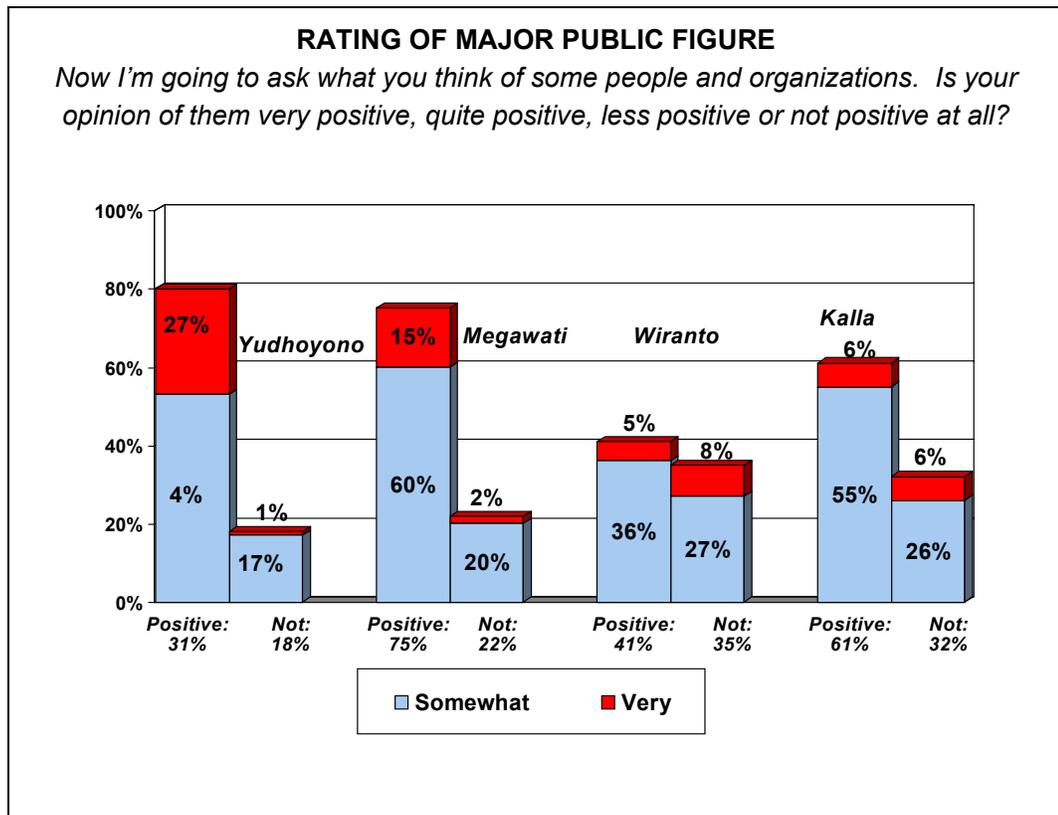
- Although the public is disappointed with his job performance, President Yudhoyono's personal popularity remains well above that of any other Indonesian political leader.
- He would defeat any of his major rivals, Megawati, Wiranto, or Kalla, if the election were held today.
- The public remains deeply dissatisfied with the DPR.
- The major political parties enjoy broad public support, but the President's Partai Demokrat would join the PDI-P and Golkar among the largest parliamentary parties if the vote were held today.
- Amien Rais remains well regarded nationally, while Sutiyoso is known and popular largely in Java, and Sutanto and Sutrinso Bachir are poorly known.
- The population views the mainstream Islamic organizations, Nahdlatul Ulama and Muhammadiyah, very favorably
- Radical Islamists Abubakar Ba'asyir and Osama bin Laden are viewed more negatively than positively, but they enjoy significant support among highly educated and strongly anti-American fringes of the population.

This section explores the political situation in the country, along with the standings of actors looking towards the presidential and DPR elections in 2009. The popularity of the leading candidates, political figures, parties, and organizations is measured, as well as the results of hypothetical test ballots. It shows that, despite public dissatisfaction with the job performance of Yudhoyono, the President remains personally popular and would easily defeat his principal potential opponents. There is broad support for the major parties, but the President's PD has gained substantial ground since the 2004 election, while the public remains very unhappy with the DPR's performance. Mainstream political leaders and religious organizations are broadly popular, while Muslim extremists are not, but they retain a small but significant elite following.



There is a good deal of public disappointment with Susilo Bambang Yudhoyono's performance as president of Indonesia: the honeymoon is over. When Indonesians rate his work as President, some 3% call it excellent, 32% good, 41% fair, and 21% poor. Even two-fifths of the citizens who say he should be reelected give him a poor or just a fair performance rating. The ongoing concerns about jobs and the economy likely contribute to these ratings: seven of ten of those who say their purchasing power has declined are unhappy with SBY's presidential performance.

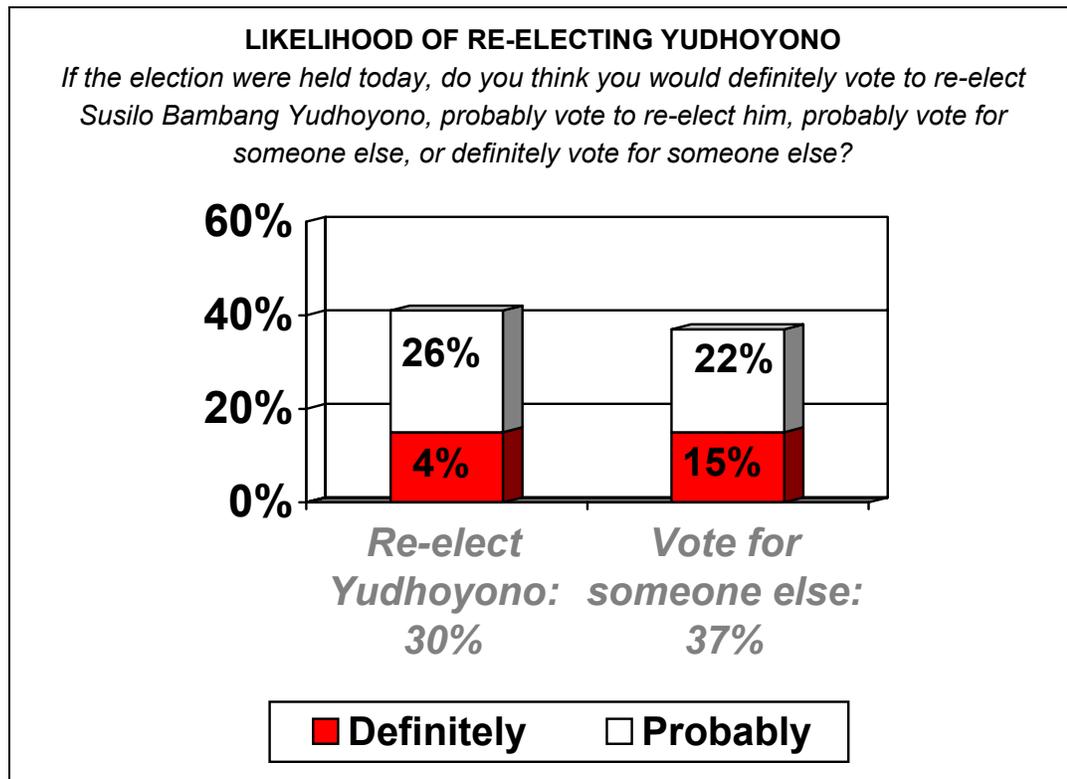
The president gets his highest job performance ratings from supporters of his own Partai Demokrat (61% favorable), with much lower ratings from voters favoring the PKS (31%), Golkar (30%), and PDI-P (19%). He is also rated more highly outside of Java, by urbanites, by older and less educated voters, and by Christians. His support is also stronger among those whose purchasing power has improved or held steady and Indonesians with favorable attitudes toward business.



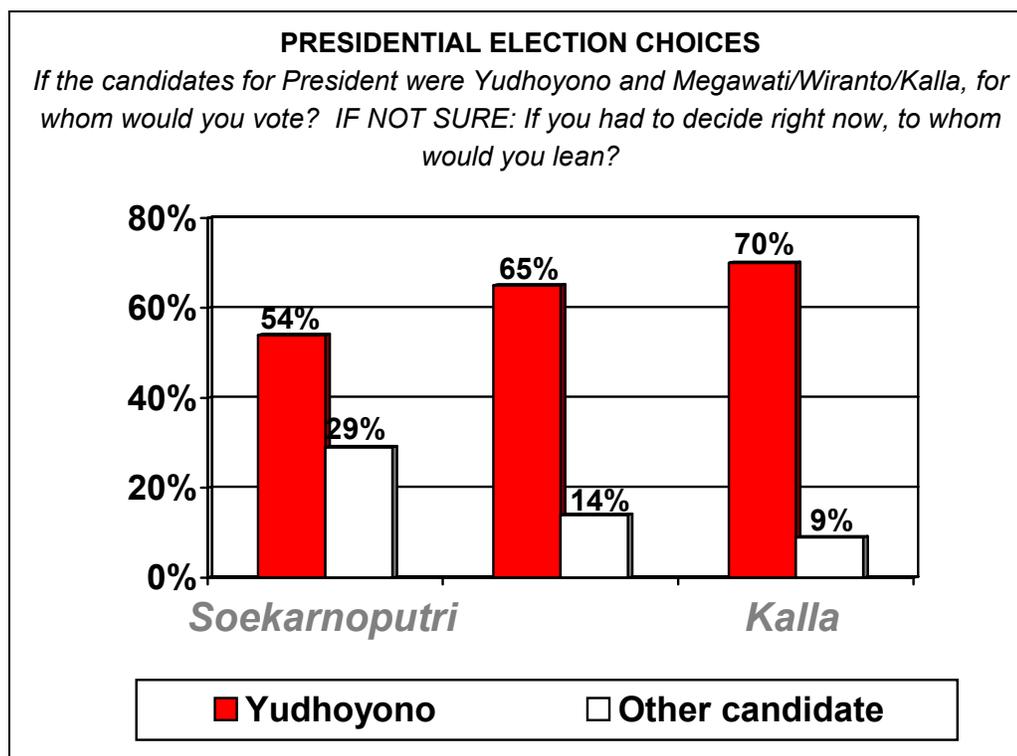
Yudhoyono's personal popularity remains strong, despite his weak job performance rating, and he is still the most highly regarded of the major public figures most frequently mentioned in the media as potential presidential candidates in 2009, well ahead of ex-President Megawati Soekarnopoetri, Vice President Yusuf Kalla, and former Defense Minister Wiranto. Both Yudhoyono (80%) and Megawati (76% positive) are very well regarded, but Yudhoyono's rating is even stronger than Megawati's as 27% are very positive about him compared to only 15% who feel that way about her. The president's ratings are strong among all demographic groups, and he has nearly unanimous approval from supporters of his Partai Demokrat (97%), and solid ratings among those of other parties (80% from the Vice President's Golkar Party, 75% from PKS voters, and 62% even among PDI-P supporters). He is also rated positively by more than nine people in ten among white collar workers, Christians, and residents of both Sumatra and Sulawesi. Megawati also has favorable ratings among all groups, especially Christians where nine in ten rate her positively. She has an overwhelmingly favorable image (97%) among her own PDI-P voters, and still favorable but somewhat weaker views among those of the PD (70% favorable) and Golkar (65% favorable).

Yusuf Kalla is the next most warmly viewed figure, rated favorably by a two to one margin, as 62% have a positive attitude toward him and 31% view him negatively. However, only 6% of potential voters have a very positive view of him. He has more favorable ratings among women (65% positive) than men (59% positive), and he, like President Yudhoyono, is well-regarded on the islands of Sulawesi (91% positive) and Sumatra (72% positive), as well as with supporters of Golkar and Partai Demokrat, with a 73% positive rating from the former and a 72% rating from the President's party.

Former General Wiranto is less well known and has less broad appeal. Just over two Indonesians in five (42%) view him positively, while three in ten (31%) have a negative opinion, and fully one quarter cannot rate him. Only 5% are very positive to him. His most favorable ratings are found among those over 50 (55% positive), Christians (55% positive), and on Sulawesi (58% positive). Golkar party supporters view him positively (61%), but his image is weaker with supporters of PDI-P (45% positive, 43% negative) and PD (48% positive, 33% negative). Farmers and white-collar workers (both 49% positive) have a better opinion of him, while blue-collar workers (37% positive) rate him lower. Java residents also are less favorably inclined toward him (39% negative).



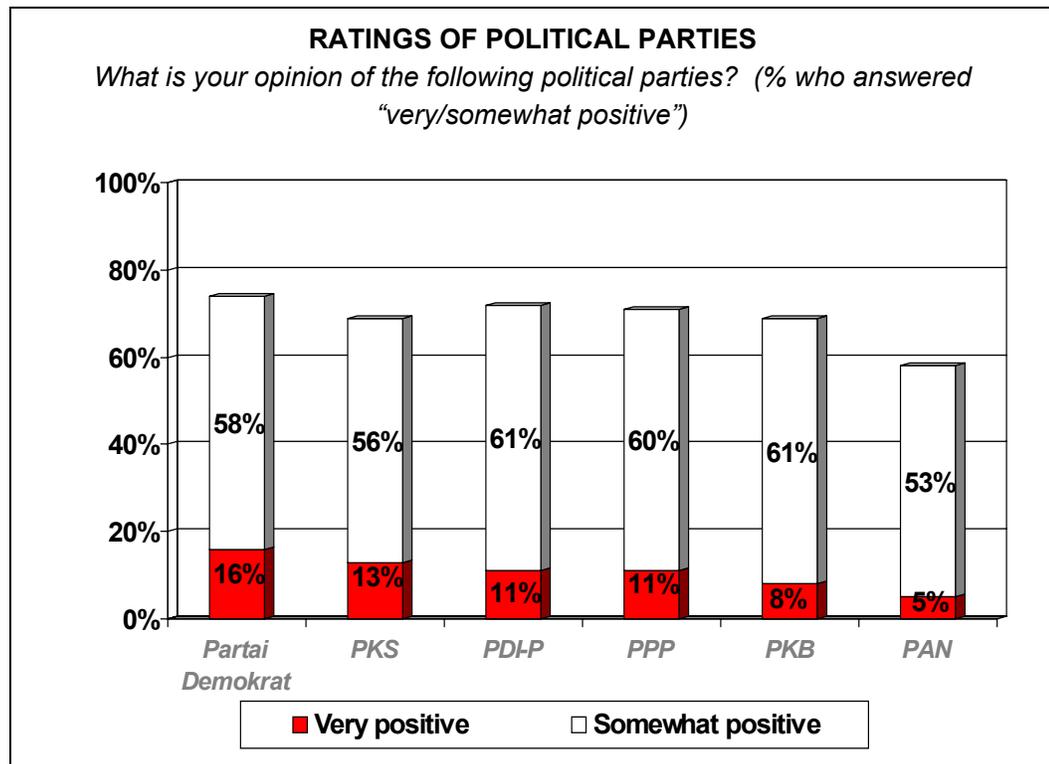
Yudhoyono's re-election prospects reflect the tension between his personal popularity and the perception of poor job performance. When Indonesians are asked whether Yudhoyono should be re-elected or replaced by someone else, there is nearly an even division among the voters, with 41% saying he should be re-elected and 37% saying someone should replace him. Once again, his strongholds are among urbanites, voters over 50, white-collar and upper-income (AB) voters, pro-business voters, Christians, and residents of Sumatra and Sulawesi. The strongest support for a replacement is on Java, among blue-collar workers, voters younger than 35, better educated voters, and, not surprisingly, the unemployed. Even among Partai Demokrat voters, just 81% support his re-election, while 73% of PDI-P voters oppose it, and Golkar backers are split (41% to re-elect, 36% to oppose.) In short, these findings suggest that a strong opponent could pose a serious challenge to the sitting President.



Despite their disenchantment with the President's job performance, voters nonetheless prefer SBY to any of the leading potential challengers. In potential match ups against top contenders Megawati Soekarnopoetri, Jusuf Kalla, and Wiranto, Yudhoyono defeats all of them easily. The closest mock election result shows the President defeating former President Megawati 54% to 29%, with 17% undecided. Yudhoyono has significant leads among nearly all demographic groups, and even leads among women 51% to 32%. He has stronger support in cities (66%) than in rural areas (44%), but maintains a solid

plurality in Java, 47% to 34% for Megawati, and enjoys very large leads on the other major islands. In this match up, in addition to near-unanimous (95%) support among PD voters, he takes the majority of Golkar and PKS voters (58% each).

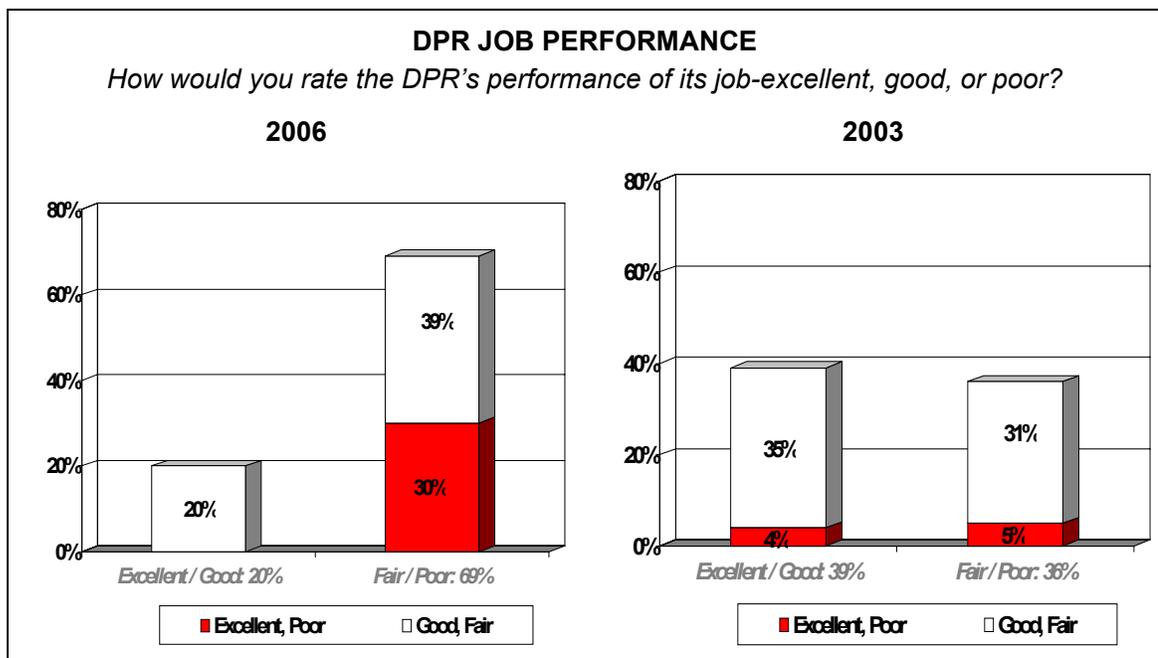
The results of races against the other contenders are even more one-sided. In a potential match up against Wiranto, the President has a four to one advantage, 65% to 14%, with 21% undecided. The spread is even greater against Yusuf Kalla, as Yudhoyono would win 70% to 9%, with 21% again undecided. In both potential races, the incumbent enjoys very large leads among all demographic subgroups, even voters of Golkar (despite the affiliation of Kalla and Wiranto with the party), and only suffers a small decline among rural voters.



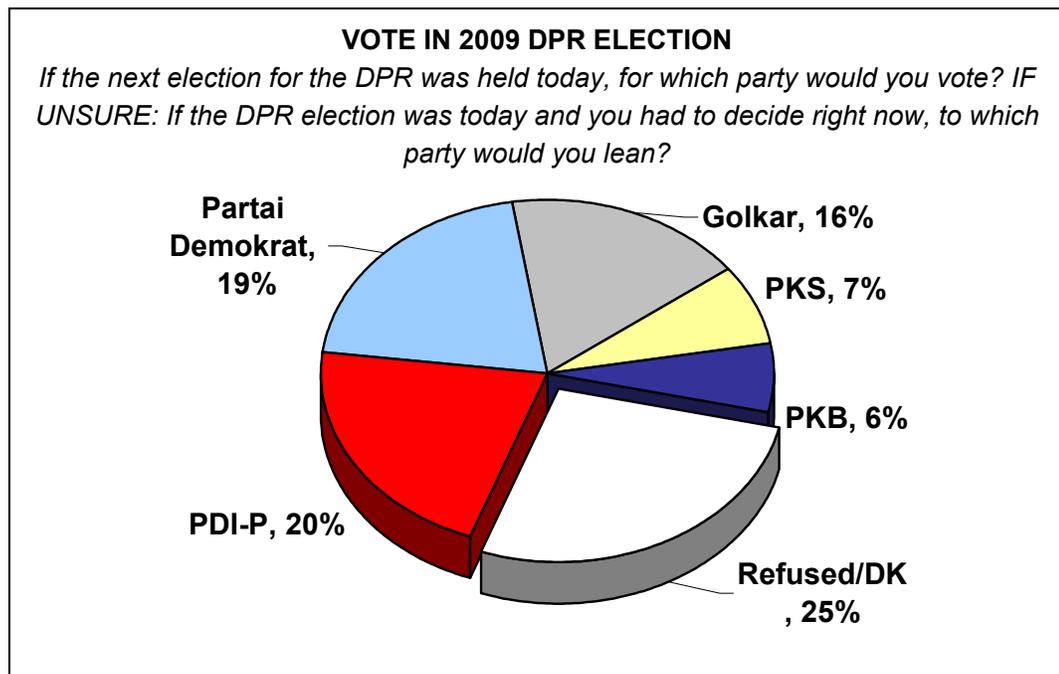
There is little difference in the overall ratings of the seven leading parties vying for seats in the DPR, but there are notable differences in intensity. The five tightly bunched parties are Partai Demokrat (74% positive, 16% very positive), PDI-P (72% positive, 11% very positive), Golkar (65% positive, 13% very positive), PPP (72% positive, 11% very positive), PKS (69% positive, 13% very positive), and PKB (69% positive, 8% very positive). PAN has a rating of 59% positive (5% very positive) and 30% negative, the highest negative rating of any major party. The very positive rating generally bears the closest correlation to potential voting behavior. However, the generally high rating levels

points to a party system in which voters are not highly polarized between the parties, despite the widely perceived and frequently discussed divisions between secular, moderate Islamic, and more hard-line parties.

There is also little differentiation in ratings of the individual parties among the demographic subgroups. There are a few notable shifts, however: Partai Demokrat is rated highly among young urban men, slightly higher among white collar voters, and lower among blue collar Indonesians; PDI-P is strong among Christians, but weaker on Sumatra and Sulawesi; PPP is also weaker on Sumatra and Sulawesi; while PKS is weaker on Sulawesi but strong on Sumatra; Golkar, PD, and PPP do well among less educated women.



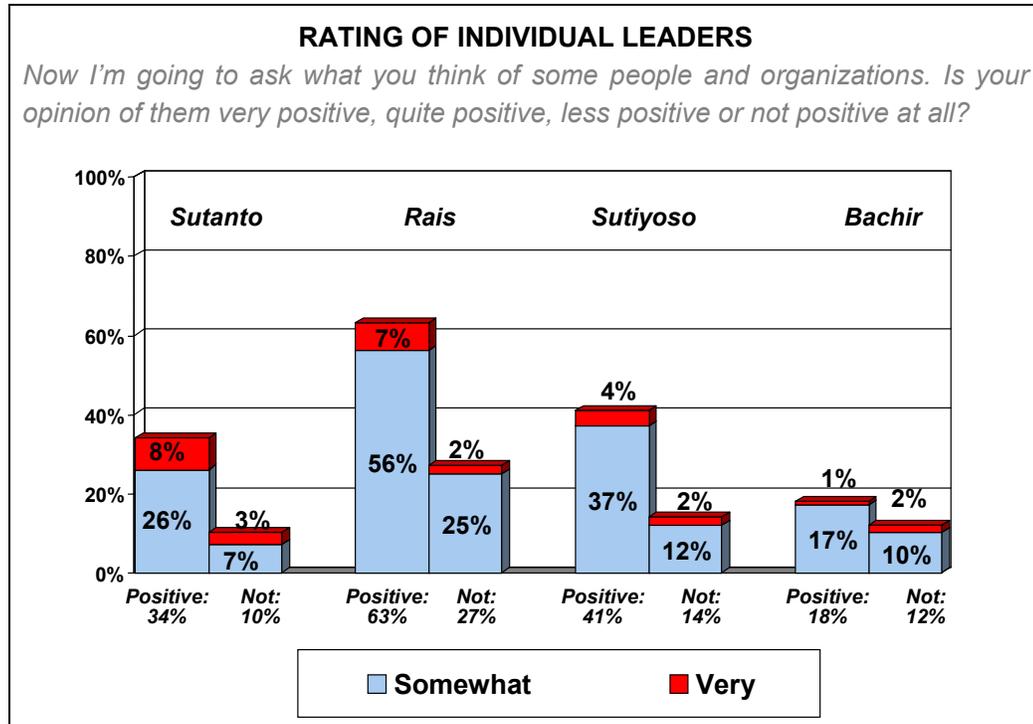
In sharp contrast with the much more favorable views of the major parties, the DPR's job performance is rated very low. Two-thirds of Indonesians indicate the legislature is doing a fair or poor job, while only one-fifth give it a positive rating and virtually no one currently rates its performance as excellent. Ratings are slightly higher among white-collar voters (30% positive) and PD voters (31% positive) and on the islands of Sulawesi (37% positive) and Sumatra (30% positive). Ratings in this poll are significantly worse than those in a 2003 Charney Research survey, when Indonesians split evenly on the DPR's performance, 39% good or excellent, 39% fair or poor, indicating growing public dissatisfaction with the legislature since the last election.



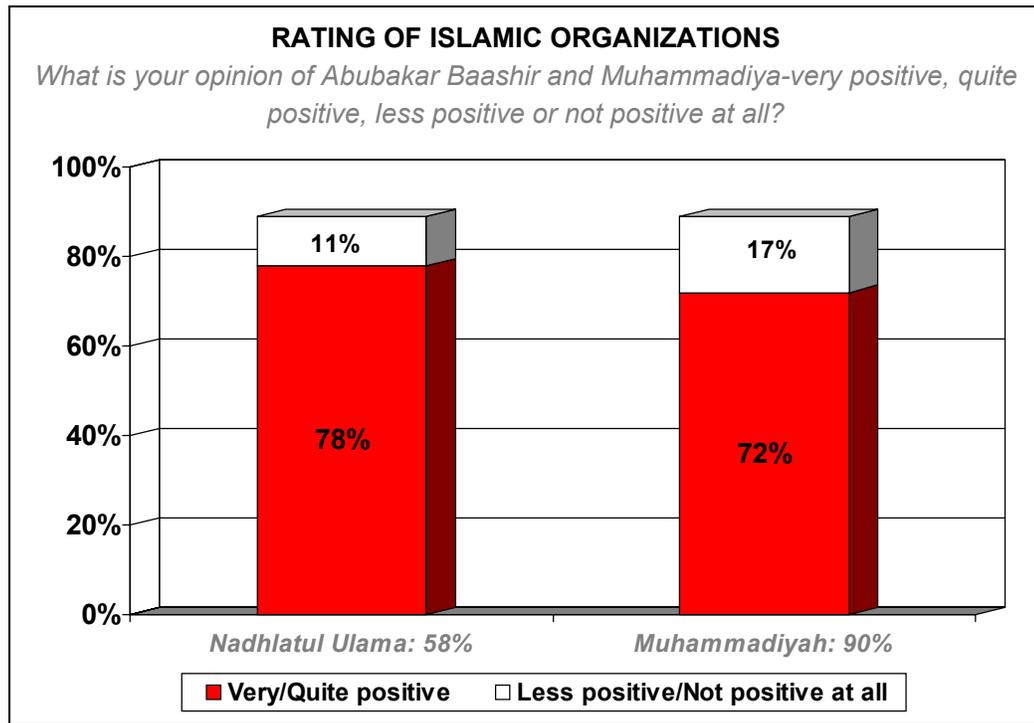
Yudhoyono's Partai Demokrat has leapt to the top rank of parliamentary parties in terms of public support. If the election for the DPR were held today, PDI-P would garner 20% of the vote (virtually unchanged from its 2004 election result of 19%), Partai Demokrat 19% (a significant jump from its 2004 election result of 8%), Golkar 16% (down from the 2004 election result of 22%). Considering that Partai Demokrat was not a factor four years ago, this is a considerable shift in the electoral landscape, and clearly seems to reflect a consolidation of support for President Yudhoyono and the conversion of his popularity into votes for his party. PKS, equaling its 2004 result, is at 7%. The other notionally Islamist parties PKB (6%, 2004 11%), PPP (3%, 2004 8%) and PAN (3%, 2004 6%) are small in terms of public support at this point, and all are below their vote shares in 2004. Some 25% of the voters did not answer the preference question, which suggests that many voters have not made up their minds and a significant proportion of the electorate will be up for grabs in 2009. It also supports the notion mentioned above that Indonesian society is not sharply polarized.

Among the leading parties, PDI-P has consistent support among occupational groups, but is especially strong among young urban women (29%). Partai Demokrat has made inroads among farmers (26%), younger urban men (26%), and urban women over 35 (29%). Golkar has strength among the unemployed (23%), the least educated (21%), and the poorest (E income, 25%), as well as white-collar voters (22%). PDI-P and Partai Demokrat each have support among one quarter of the Christians. PDI-P also is strong on Java (22%), while both Partai Demokrat (32%) and Golkar (30%) have a base on Sulawesi. PKS has its highest level of support on Sumatra (15%). Strikingly, while

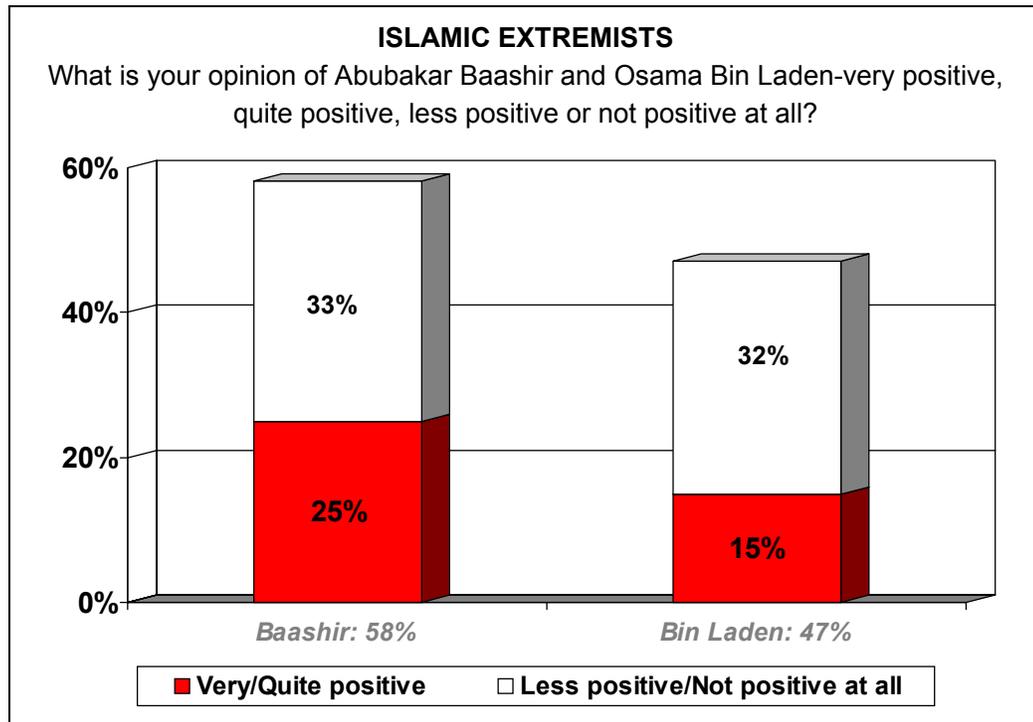
demographic factors do affect the vote, ideological ones or issue positions – whether on economic liberalization or foreign relations – have almost no relation to vote choice.



Among the other prominent political figures in the poll, only Amien Rais, the former head of PAN, is widely known. Nine of ten Indonesians have heard of him, and he is fairly well regarded (63% positive, 7% very positive). He is particularly held in high regard by housewives (75%), women who completed primary school (73%), young women (73%), and PDI-P voters (74%). Sutiyoso, the governor of Jakarta, is the next most well regarded of these (41% positive, 4% very positive), but his base is in Java and Sumatra, so half of Indonesians — particularly those living elsewhere — do not know him well enough to give him a rating. Similarly, Sutanto, the national police chief, had fewer than half of the respondents able to rate him, yet those who know of him like him (34% positive, 8% very positive). Sutrisno Bachir, the chairman of PAN, is another little known personage (18% positive, 1% very positive).



The more established Islamic organizations are well known and well regarded. The world's largest Muslim organization, Nahdlatul Ulama, is the highest rated (80% positive, 22% very positive). Muhammadiyah also has a very solid reputation (74% positive, 15% very positive). Nahdlatul Ulama ranks high on Java (91% positive), but much lower on Sulawesi (51% positive) and among Christians (30% positive). Muhammadiyah is less well-regarded by Christians (33% positive), but otherwise has even support among all voter groups. Both groups are somewhat stronger among women, especially older women and rural people than among men and town-dwellers.



About half the population says it recognizes the names of Islamic extremists Abubakar Ba'asyir and Osama bin Laden and more people feel negatively about them than positively. Abubakar Ba'asyir is better known and has a higher relative favorability rating (25% positive, 33% negative) than Osama bin Laden (15% positive, 32% negative). The low claimed awareness may also reflect a reluctance to answer questions about these controversial figures.

Most of those positive to Ba'asyir and bin Laden are educated, elite men. In demographic terms, those favorable to Ba'asyir tend to be over 50, have completed primary or secondary school, AB income, big city dwellers and Javanese. Not surprisingly, those viewing these two radical leaders favorably wear Islamic garb more often than Indonesians in general. Ideologically, they tend to be anti-American, opposed to the U.S.-led War on Terror and favor a boycott of U.S. goods. The latter two groups, for example, were the only ones in the survey where those favorable to Ba'asyir outnumbered the unfavorable. Those viewing bin Laden favorably tend to be drawn from much the same groups as Ba'asyir's, but they are even better educated and more concentrated in Java. Although those favorable to the two men represent a relatively small proportion of Indonesia's population, its sheer size means that the potential support for extremist leaders numbers in the tens of millions, a worrying fact.

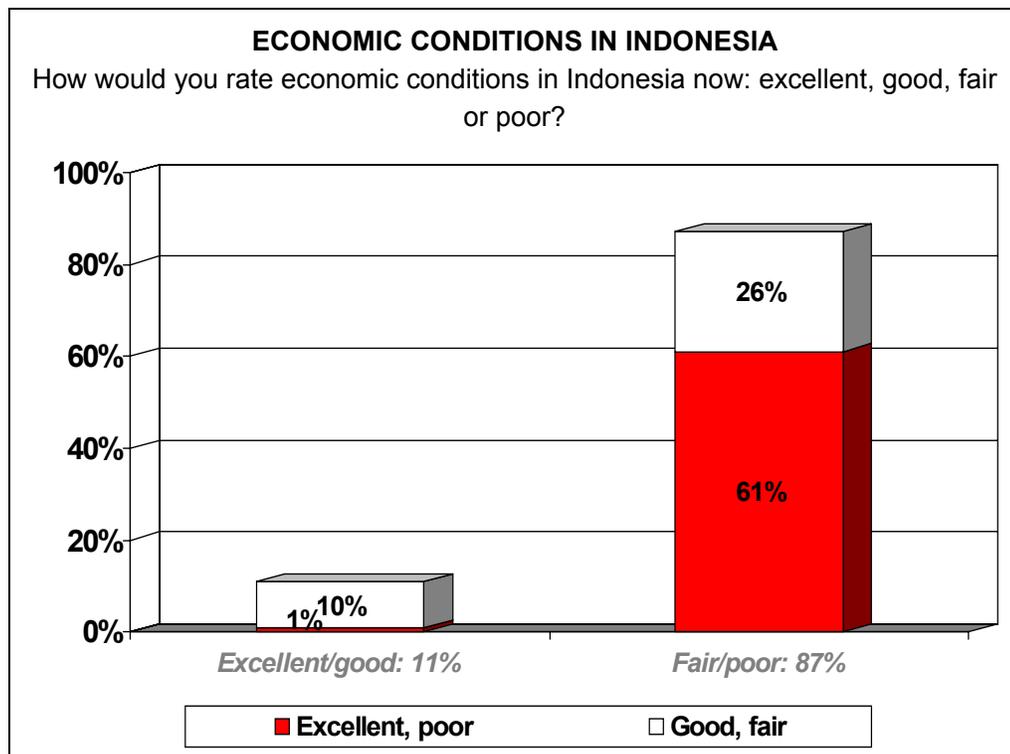
Part III: The Economic Landscape and the Consumer Mood

Executive Summary

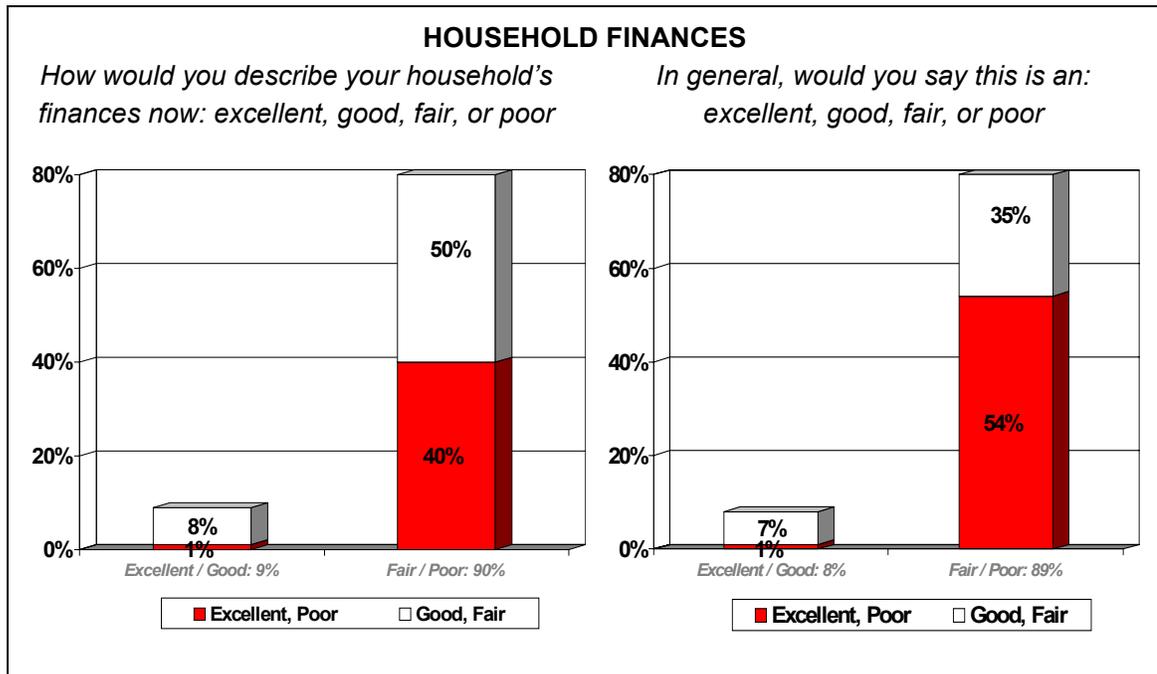
- The economy is thought to be in bad shape, with a majority rating it as poor.
- Indonesians are also unhappy with their own economic circumstances and see this as a bad time to buy things. However, they are somewhat less negative about the economy as a whole, with more perceiving economic conditions fair than poor.
- The majority report tightening their belts this year, and those who expect to do the same next year outnumber those who expect to spend more.
- Despite the difficult economic situation, few household members younger than 17 are employed in the labor force, while a majority of those older than 17 are wage earners.
- There is little demand among owners of major household appliances for new ones, but there is significant demand among non-owners. Market penetration of televisions and cellular phones is high, yet there is still strong demand for new ones. While ownership of telephones, computers, and satellite dishes is relatively small, there is solid demand for them. Motorcycles and bicycles are the most sought-after transportation items.
- The bulk of demand for consumer durables is shifting down-market to the CD middle-lower income groups, as is the market for mass consumer electronics (TVs, cellular phones, radios), though computers and satellite dishes remain elite goods. The motorcycle market is focused on middle income groups, while bicycle purchasers remain low-end.
- Bank account use is largely confined to the affluent minority and the big cities, with big growth potential among middle-income customers and in medium-sized cities. Credit card use is minimal even among the affluent and could grow hugely.
- Small proportions of affluent Indonesians expect to travel abroad in 2007 for business, pleasure, study, work, and the hajj pilgrimage to Mecca.

The economic situation of Indonesians, both national and personal, is evaluated in this section. Indonesian attitudes toward the country's economic state are examined, as well as the conditions of the survey participant's family income, the goods they own, and what they plan to purchase.

As noted previously, there is a lack of optimism about the economy, which is reflected in the participants' feelings about their own finances, as well as a general reluctance to spend money. However, sales prospects for 2007 are good for many home electronic, transportation, and household durable products. There are also substantial opportunities for growth in bank accounts and credit card use, although foreign travel prospects remain quite limited.



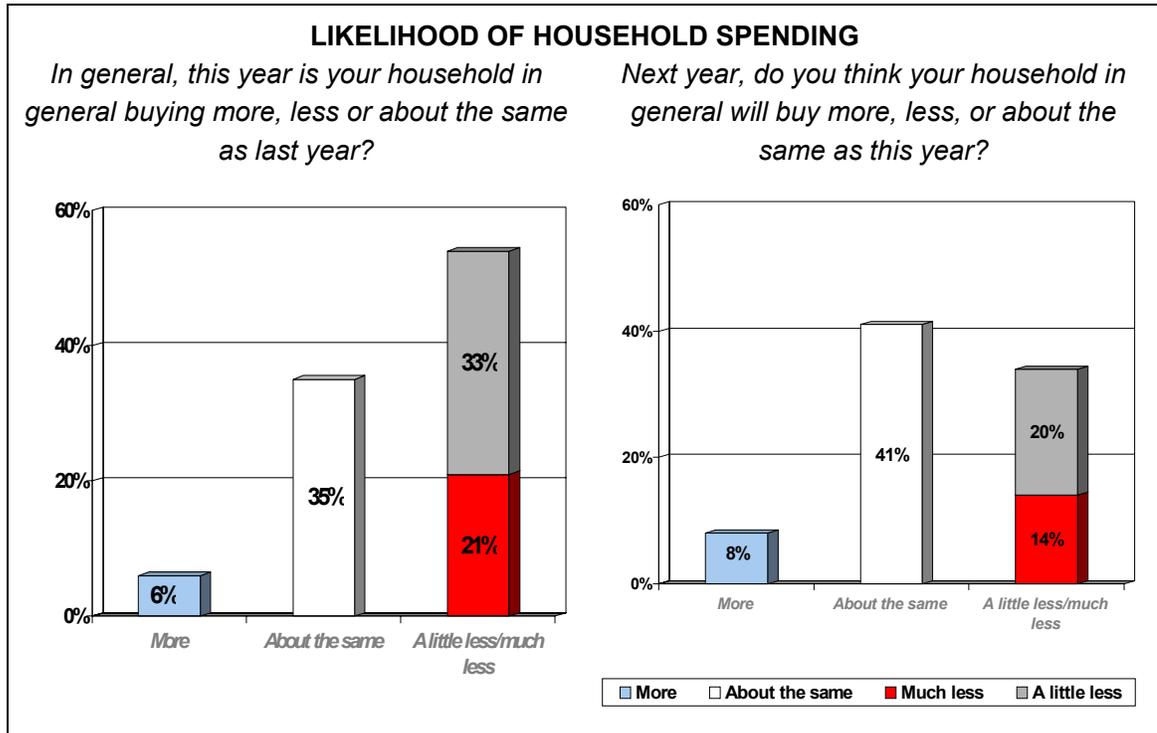
Indonesians are extremely concerned about the country's economy and are not optimistic that conditions will change soon. Over three-fifths (61%) of the survey participants say the economy is poor, and another fourth rate it as fair. Negative sentiment is strongest among working women, in the largest cities, and on Java, but there is hardly a sector of the population that does not think the economy is in poor shape by an overwhelming margin. Even among those who favor Yudhoyono's re-election, four in five consider the economy only fair or poor. This is true at all income levels as well. However, this indicator does respond to changes in income. Of those with growing or stable purchasing power, only 46% say the economy is poor, while of those whose purchasing power has declined, 72% do.



Indonesians see their own economic situations, while difficult, as somewhat better than that of the national economy. Half say their personal situation is fair and two in five rate it poor, compared to three in five who rated the nation's economy as poor. Not surprisingly, white collar workers rate their personal economic situations as somewhat better (27% call them poor). Rural residents (47% situation poor) feel worse off than urban residents (32% situation poor), especially those in the largest cities (27% situation poor). Interestingly, Sumatra residents are less negative (27% rate their situation as poor) and Sulawesi residents are more negative (48% situation poor). Not surprisingly, the rating of the personal economic standing increases as income increases. Some three-fifths of those in the lowest (E) income category rated their economic situation as poor, while one quarter of the highest (AB) income category felt that way. Perceptions of family economic situations are also very sensitive to changes in income: of those whose purchasing power had grown or stayed the same, 18% said their family's situation was poor, while among those whose purchases had shrunk, 56% said it was poor.

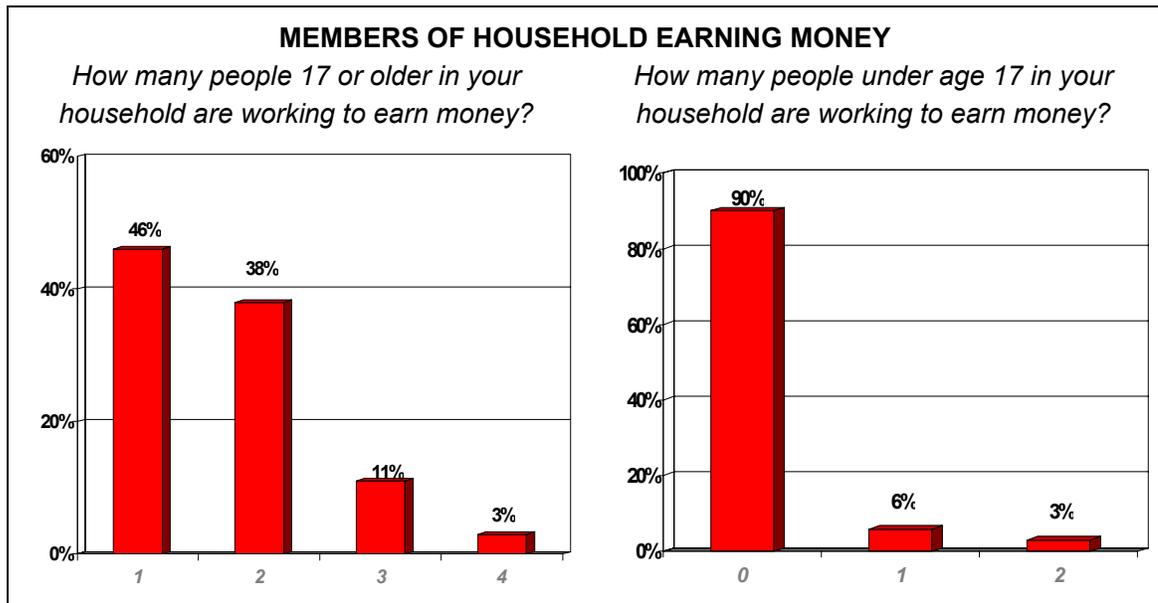
The majority of Indonesians (54%) indicated that this is a poor time to be buying things and more than one-third (35%) rated purchasing conditions as fair – for a total of nearly nine in ten with a negative view. White collar workers, those who have graduated from high school and people with a favorable attitude toward business are the least negative. Rural residents are the least likely to think this is a good time to spend (60% poor), an opinion echoed on Sulawesi (61% poor). However, Sumatrans are not as intensely negative (30%) about buying conditions. Ratings of buying conditions are also very

sensitive to income changes: of those with stable or rising purchasing power, only 26% called this a poor time to buy things, while among those whose purchasing power is shrinking, 75% said it was a poor time.



Despite renewed healthy macroeconomic growth of 5% in 2005, a majority (54%) of Indonesians say their households have cut spending in the past year. There is somewhat less pessimism about next year, but few expect to increase spending. During the past year, more than half of the people have cut their spending, while only 6% increased it; approximately one-third kept their spending at the same level. White collar workers were less likely to have cut spending (43% spent less) and more likely to maintain the previous year's level (46%), as were residents of Sulawesi. The A income group is the only one where more than one-fifth (23%) say they plan to increase spending.

One-third of Indonesians (33%) said they are going to spend less in the coming year, 41% expect to spend about the same, and only 8% said they would spend more, suggesting little optimism the economy will improve in the short run. Farmers (41% to spend less) and Sumatrans (43% to spend less) are the most pessimistic groups. The A income group is the only one where those who expect to spend more narrowly outnumber those who expect to spend less, 26% to 22%. Those more likely to increase spending in the coming year also include residents of the biggest cities (15%), and Christians (19%).



The economic hard times described by Indonesians are apparently not so desperate that children are being used as wage earners. Nearly three-fifths of household members older than 17 are wage earners (59%); however, fewer than one household in ten has someone younger than 17 earning a wage outside the house. Sumatra residents (18%) are most likely to have younger wage earners.

The next part of the survey reports on Indonesians' self-assessment of their willingness to buy various goods. While claimed purchasing intentions should not be taken at face value, because they may represent aspirations rather than realistic plans, these results provide an important indication of consumer trends and purchasing tendencies.

OWNERSHIP OF HOUSEHOLD GOODS

*Do you or does anyone in your household living at this address own a ...
(% who answered "yes")*

TV	86%
Radio	69%
Bicycle	51%
Motorbike	46%
Chicken/Rooster	37%
Refrigerator	31%
Handphone (mobile phone)	29%
Telephone (landline)	15%
Gas Cooler	14%
Satellite Dish	8%
Work Animal (Cow, Buffalo etc.)	8%
Washing Machine	7%
Computer	5%
Car	3%

**PROBABILITY OF BUYING HOUSEHOLD
GOODS-HOUSEHOLD DURBLES**

*Irrespective of whether you have the item currently, in the next year, do you think
you or anyone in your household will buy a ...*

	Owners who don't intend to buy	Owners who intend to buy	Non-owners who intend to buy
Refrigerator	30%	1%	7%
Gas cooler	13%	1%	6%
Washing machine	7%	0%	5%

Probability of Buying Household Durables

	<u>Have, Won't Buy</u>	<u>Have, Will Buy</u>	<u>Don't Have, Will Buy</u>
<u>Household Durables</u>			
Refrigerator	30%	1%	7%
Gas cooker	13	1	6
Washing machine	7	0	5

Few Indonesians who own household durables now are planning to buy them during the coming year, but there is solid demand for these items among those who do not own them. Virtually no one who now has a refrigerator, gas cooker, or washing machine is interested in purchasing a new one. However, 7% of those who do not have a refrigerator, 6% of those without a gas cooker, and 5% lacking a washing machine are interested in acquiring these items.

Probability of Buying Consumer Electronics

	<u>Have, Won't Buy</u>	<u>Have, Will Buy</u>	<u>Don't Have, Will Buy</u>
<u>Consumer Electronics</u>			
Television	78%	7%	6%
Radio	66	3	5
Cellular phone	20	9	14
Telephone	14	1	7
Satellite dish	8	0	4
Computer	4	1	3

Televisions and cellular phones will be the most sought after consumer electronics items in the coming year. Although more than eight of ten Indonesians already own a television, 7% of survey participants say they will buy a new unit even though they already have one, evidence that a substantial replacement market exists. Those few without a television are very eager to purchase one, as 6% -- more than one third of the 15% of Indonesian households without a television -- are interested in obtaining one.

Demand for cellular phones is even higher than for televisions. Although only three people in ten own one (29%), a third of those (9%) want to buy a new one, and 14% of the overall population without a cellular phone would like to buy one. While radio ownership is high (69%), there is less demand to purchase new ones. Less than one household in ten intends to buy a new radio, 3% of those who already own one and 5% who do not.

Market penetration of landline telephones (15%), satellite dishes (8%), and computers (5%) is fairly small, yet there is a strong market for these products, especially among those who do not yet have them. Eight percent (8%) of Indonesian households say they want to get a new landline telephone, of which almost all do not now have one, while 4% want to buy new satellite dishes and 3% computers – virtually all of them in households that do not own these items. Given the low current levels of ownership for satellite dishes and computers, these numbers point to rapid proportionate growth, despite the likelihood that their high cost may prevent many consumers from fulfilling their aspirations.

Probability of Buying Transportation

	<u>Have, Won't Buy</u>	<u>Have, Will Buy</u>	<u>Don't Have, Will Buy</u>
<u>Transportation</u>			
Bike	49%	2%	5%
Motorcycle	38	7	12
Car	3	0	3

There is a very high level of demand for motorcycles, while bicycles and cars also show areas of sales opportunity. Nearly one-fifth of Indonesian households is interested in purchasing a motorcycle (19%), including 7% of the survey population that already has one.

Bicycles have higher market penetration (51%), but there is less demand for them than for motorcycles, as only 7% of households plan on getting one in the coming year. Cars are owned by only a few households (3%), but there is significant room for growth, as an equal number of households would like to buy a car. While here, too, purchase price represents a substantial barrier to carrying out these purchase intentions, they do point to strong growth prospects in the automobile market.

PROBABILITY OF BUYING HOUSEHOLD GOODS- FARM

Irrespective of whether you have the item currently, in the next year, do you think you or anyone in your household will buy a...(rural respondents only)

	Owners who don't intend to buy	Owners who intend to buy	Non-owners who intend to buy
Work animal	12%	9%	5%
Tractor	0%	0%	0%

Probability of Buying Items (Farm only)

	<u>Have, Won't Buy</u>	<u>Have, Will Buy</u>	<u>Don't Have, Will Buy</u>
Television	67%	5%	12%
Radio	62	1	4
Bicycle	51	2	5
Motorcycle	20	3	16
Work animal	12	9	5
Satellite dish	9	0	6
Cellular phone	6	1	9
Refrigerator	6	1	7
Telephone	5	0	3
Gas cooker	1	0	4
Washing machine	1	0	2
Tractor	0	0	0
Computer	0	0	0

Not unexpectedly, Indonesians who reside on farms have fewer consumer goods than the overall population, but there is still demand for products, although at a slightly lower level. Nearly three-fourths of farm dwellers have televisions, slightly lower than the population as a whole, but the buying intention is there to fill that gap. In rural areas, 17% of the people are interested in purchasing a television this year, compared to 13% of the overall group. There is a similar pent up demand for motorcycles. Only about a quarter of farm households own one, but 19% are interested in getting one.

Work animals, an agricultural staple, are also a desired purchase, with 14% of farm residents interested in getting a new one. However, tractors, a rarity in Indonesian agriculture, appear destined to remain so, with demand near zero.

Although more than half of rural households own radios (62%) and bicycles (53%), there is not a strong demand for either product, as only 5% indicated plans to buy a new radio and 7% a new bicycle.

Other consumer products have made little penetration on the farm: satellite dishes, while slightly more common than in town, are owned by just 9%, cellular phones and refrigerators by only 7%, telephones by 5%, and gas cookers and washing machines by 1%. However, given the level of ownership, stated intent to buy for the products is high, sometimes in excess of actual ownership: cellular phone (10%), refrigerator (8%), satellite dish (6%), gas cooker (4%), telephone (3%), and washing machine (2%). Although income levels will restrict farmers' abilities to meet these aspirations, there clearly is considerable sales potential among Indonesia's farming families for these products.

Purchasing Prospects by Income Levels

Income level	A	B	C1	C2	D	E
<u>Household Durables</u>						
Refrigerator						
Own	69	61	57	25	12	6
Plan to buy	6	14	8	8	9	4
Gas cooker						
Own	49%	29%	27%	8%	3%	1%
Plan to buy	14	7	8	7	5	4
Washing machine						
Own	40	13	14	2	1	-
Plan to buy	14	11	5	5	1	1

Ownership of household durables and intention to buy those items increases with income, with the highest income levels having the highest proportion of ownership and intent to obtain new versions of the products. Refrigerators are owned by the majority of the upper-middle to upper classes, but fewer than one quarter of the lower income (C2/D/E) residents possess one. Nonetheless, there is a solid level of demand for them among the middle to lower classes – even 4% of the lowest income group wants to buy one although only 6% own one. Since the bulk of the population (68%) is in the C/D income groups, consumers in these segments represent the bulk of demand for these goods.

Gas cookers and washing machines have marginal market penetration, as not even half of the upper income residents own one. Buying intention for both items is marginal, also. Only 4% of the lowest income group desires a gas cooker, and fewer than one Indonesian in ten in every income group intends to buy one, with the exception of the richest group, and there 14% indicated they would purchase a new cooker. However, sheer numbers mean that the bulk of demand will be in the upper and middle income groups. The same dynamic applies to washing machines, with only 1% of the two lowest income groups intending to buy one, increasing to 14% of the highest level of income. Here demand is slight enough that it is concentrated in the A/B income groups.

Income level	A	B	C1	C2	D	E
Electronics						
Television						
Own	99%	98%	91%	93%	83%	54%
Plan to buy	19	14	8	8	15	25
Cellular phone						
Own	79	58	49	20	10	9
Plan to buy	38	34	29	26	14	9
Radio						
Own	76	82	77	77	52	61
Plan to buy	9	4	3	6	14	9
Telephone						
Own	45	33	21	9	7	5
Plan to buy	11	11	10	9	4	4
Computer						
Own	27	14	8	1	1	-
Plan to buy	3	13	5	3	-	0
Satellite dish						
Own	13	12	13	7	6	5
Plan to buy	2	4	3	4	4	6

Televisions and cellular phones are two products with a great deal of consumer demand among all income levels, and radios are a sought after item among the lower income groups. With the exception of the poorest Indonesians, 54% of whom have a TV, televisions are a fixture in almost every Indonesian household. Nevertheless, one-fourth of the poorest residents want to buy a TV, and 15% of the next highest income group wants to buy one, too. In comparison, 19% of the highest-income group wishes to buy one, although ownership there is virtually universal. This market is increasingly becoming oriented towards the lower and middle classes.

Cellular phone ownership increases significantly as income increases, with 79% of the wealthiest consumers having one, compared to one in ten for each of the two poorest income categories. Intention to purchase a new cellular phone increases with income

also, but that intention matches or exceeds ownership in the three lowest income categories, indicating there is very strong possibility for growth among the lower and middle income groups.

The strongest desire to buy new radios comes from the two lowest income groups (D, 14%; E, 9%). Ownership is lowest in these groups (D, 52%; E, 61%), indicating that they are the best target market for this product. Landline telephones have not made great inroads in Indonesia and there is little clamor for them. Under half of the best-off people have a landline telephone (45%), and fewer than one in ten of the three lowest income categories has one. Despite this low level of penetration, only one Indonesian in ten among the middle and upper classes intends to get a landline telephone, and just 4% of the two lowest income groups says it wants one.

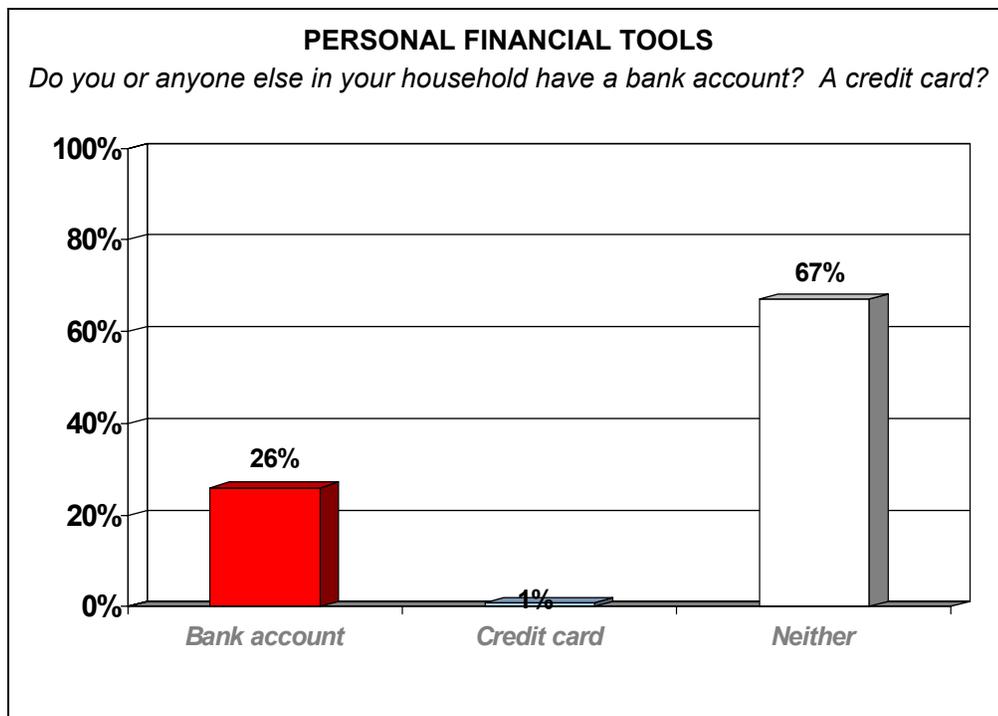
Computers are a product for the elite, and only one quarter (27%) of the highest income level have one, while 14% of the next income level own them. However, there is virtually no interest at the lowest income levels in purchasing a computer, but there is some interest at the B income level, as 14% said they would buy one. Satellite dishes are even more of a luxury than computers, as slightly more than one in ten of the middle to upper income residents own them. However, interest in buying one increases among the lower income classes, increasing from 2% among the wealthiest to 6% among the poorest, which may reflect the desire to catch signals in areas of the archipelago with poor reception of regular TV signals.

Income level	A	B	C1	C2	D	E
<u>Transportation</u>						
Motorcycle						
Own	70%	73%	62%	50%	28%	14%
Plan to buy	28	25	18	24	18	11
Bicycle						
Own	55	45	57	50	49	51
Plan to buy	4	5	5	6	10	6
Car						
Own	17	9	2	1	0	-
Plan to buy	9	8	5	0	1	-

There is a strong demand for motorcycles in the coming year, and bicycles have some demand among the lower income levels. Ownership of motorcycles, and intention to purchase one, increases with income level. However, there is still a strong demand among all income groupings. While seven in ten households in the two highest income categories have motorcycles, ownership drops significantly in the two lowest income levels (D, 28%; E, 14%). However, 11% of the poorest residents wants to buy a motorcycle, along with 18% of the next highest income level. Purchase intent increases with income, to a high of 28% among the highest income group. Given the numbers in

each income category, this market is overwhelmingly centering on the C/D income groups.

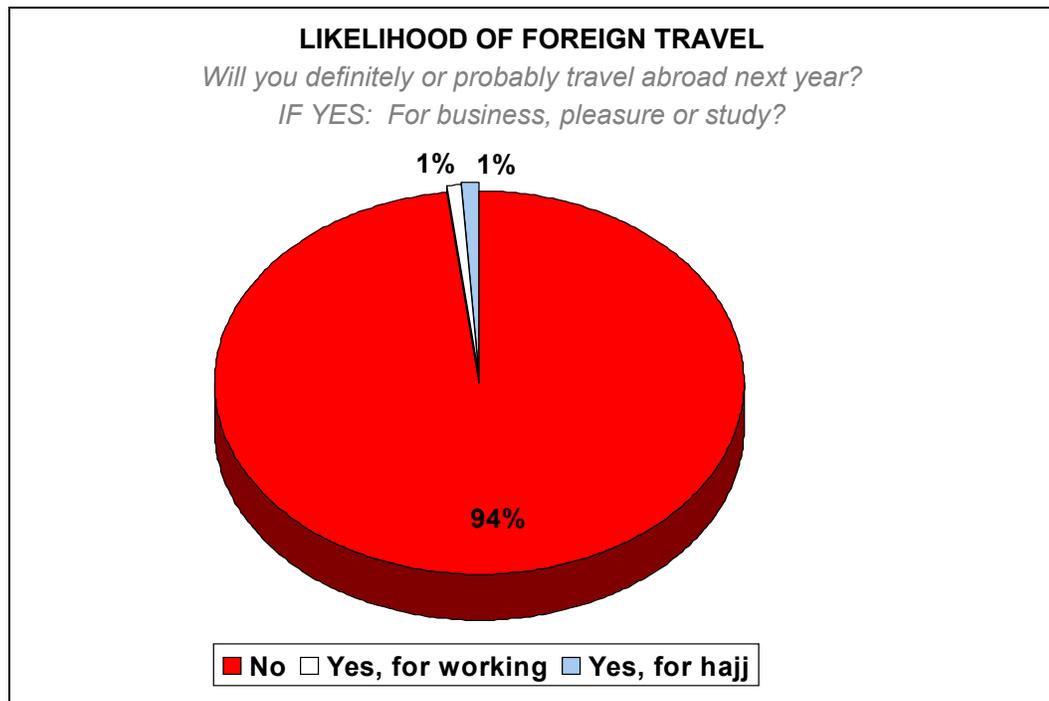
Bicycle ownership is steady at around half of all income groups. Intent to buy ranges from 4% to 6% in all income categories, except for the D income category, where one in ten indicates a new bicycle is in their plans. This market is focused on the low end (C2/D/E). Cars, however, are only for the upper income levels, as 17% of the highest-income Indonesians have one, along with 9% of the next highest level. Ownership is virtually non-existent among the middle and lower classes. By the same token, only the well-to-do say they plan on buying a car (A, 9%; B, 8%, C1, 5%).



Just over one quarter (26%) of Indonesian households has a member with a bank account, but there are wide disparities of subgroups in banking use. Generally, better educated, urban residents are more likely to possess a bank account. Some 40% of the households of secondary-educated people have one. So do just over half (51%) of those of white collar workers, while only 20% of blue collar workers and 7% of farmers do. In rural areas, the households of 18% of residents have an account, while 37% of city folk have opened one. Not surprisingly, the frequency of bank accounts rises with income, from 3% at the lowest (E) income level to 65% in the highest (A/B) group.

The survey findings thus point to valuable targets of opportunity for the banking sector. The most obvious one is the C1 income group. Only 40% of the households of this group have bank accounts, 25 points below the rate in the AB group, and it is equal in size to that more affluent group. Geographically, small cities represent the most growth potential for branches, since just 22% of those in cities of 250,000 to 1-million have accounts, compared to 52% of those in cities with populations over 1-million.

Some 1% of Indonesian households have credit card holders. Even at the highest income levels, just 3% of the A group and 2% of the B group households have cards. In short, there are enormous opportunities for increased credit card use, particularly in these high-income segments, which make up one-sixth of Indonesia's huge population.



Only 2% to 3% of Indonesians plan to travel abroad next year, but the proportion planning foreign travel rises to 7% in the high (A/B) income group. The foreign travel market among Indonesians breaks down as follows:

- Business travelers: this includes 3% of the A/B group, high school and college educated, men, and under 35.
- Pleasure travelers: these number 1% of the A/B group, and tend to be high school and college educated and over 35.
- Study travelers: these number 1% of the A/B group, high school and college educated, 17-24 year olds.
- Work travelers: these number 1% of the AB group and 1% of the C group; they tend to be women under 35.
- Hajj pilgrimage travelers: these number 1% of the A/B group, men over 35.

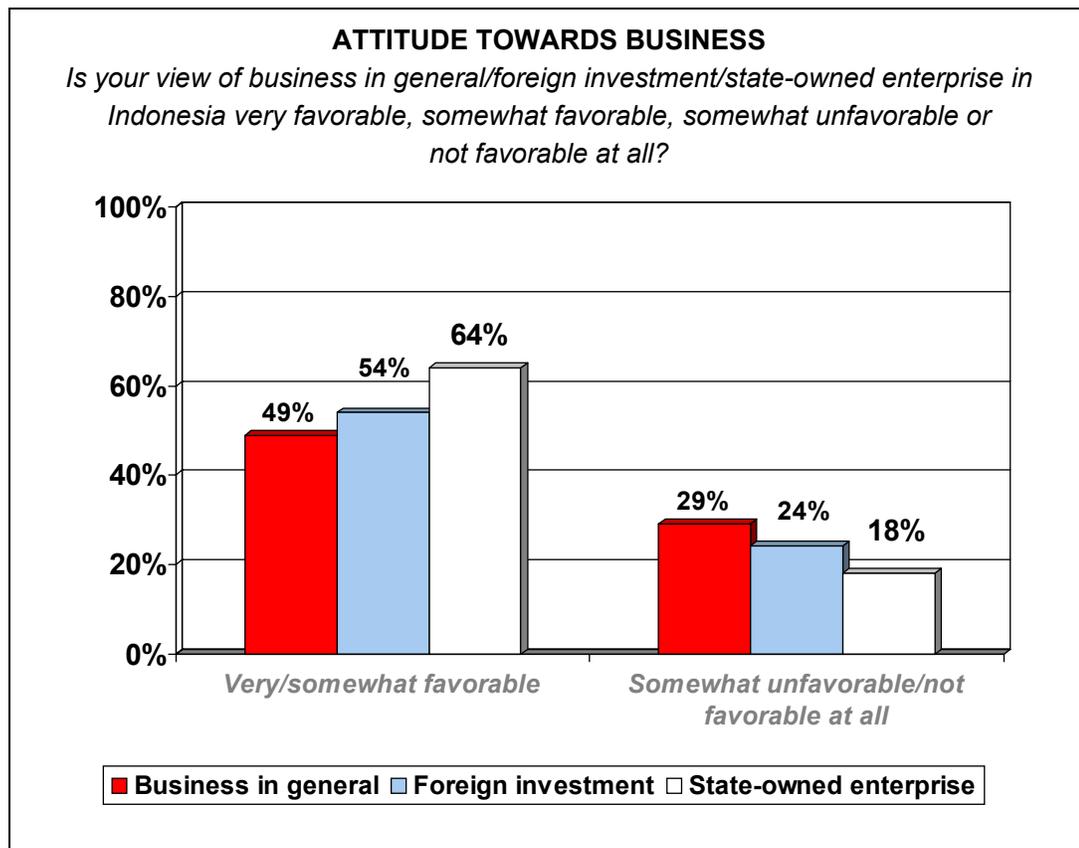
Part IV: The Business Landscape

Executive Summary

- Indonesians have a positive attitude toward business generally, with foreign investment viewed even more favorably and state-run businesses especially popular.
- The private sector is seen as more productive, efficient, and better paying than the public sector, while the two sectors are seen as nearly equal in contributing to the public good.
- Indonesians rank state-owned businesses the highest on the negative attribute of corruption and nepotism and see them as offering better pay and promotion opportunities relative to private Indonesian and private foreign firms. Foreign owned enterprises were seen as having the best technology, but were also seen as doing the least for the good of society.
- Good corporate citizenship, particularly contributions to education, community causes, and environmental protection, is highly valued by Indonesians.
- Of the seven U.S. firms surveyed, Coca-Cola is the best-known and best-liked American-owned firm in Indonesia, followed by Bank Central Asia (BCA) and Sampoerna. Microsoft is not well known but is very well respected among those who know it. Freeport McMoran and Newmont were controversial among those who know them, ExxonMobil less so.
- Aqua and Bank Danamon are very well known and positively viewed, while supermarket firms Hero and Carrefour are popular with their urban and affluent audiences.
- Foreign purchase of well-known Indonesian brands like Sampoerna, Aqua, Bank Central Asia and Bank Danamon have apparently been well-received by the public since the companies remain highly regarded.
- Private Indonesian consumer goods makers Indofood, Gudang Garam, Wings, and Maspion are well known and well regarded. Bakrie Brothers, which specializes in infrastructure, natural resource development and telecommunications, is not well known but controversial.
- State-owned enterprises Bank Rakyat Indonesia, Telkom, Pos Indonesia, Bank Mandiri, Garuda, and Pertamina were almost universally known and popular. The one exception was Semen Gresik, which was still well known (92%) and perceived favorably (65%), but not at the very high levels of some of the other state-owned enterprises.

Indonesians' attitudes toward business in general, their perceptions of private domestic and foreign-owned business and state-owned enterprises and the importance they attach to specific attributes of business are examined in this section. In addition, attitudes towards leading firms were gathered to show how they are regarded by the Indonesian public.

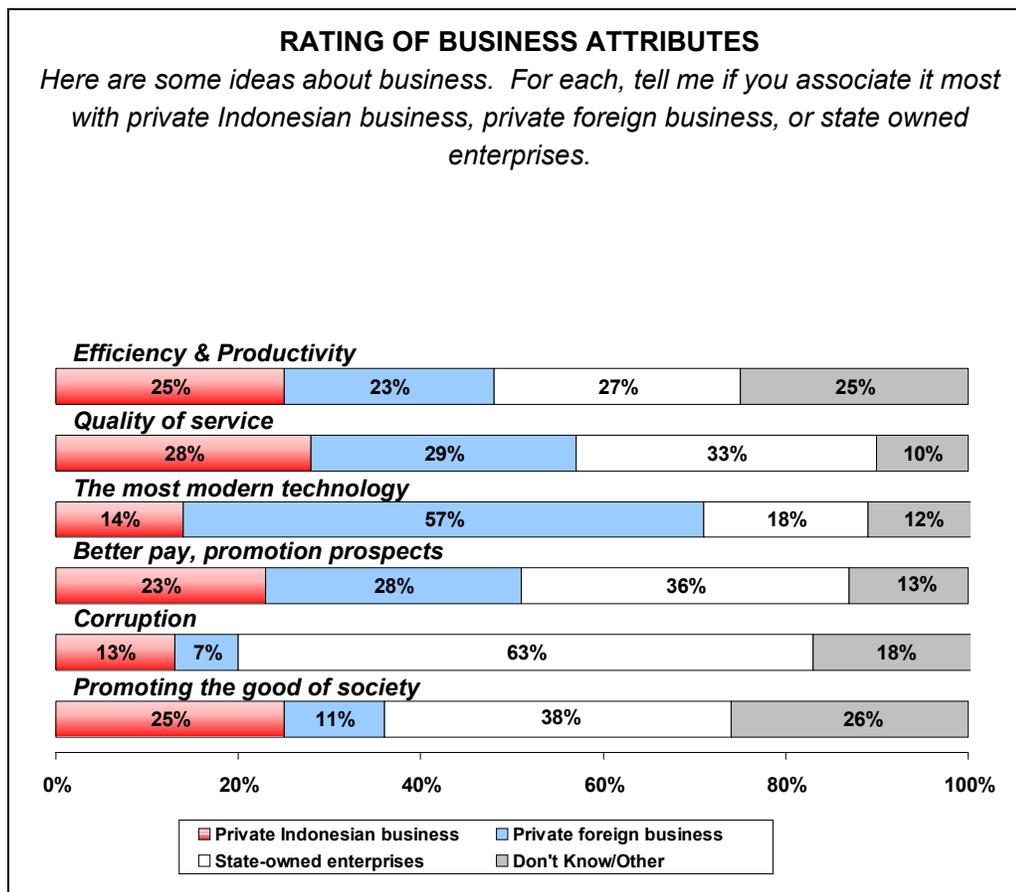
Indonesians have a generally positive attitude to business. Foreign investment and state-owned enterprises have particularly strong appeal. The private sector as a whole is seen as more productive, efficient and responsive. Foreign companies are considered the most technically advanced and state-owned enterprises are held in high regard despite the fact that they are also considered the most corrupt. Corporate citizenship is important to Indonesians in their evaluations of companies. Companies dealing with national consumer markets, whether private Indonesian, foreign, or government-owned, enjoy broadly positive images. Firms focused on urban or business-to-business markets are not as well known, though still generally liked, except those involved in public controversies, which got negative reviews.



Indonesians have a positive attitude toward business overall, and definitely view foreign investments and state-owned businesses positively. Favorable views of business outnumber unfavorable ones by a margin of five to three (49% to 29%). Investment from outside Indonesia was looked at even more favorably, as 54% were in favor and 24% were opposed. There is considerable confidence in government-run enterprises, as nearly two-thirds of the citizens favored these businesses (64%), with only 18% indicating they viewed them unfavorably. However, strong support for all three types of firms was fairly modest; very positive ratings ranged from 8% for business in general to 14% for state-owned enterprises.

The better-educated, better-off, and young – those best placed to take advantage of a market economy – tend to be more favorable to business. A majority (55%) of those who have graduated high school had a favorable opinion of business in general, compared to two-fifths of those with primary school education. Similarly, support for foreign investment went from 60% among those with secondary school qualifications to 46% among the least educated, and state-owned enterprises were viewed positively by 67% among those with a high school degree and by 55% of those with a primary education. Not surprisingly, white-collar workers had the highest ratings for all types of business, as did residents of the biggest cities. (Those in the lowest (D/E) income groups, losing purchasing power, or working as farmers were the least favorable.) Young people – 17 to 24 year olds – are markedly more pro-business than their elders.

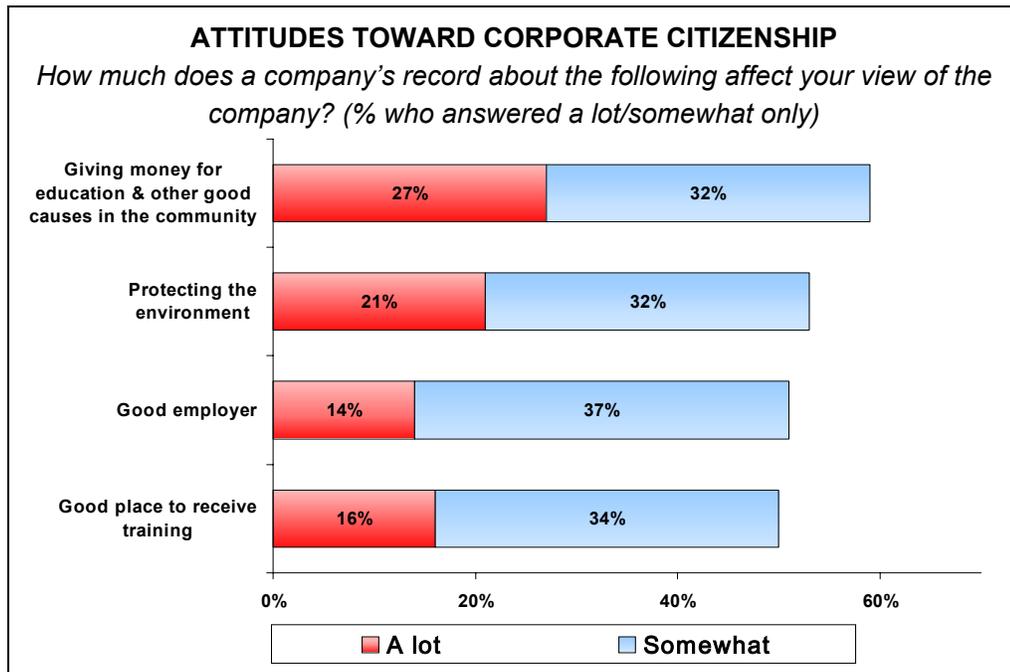
Those who are generally pleased with the country's leadership and where it is headed also tend to be pro-business. Attitudes toward business are more favorable among those who say the country is headed in the right direction (62%), those supporting SBY's re-election (59%), and Partai Demokrat supporters (60%). They are very favorable among economic liberals (81%). Views of business in general tend to be higher among those who support the U.S.-led War on Terror (60%) and markedly lower (just 38% positive) among those sympathetic to Islamic extremists. Those who are the most anti-American have considerably less sympathy for foreign investment as well (also only 38% positive) and tend to be economic nationalists, with 76% favorable to state-owned enterprises.



In the eyes of Indonesians, the private sector as a whole outpaces state-owned enterprises for efficiency, service quality and technology while state firms tie it for promoting the social good and top the private sector by far on corruption. When asked which firms were most efficient and productive, some 48% of Indonesians cited private firms, 27% state enterprises. Asked to rate quality of service, 57% preferred private firms, 33% state enterprises. On where the most modern technology was to be found, 57% replied the private sector, 19% the state sector. As to pay and promotion prospects, 51% thought these are better in private firms, 36% preferred state firms. When it came to promoting the good of society, there was a near-tie: 38% of participants preferred public enterprises while 36% thought private firms did a better job.. However, majorities of the highest (A income) Indonesians (55%), those sympathetic to Islamic extremists (52%), or with anti-American outlooks (53%) felt that state firms did the most to help society, confirming their economically nationalist outlooks. The one area where state enterprises consistently scored higher than private ones was corruption, collusion, and nepotism, with 63% associating this most with the public sector and only 20% with the private sector.

When attitudes to private Indonesian and foreign firms are viewed separately, foreign firms score particularly well on technology and governance, and receive comparable ratings on most other attributes, but rate low (11%) on promoting the civic good. It is instructive to note that there is almost an inverse relationship or a least no strong positive correlation between not being considered corrupt and promoting the good of society. A clear majority (57%) of Indonesians associates modern technology with foreign firms; only 14% do so with private Indonesian companies. The two parts of the private sector are rated similarly for service (29% prefer foreign firms, 28% local) and efficiency (25% associate this with local firms, 23% with foreign). State firms score higher on both these attributes (33% for service, 27% for efficiency), although they rated much lower than the private sector overall. State firms had a somewhat greater lead (36% to 28% for foreign firms and 23% for local ones) on pay and promotion. The most economically liberal Indonesians strongly perceive private firms as paying better than the public sector (37% say pay is best in foreign firms and 29% say in private local firms), while among the least economically liberal, the proportion who see the private sector as better-paying is only half as great. This may reflect perceptions of greater opportunities for corrupt gains in state enterprises or that they are less competitive environments. However, the state-owned enterprises are seen as doing the most to promote the good of society by 38%; only 25% say this of private Indonesian firms and just 11% say this of foreign firms in Indonesia. This reflects the substantial goodwill that state-owned firms have in Indonesian society.

For each of the types of business examined, the survey findings contain a red flag. Indonesian firms in general – both public and private – are seen as lagging on technology and well behind foreign firms in this area. State-owned enterprises, not surprisingly, are a focus of concern because of their reputation as repositories of corruption. However, foreign firms, despite the technological advantages they have over local companies, are not seen as doing their part for the good of Indonesian society – a crucial aspect of public perception and corporate reputation, as indicated below.

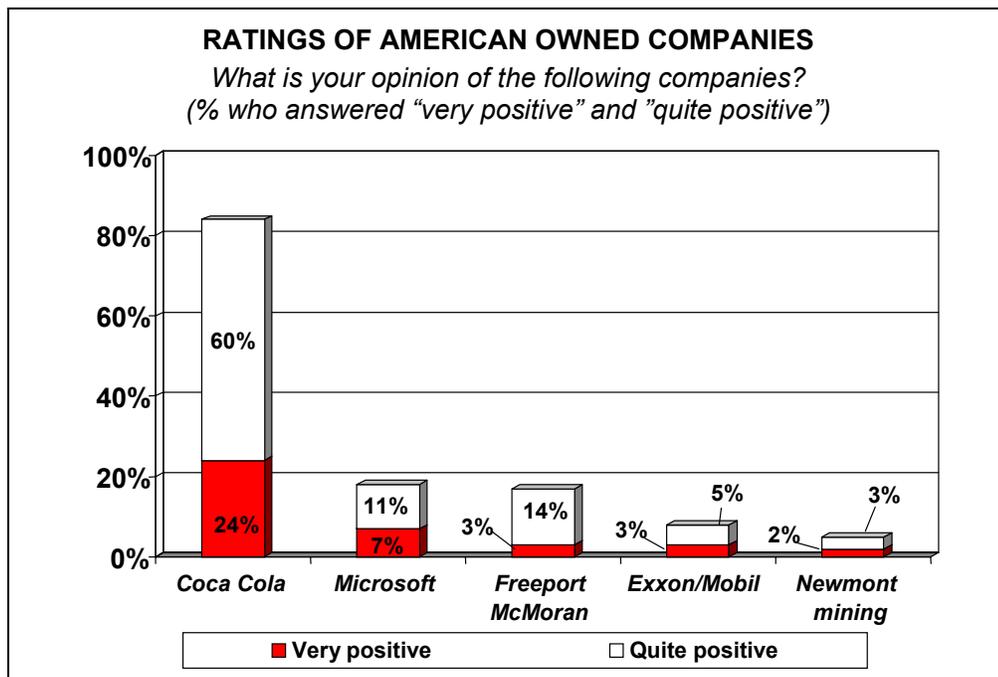


Corporate social responsibility matters to Indonesians – a lot. Promoting social goals beyond sales and profitability, such as supporting education and other social causes and protecting the environment, are very important for a company’s reputation. Other aspects of corporate citizenship which count to Indonesians relate to the way a company treats its work force, such as being a good employer and providing training for workers. In short, the perception that a company is a good corporate citizen is highly valuable, because it is a major factor in the public’s perception of companies.

Three Indonesians in five (60%) indicated that giving money for education and other good causes would positively influence their attitude toward a company, 29% saying it would affect their view of the firm a lot. Just over half (54%) indicated protecting the environment would have a good impact on their view of a business – 23% saying it would help a lot. A company’s record as an employer (53%) and its ability to train workers (52%) were also viewed positively by more than half the respondents, though at somewhat lesser intensity as the other attributes (with 15% and 16% respectively citing them as affecting their attitudes a lot).

The survey findings are particularly important because of their implications for how foreign firms in Indonesia can improve their reputation and counter concern or hostility over their presence in the country. Corporate responsibility – above all, support for education and the environment – is particularly important to Indonesians who felt that local private or state enterprises were making more of a contribution to the good of society than were foreign firms. Some 34% of them said that support for social causes

had a lot of influence on their views and 27% said the same of initiatives to safeguard the environment. Corporate citizenship also was particularly important to the most anti-American Indonesians. Of these, 36% said supporting education and other social causes had a lot of influence on corporate image, and 33% said the same of support for the environment. In other words, these findings underline that for firms in Indonesia – particularly foreign and especially U.S. firms – corporate social responsibility is a key to improving their image and defusing hostility to foreign investment and the American presence.



Only one American firm is known to almost all Indonesians – Coca-Cola. It is recognized by 98% of Indonesians, and 84% have a favorable view of the firm (24% very positive), while only 9% see it unfavorably. The least favorable groups were men who did not finish primary school (20%), older people with primary schooling or less (22%), and urban men under 35 (19%). (There is a modest connection between anti-Americanism and views of Coke: among the most pro-American, hostility to Coca-Cola runs at 5%; it is significantly higher among the most anti-American but still only 12%.)

Next in the top tier of favorability come two Indonesian firms now under U.S. ownership. Bank Central Asia (BCA), purchased by the Farallon group (Footnote: According to reports, Farallon divested most of its holdings in 2007 to domestic cigarette manufacturer Djarum, which already held a significant stake in the bank), is known by 87%, and viewed favorably by 81% (very positively by 27%), and unfavorably by 6%. Philip Morris-owned cigarette manufacturer Sampoerna, local maker of the Marlboro brand as well as

the clove cigarettes popular in Indonesia, is also very well regarded by the public. It is known to 92% of the public, viewed favorably by 76% (very favorably by 26%), and disliked by only 7%. It may be significant that both BCA and Sampoerna were acquired by foreign interests only after they had grown to prominence as wholly Indonesian-owned companies. These cases demonstrate clearly that there is no significant public opposition to the foreign purchase of major Indonesian brands that are privately owned. Several more examples appear below. This is unlike the public controversy that inevitably arises over the sale of even minority stakes of state-owned enterprises to foreign companies. This may be because of Indonesians' generally greater fondness for state-owned enterprises noted above, or because powerful vested interests are skillful at creating demonstrations that they claim represent popular resistance to such sales.

Unlike the best-known American firms – which deal in popular consumer products and have an extensive distribution and media presence – other U.S. firms tend to be in business-to-business sales or natural resource extraction, and are far less known as a result. Of this second tier, Microsoft, whose products are principally used by business in a country where home Internet and computers remain rare, is the best-regarded. Although 72% of Indonesians were unaware of the firm, of those who were, 18% had a favorable opinion and no one was unfavorable. Microsoft may be seen as symbolizing technology and the future, fitting with and contributing to the general perception of Indonesians that foreign firms represent the most modern technology. Awareness and favorability of the firm follows the lines of computer use: it is highest among the secondary educated (34% positive), high income groups (60%A, 36% B, 35% C1), and big city residents (37%).

U.S.-based natural resource firms, while also rather poorly known, have less positive images among those Indonesians who do know them. The controversial Freeport McMoran and Newmont are the only two firms in the survey with a net negative image, while those who know ExxonMobil are almost evenly split on it.

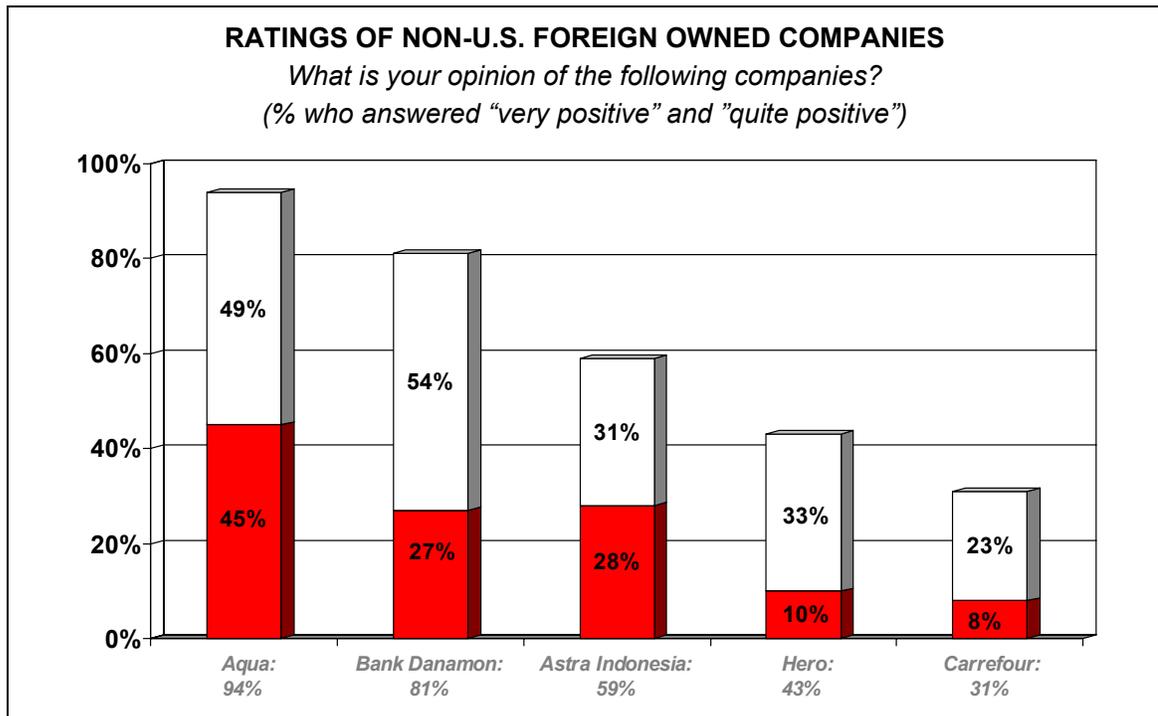
The best known of these firms is Freeport McMoran, known to 44% of Indonesians. This mining company, the country's largest taxpayer and the subject of critical press coverage for its environmental practices, has a relatively unfavorable image: 17% of participants have a positive image of the company, 19% an unfavorable one. Although it is little known in rural areas, the firm is well known – and widely disliked – among residents of the media-saturated big cities: 72% have heard of it and 53% are unfavorable. Freeport is also widely disliked in the upper income groups (A/B/C, 35%), among secondary educated men (32%) and on Java (26%). It has support among secondary educated women (24% favorable), among the over-50s (25%), and on Sulawesi (25%). Those favorable to business and foreign investment tend to view Freeport more favorably than others, while those who are not, tend to view the company more unfavorably. Attitudes to America are also connected to attitudes to the firm: those most favorable to America are favorable to the company, 23% to 10% unfavorable, while those most unfavorable to

the U.S. have a similar attitude to the firm, 30% unfavorable to 17% favorable. Attitudes to Islamic extremism have a similar relationship to attitudes to Freeport.

Attitudes to Newmont, whose mining practices have also attracted widespread criticism, are similar to those to Freeport, although at lower levels as the firm is less well known. Only 21% of Indonesians are familiar with the firm, but of these, only 5% have a positive view and 8% have a negative one. The most hostile are, once again, men with secondary education (17% unfavorable), big city residents (18%), the A/B income group (40%), those unfavorable to business (30%), and foreign investment (32%). Its friends are principally among secondary-educated women (11% favorable) and urban women under 35 (13% favorable). Hostility to Newmont is also higher among the most sympathetic to Islamic extremists (13%) and hostile to the U.S. (15%).

ExxonMobil also has a low profile in the country, with only 26% aware of the firm, although its recent Cepu and Natuna investment plans have been subject to extensive coverage and debate in the media. The Indonesians aware of ExxonMobil are divided on the firm – 8% favorable, 7% unfavorable. However, the profile of opinions on ExxonMobil is rather different from that of Freeport or Newmont. ExxonMobil's strongest supporters are secondary-educated men (18% favorable), the A/B income group (18% favorable), the big cities (20% favorable), and urbanites under 35 (14% favorable). These are many of the groups that are the most hostile to Freeport and Newmont. Significantly, views of ExxonMobil are net favorable even among those generally unfavorable to business and foreign investment, unlike the case for Newmont and Freeport, suggesting that attitudes respond to the records of individual firms, rather than just ideology. However, ExxonMobil also suffers from more general anti-American sentiment: the most pro-American are favorably disposed to the company, if by 7% to 4%, while the most anti-U.S. are unfavorably disposed, by 15% to 12%.

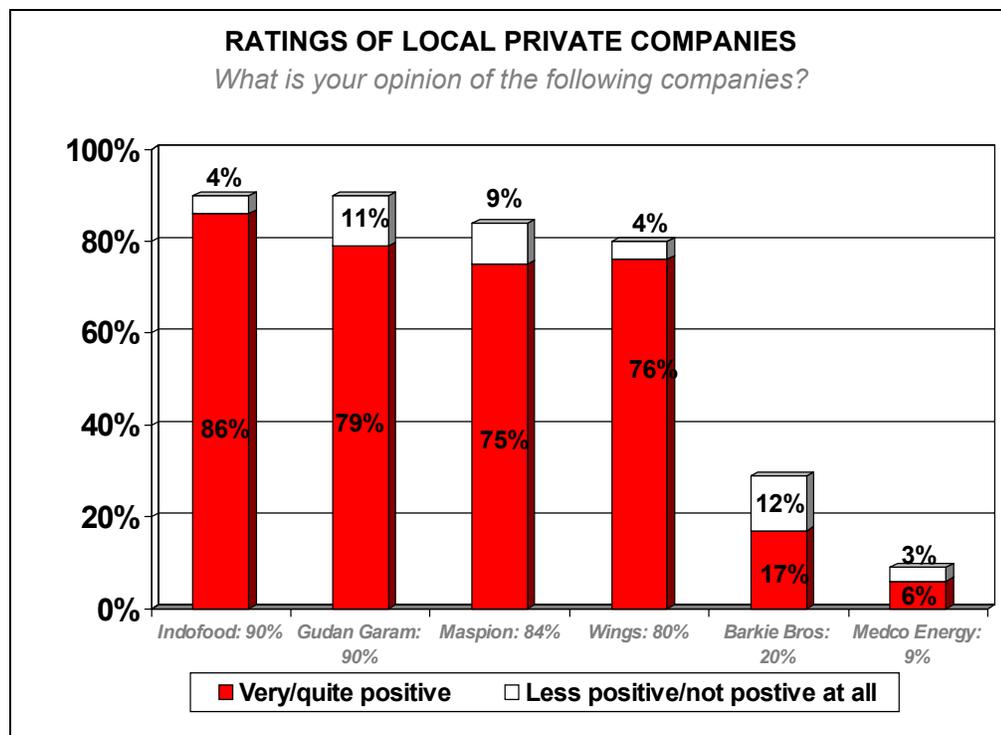
In short, what reactions to American firms demonstrate is that the informed public in the country, if relatively small, is quite discriminating. Firms whose social responsibility is widely challenged on environmental or other grounds will suffer significant damage to their image among politically conscious and influential groups. The same groups can, however, be supportive of investors who are not tarred with the brush of poor corporate citizenship.



Aqua, which produces bottled water and is controlled by France’s Danone, is even more popular than Coca-Cola. Fully 98% of Indonesians are familiar with the company, and 94% are favorable, while just 2% are unfavorable. There is almost no variation in favorable attitudes across population groups. Like BCA and Sampoerna, Aqua was originally a wholly-owned Indonesian company and became a popular national brand long before its acquisition by Danone.

Bank Danamon, owned by offshore holding companies, also ranks highly with the Indonesian public (78% awareness, 73% positive). Once again, support is consistent across all population groups. Astra Indonesia, the car manufacturer owned by a consortium of foreign investors, is very popular among those people who are aware of the company (59% of Indonesians are positive, just 1% negative). However, 28% of the population is unaware of the corporation, probably because Astra does not produce products under its own brand name. There is no “Astra” car, just as there is no vehicle called “General Motors”. There is some differentiation among population groups for Astra Indonesia, as with greater awareness among those more open to and involved in the modern economy: men have greater awareness of it, as do those in the upper (A/B/C1) income groups, people under 35, big city residents, and those with secondary education.

The two supermarket companies in the survey, Hero and Carrefour, are primarily known in urban areas, particularly the large cities, where their stores tend to be located. Hero, which enjoys a larger diffusion of smaller stores, was better known, with 59% of the population aware of it, while only 42% were aware of the French-owned Carrefour, which has invested in its larger hypermarkets. Carrefour started in Indonesia as a wholly foreign-owned company, while its competitor Hero followed the pattern of BCA and Sampoerna as being originally a wholly-Indonesian venture. Hero is well regarded by the three-fifths of the population that knows the company (43% positive, 6% negative). It is much better known in urban areas (60% positive), and particularly the big cities (89% positive), than in the countryside (31% positive). Carrefour is also well regarded by those who are aware of it (31% positive, 3% negative), but two-thirds of the people are unaware of the company. Once again, its rating rises to 52% positive in the urban areas and 78% favorable in the biggest cities. Among town dwellers, awareness of both companies is highest among younger urban men and lowest among older urban women.

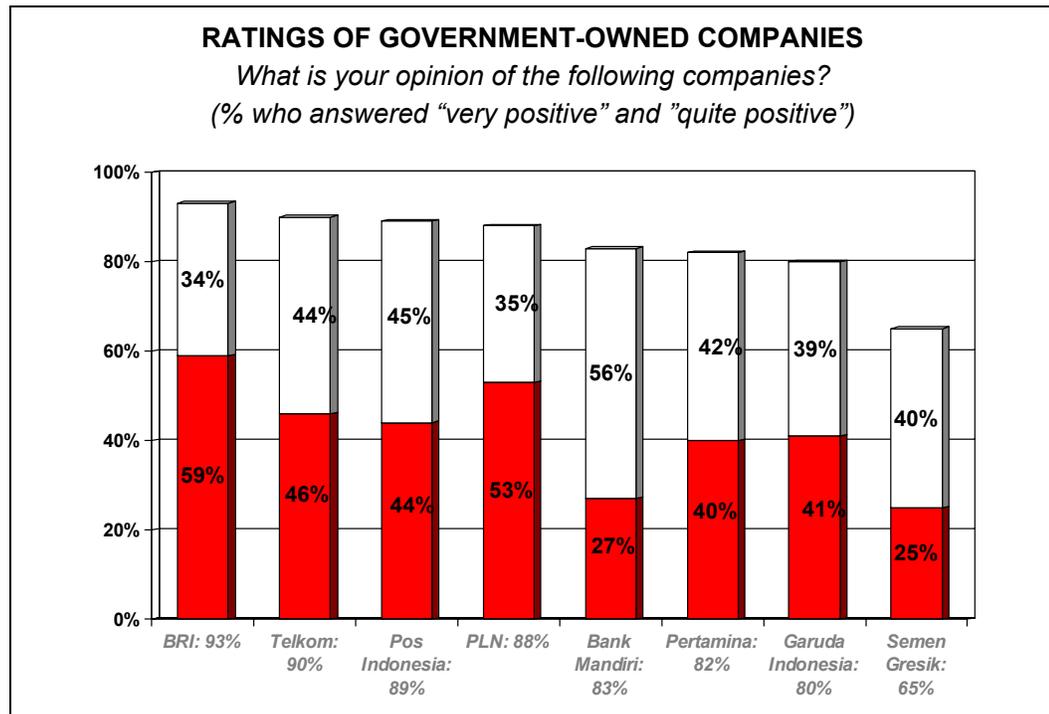


As with foreign companies, Indonesian firms that provide consumer products are much better known than firms not in the consumer field. Of the firms tested, processed food maker Indofood (93% aware, 86% positive, 4% negative), *kretek* (clove cigarette) producer Gudang Garam (96% aware, 79% positive, 11% negative), soap and detergent maker Wings (87% aware, 76% positive, 4% negative), and kitchenware and electronics producer Maspion (90% aware, 75% positive, 4% negative) were all well known and all

considered to be quality companies. Women had a slightly higher opinion than men of Wings and Maspion, particularly younger women, while Gudang Garam was a favorite of men, particularly men with primary schooling and working men. Indofood was popular across the board, while the three other firms were best known and most popular in the largest cities.

About three people in ten knew diversified Bakrie Brothers, with 17% having a positive view of the company and 12% a negative view. The relatively high proportion of negative opinion is likely a result of the controversies involving the company (perhaps related to its prominence in the pre-democracy New Order era and suspicions of conflict of interest regarding government contracting under President Yudhoyono's administration, where Bakrie family scion and former company chairman, Aburizal Bakrie served first as Economic Coordinating Minister and currently as Welfare Coordinating Minister.) Those most supportive of the firm include Indonesians with secondary education (24% favorable), the A/B/C1 income groups (25% favorable), big city residents (39% favorable), and urban men under 35 (34% favorable). The most critical were rural men under 35 (27% unfavorable), blue collar workers (22% unfavorable), and men with primary school education or more (17% unfavorable).

Medco Energy, Indonesia's largest listed energy producer was virtually unknown, as nine Indonesians in ten could not rate the company. Only 17% of Indonesians were aware of the firm. Of these, 6% had a positive impression and 3% a negative one. Most of those who knew of it were secondary educated, residents of cities over 1-million in population or urban men under 35. It is important to note that as this survey was being conducted, an environmentally disastrous mud volcano erupted in East Java, adjacent to Surabaya, Indonesia's second largest city. This disaster, which has displaced over 10,000 people and covers over two square kilometers (and is still spreading) originated from oil and gas exploration activities conducted by a Bakrie company, Energi Mega Persada, with Medco Energy and Santos of Australia holding substantial minority stakes.



Indonesian state firms examined in the poll are all very well known and well regarded, which may reflect Indonesia’s legacy of economic nationalism and tradition of state ownership. Bank Rakyat Indonesia (99% aware, 93% positive, 59% very positive), telecommunications provider Telkom (100% aware, 90% positive, 46% strongly positive), mail deliverer Pos Indonesia (99% aware, 89% positive, 44% strongly positive), and electric utility PLN (100% aware, 88% positive, 53% strongly positive) were all viewed favorably by around nine Indonesians in ten. Bank Mandiri (94% aware, 82% positive) and the national airline Garuda (93% aware, 80% positive, 2% negative) were also well regarded. The national oil and gas company Pertamina (100% aware, 82% positive) was the only one where negative views reached 15%. (Unfavorable views of Pertamina were concentrated among those who did not like state enterprises in general, of whom 24% expressed a negative perception of the firm.)

The only exception among the state firms was cement company Semen Gresik, which was not as well known. Nonetheless, 92% of participants were aware of the firm and 65% were favorably disposed to it. Only 7% reported unfavorable attitudes.

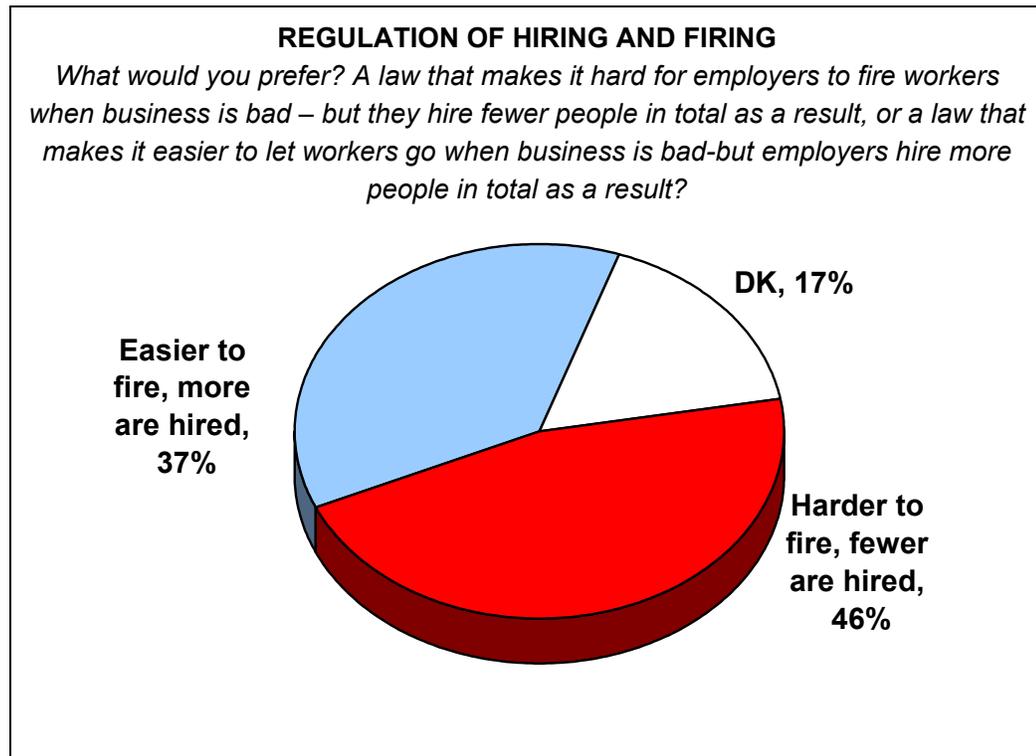
Part V: Business, Government, and Trade

Executive Summary

- Indonesians tend to want to protect the jobs they have and opt for fewer jobs with more security over a more liberal labor market with more jobs.
- There is support for a state unemployment insurance system in preference to unemployment compensation paid by former employers.
- Indonesians favor retaining public ownership of state-owned enterprises, even if they are losing money or if selling off parts will produce more efficient, productive firms.
- They also lean towards public ownership of resources and firms when asked about article 33 of the 1945 Constitution.
- There is strong public support for opening up the country's economy to foreign investment and world markets. However, supporters of tariff reductions only narrowly outnumber opponents, with a large proportion undecided.
- There is strong support for a regional Free Trades Area sponsored by ASEAN.
- ASEAN is very well known and well regarded, and the World Bank and IMF are moderately well known and have a generally positive image. But, other major development organizations – including USAID, the ADB, JBIC, and IDB – are little known outside the educated elite, though they are well liked by those aware of them.

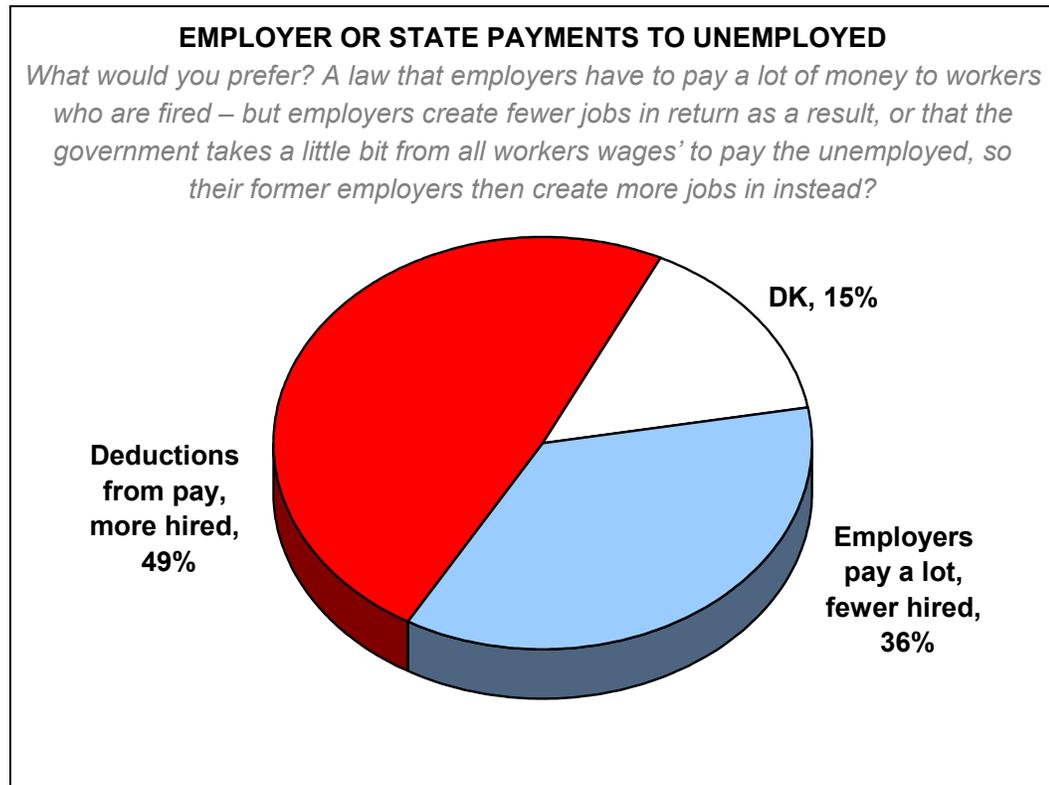
This section examines attitudes to economic liberalization in areas such as employment, state-owned enterprises, and foreign trade, along with regional integration. It also explores attitudes toward boycotting American and Danish products as well as opinions of major development organizations.

In economic conditions they consider poor, and with jobs uncertain, Indonesians appear cautious about liberalizing employment regulation, although they favor unemployment insurance. In a country – and region – with a history of state-led economics, there is also strong support for state-owned enterprises. However, their support for state intervention and economic nationalism goes along with strong support for participation in international markets, foreign investment, and regional integration. ASEAN is well known and favorably regarded and the World Bank and IMF also have a net favorable image. The other major development actors are largely unknown to the vast majority of the population, though well regarded by educated and well-to-do Indonesians.



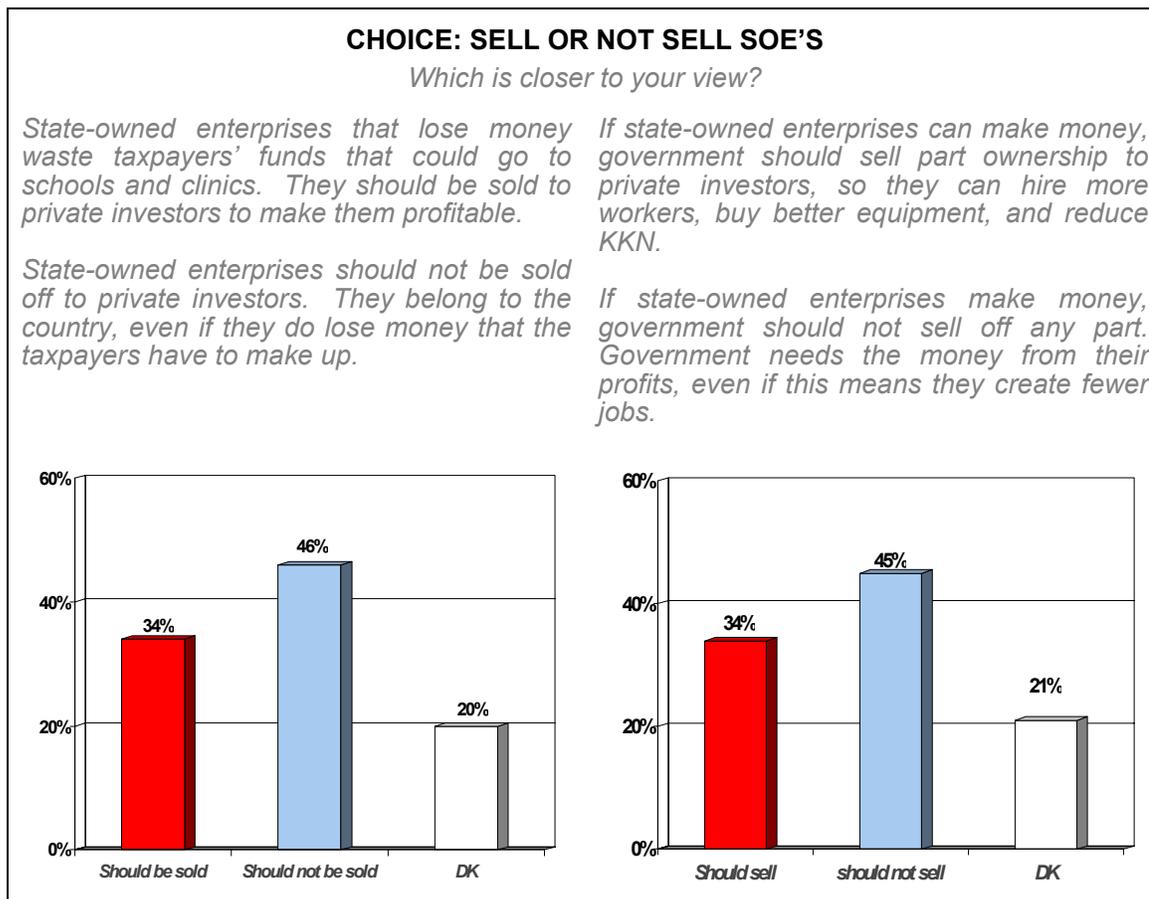
Indonesians tend to be cautious about job security and to favor protecting jobs at the expense of labor market flexibility. When given a choice between making it harder to fire people but hiring fewer and hiring more but making dismissal easier, 46% of Indonesians chose job security, while 37% preferred a policy that stressed job creation.

The consistency of support for job protection across social and political groupings is striking, with the margin generally varying only from 5 to 3 to 5 to 4. This is true even among Indonesians who are generally liberal on questions of trade and privatization. The most notable exceptions were among the relatively privileged “A” income group, which favored job creation over job security by a margin of 53% to 38%, and Sulawesi, which supported labor liberalization by 50% to 43%. For most other groups of Indonesians, however, the fear of unemployment is the major worry.



The public supports creating a state unemployment insurance system funded by payroll deductions. Indonesians prefer taking deductions from wages to pay the unemployed and create more jobs to paying higher unemployment benefits but providing fewer jobs, by 49% to 36%.

The better-off and more secure groups in Indonesian society were the most supportive of unemployment insurance deductions. These included urban men (59%), secondary-educated men (55%), and the A/B income groups (57%). The worse-off and less-secure tended to prefer larger employer payments and no deductions. This was true among the unemployed themselves (46% to 41% for unemployment insurance), women without primary education (46% vs. 40%), the E income group (38% to 37%), urban women under 35, 55% to 38%, and residents of the big cities, 57% to 43%. Surprisingly, the more economically liberal Indonesians are also more supportive of employer payments for joblessness rather than unemployment insurance. Indonesians' focus on economic security seems to trump economic liberalization when it comes to the job market.

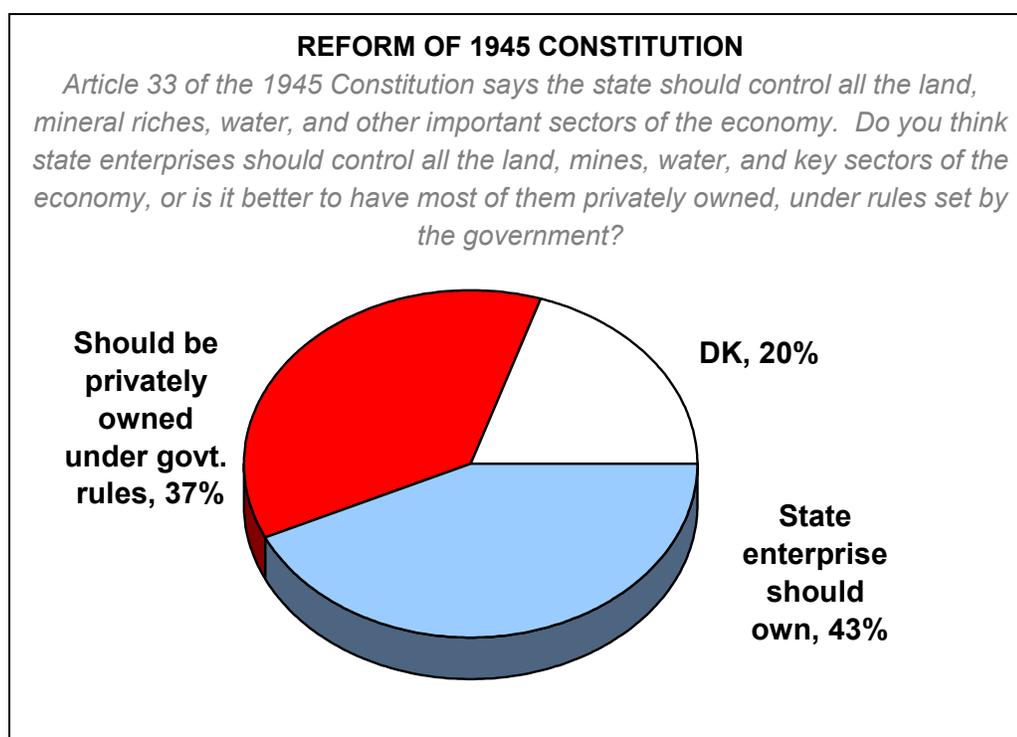


Indonesians tend to favor government control of state-owned enterprises, whether they are losing money or making profits. Survey participants were presented statements representing differing positions and were asked to choose which was closer to their opinion. One choice was between selling money-losing state firms because they drained the Treasury and keeping them because they belong to the country. The other was between selling off stakes in profitable publicly owned companies to increase employment and investment and limit corruption, and keeping them so that their profits could flow into the state budget.

Almost half (46%) of the respondents indicated money-losing state-owned enterprises should not be sold off, while one-third favored divestment (34%). Similarly, 45% opposed selling off parts of the profitable state businesses, compared to 34% who favored this option.

What is really striking on this question is the broad uniformity across groups on this point in support of state-owned enterprises. There is not much variance on the issue among demographic groups – even the A income group supports state ownership, if by a

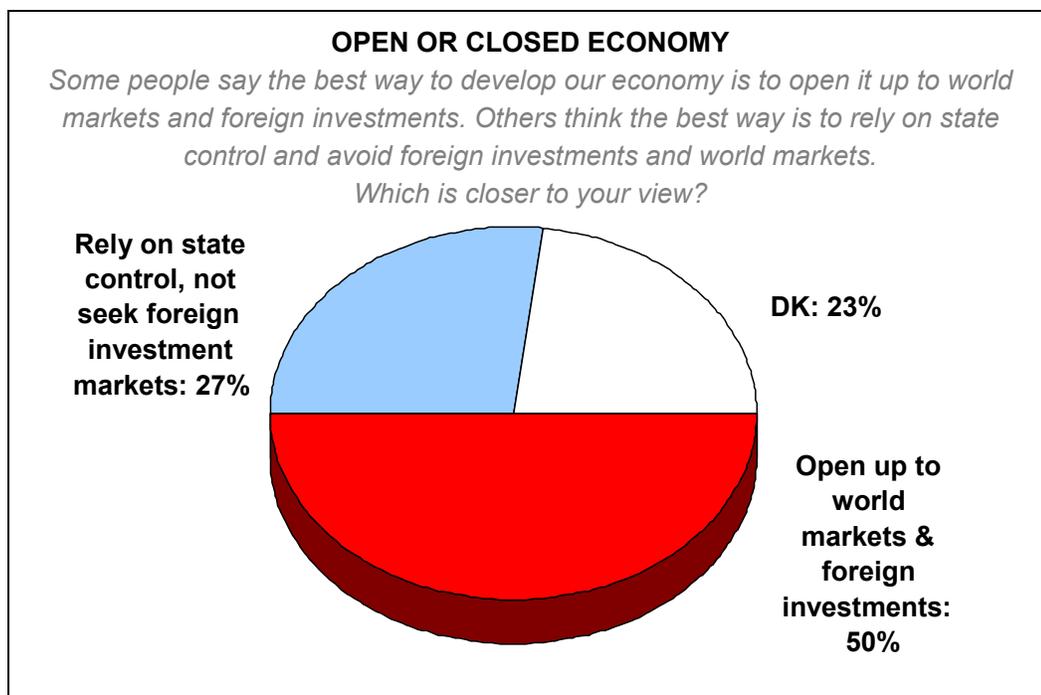
smaller margin than the general public. Support for state ownership increases with secondary and tertiary education and is particularly strong in the big cities and among urban women –relatively privileged groups that are more liberal on other economic issues. Indeed, support for privatization does not connect to support for liberalization either of the labor market or of foreign trade. The only attitudes strongly connected to support for privatization are unfavorable views of state-owned enterprises, support for private ownership of resources, and to a lesser degree, support for the U.S.-led War on Terror. The demographic groups most favorable to privatization are in the countryside, particularly farmers, Indonesians over 50, and residents of Sumatra and Sulawesi.



Indonesians also lean towards state ownership when the public evaluates Article 33 of the 1945 constitution, which mandates state control of the land, mineral riches, water, and other important sectors of the economy. As above, there was a tilt in favor of state control, with 43% of participants responding that the state should control these resources and 37% favoring private ownership under government regulation.

The strongest supporters of state ownership include big city residents (62%), older post-primary educated people (49%) and the A income group (46%). It may seem surprising that these relatively privileged groups have apparently socialist leanings, but this may reflect coming of age and studying in an earlier era of state-led growth as well as the role of the state as a large employer until today. In attitudinal terms, state ownership was

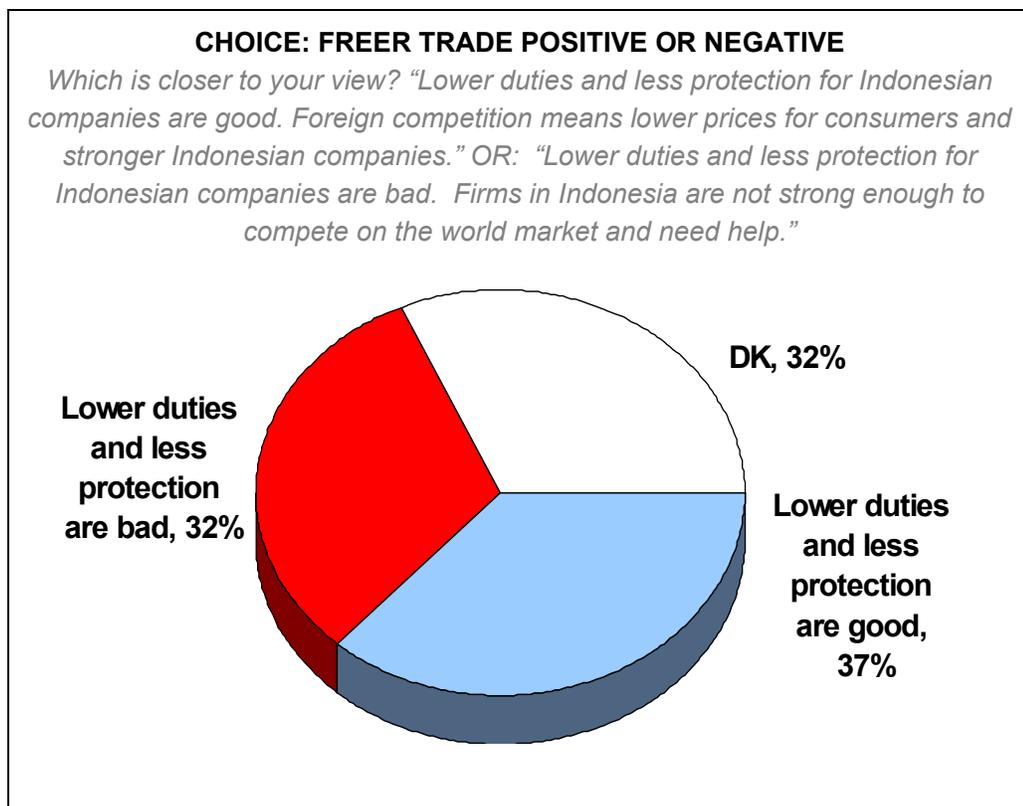
most strongly favored by those who oppose trade liberalization (57%), are against the U.S. War on Terror (55%), and favoring a boycott of U.S. goods (53%). Support for private ownership was a mirror image of these groups: it was highest among young urbanites, both male (48%) and female (45%), as well as younger rural men (41%) and the younger post-primary educated (41%) and the unemployed (42%). Support for private ownership was also greater on Sulawesi and Sumatra. In ideological terms, it was prevalent among those who favor the War on Terror and opposed a U.S. trade boycott. Thus the pattern of support on this issue opposes older privileged groups who support the status quo to a younger generation, Java to the other islands, and opposing views on liberalization and relations with America.



Support is strong for opening the Indonesian economy to world markets and foreign investment, despite some protectionist sentiment among the public. By a margin of almost 2 to 1 (50% to 27%), Indonesians prefer opening the economy to world markets and foreign investment to state control and rejection of foreign investment and trade. The preference of opening the economy to world markets and foreign investment is something of a contradiction to the favorable attitudes towards state-owned enterprises noted above, but attitudes are not always consistent.

The breadth of the consensus among Indonesians favoring an outward orientation of the economy is impressive. It runs across virtually all the demographic and ideological categories into which the poll divided the Indonesian public. Support is particularly

strong among the better-off and more self-confident groups: urban men under 35 and men with secondary education (both 59%), the A, B, and C1 income groups, and Christians (66%). The unemployed (62%) also place high hopes in overseas investment and trade, as do residents of the generally pro-trade Sulawesi (83%). In terms of attitudes, support is especially strong among the more economically liberal: those who are pro-business or pro-foreign investment (both 62%), and those who favor ASEAN free trade (64%) or lower duties (68%), as well as those who prefer state ownership of key assets (60%). It also received strong support among those opposed to a U.S. trade boycott (65%) or favorable to the War on Terror (58%). Indeed, only a single group in the poll results opposed it, namely the small minority who also opposed an ASEAN Free Trade Area, who unsurprisingly were against opening up by a margin of 63% to 22%. Taken together, these results suggest a pro-trade orientation, but one inflected by the state-driven model that historically characterized the East Asian tigers (including Indonesia before the 1997 crisis).



Despite its support for an open economy and foreign investment, Indonesia's population is only narrowly in favor of freer trade, due to anxiety over foreign competition. Some 37% agreed that lower duties and less protection are good because they mean lower consumer prices and stronger companies, but 32% think lower tariffs are bad because

Indonesian firms could not compete on the world market, and 31% had no opinion on the subject.

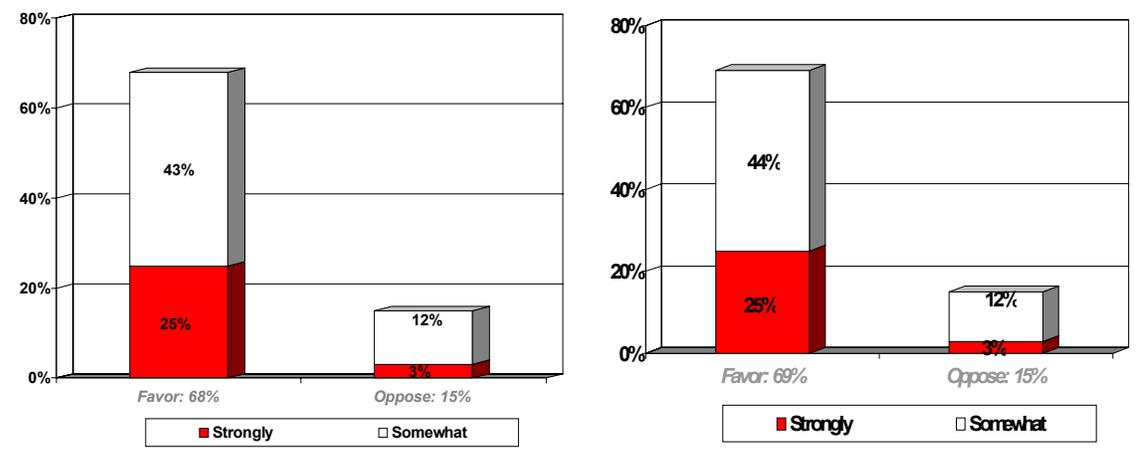
Those most favorable to free trade, in demographic terms, were relatively better-off: the A/B income groups (54% and 44% in favor respectively) and urban residents under 35 (45%), along with residents of Sumatra (48%). Ideologically, they tended to be pro-business (43% in favor), hostile to state-owned enterprises (44% in favor), prefer private resource ownership (44%), and favor a free trade area (45%). In general, however, even in these groups, the margins in favor of free trade are fairly thin; in only one is support over 50%.

Indeed, what is striking on this issue is not the opposition to free trade but the extent of uncertainty. The uncertainty is greater among the less educated (less than primary school, 45% had no opinion, as did 44% of women with primary education and of rural women) and the poor (49% of the E income group). However, it is fairly widespread (20-30%) in many large categories, including Java residents and Yudhoyono re-election supporters. While Indonesians are drawn to aspects of trade liberalization, such as economic openness and regional integration, the advantages of free trade and low tariffs have yet to be explained to many of them. Their concern over the economy and the trend toward protecting jobs tend to balance out the perceived advantages of competition in a conservative society that is averse to change.

ATTITUDE TOWARD ASEAN FREE TRADE AREA

The Association of Southeast Asian Nations will establish a free trade area for the countries of Southeast Asia, including Indonesia, in 2007. Do you strongly favor, somewhat favor, somewhat oppose, or strongly oppose this idea?

Under the ASEAN Free Trade Area, all the other Southeast Asian nations will open their markets to Indonesian companies who want to sell their products, and in return Indonesia will open its markets to their companies who want to sell here. Do you strongly favor, somewhat favor, somewhat oppose, or strongly oppose this plan?



Indonesians are very favorable to regional free trade under the auspices of ASEAN, the Association of Southeast Asian Nations. When asked whether they favored Indonesia becoming a part of such a trade area, more than two-thirds of Indonesians support the idea. This was true both in principle (68% in favor) and after an explanation that the plan will open markets for Indonesian companies in return for the opening of the domestic market to ASEAN firms (69% in favor). Only 15% were opposed – fewer than the 25% who said they were strongly in favor.

Support for a free trade zone increases with education, from 59% among the lowest educated group to 75% among the highest. Support is particularly high among big city residents (43% favorable in principle, 39% after explanation) and on Sulawesi (64% and 59%), as well as among the A income group (41% and 31%) and the unemployed (34% both times). Strong support is also greatest among those who are pro-business, pro-foreign investment, and pro-lower tariffs. Opposition to a free trade area in principle is slightly greater among older urban women (21%), Sumatra residents (24%), and those who oppose the U.S. War on Terror or lower tariffs (both 21%). However, the notable aspect of these results is that there is a large majority supporting the Free Trade Area in every single group analyzed in the poll – even among those opposed to lower tariffs.

There is a broad consensus among Indonesians that regional economic integration is positive.



Indonesian support for regional integration makes particular sense when the public's views of ASEAN are taken into account. Attitudes toward ASEAN are exceptionally favorable, much more so than for any of the development organizations tested in the poll. Organizations such as the IMF and World Bank, though less well known, also enjoy a positive image. Lower-profile agencies such as the U.S. Agency for International Development (USAID), the Asian Development Bank (ADB), the Islamic Development Bank (IDB), and the Japan Bank for International Cooperation (JBIC) are largely unknown to the general population. Knowledge of all these organizations increases with education and income, and except for ASEAN, only highly educated and affluent Indonesians are aware of them in significant numbers. These figures illustrate the gulf between the educated elite of Indonesia and average citizens. Despite all the discussion and controversy concerning many of these organizations, little has penetrated the worlds of average Indonesians.

ASEAN is the best known of the organizations, by far, and is very well regarded (74% positive, 1% negative). The highest ratings for ASEAN are among the groups with the most awareness (high school education or more, 90%; residents of the biggest cities, 90%; and among residents of Sumatra, 90%). There is virtually no negative opinion of ASEAN.

The World Bank is known to about two-fifths of the population and is looked upon very favorably (36% positive, 6% negative). Its highest ratings are among those most familiar with it (high school graduates, 54% positive; white collar workers, 50%; residents of the largest cities, 51%; Christians, 52%; and Sumatra residents, 49%). Slightly fewer than half the people are aware of the IMF, but it, too, is highly regarded by those knowledgeable about it (32% positive, 13% negative). Those most favorably disposed toward the organization include high school graduates (44% positive), big city residents (45%), and Sulawesi residents (44%). In the case of the IMF, however, there were some groups where over 20% were hostile: secondary educated men (21% negative), the highest income group (33%), big city residents (23%), those opposed to lower duties (22%), and to the U.S. War on Terror (28%). The strictures imposed by the IMF during the crisis of 1997 and after do seem to have left some traces in the Indonesian collective memory. However, there is only one group where the proportion hostile to the IMF (26%) almost equals those favorable to it (29%) – anti-American Indonesians.

USAID was also viewed favorably by those few who know it (8% positive, 2% negative), although these tend to be confined to the upper crust. Awareness of USAID was over 25% only among the A income group, white collar workers, secondary educated men, people on Sumatra, and big city residents. (Awareness may be high among the last of these groups because of a pilot advertising program USAID conducted about its work in five major cities in December 2005-January 2006.) Support for USAID was strong in all these groups and there were no demographic groups with strong opposition to the agency. Even most anti-American Indonesians who were aware of USAID had a positive view of it. Favorable attitudes to the U.S. are significantly higher among those who have heard of USAID (30%) than those who have not (20%).

The other development organizations are largely unknown to most Indonesians: the IDB is unknown to 88%, the JBIC to 87%, and the ADB to 82%. However, among those who are aware of them, the impression is overwhelmingly favorable. ADB (17% positive, 1% negative) is the highest rated. IDB (11% positive, no negative) and JBIC (11% positive, 2% negative) were also rated well by those few who are aware of them. Survey participants aware of these organizations, as with the other development institutions, tend to be educated, white collar, and urban – the informed public.

Part VI: Social Issues

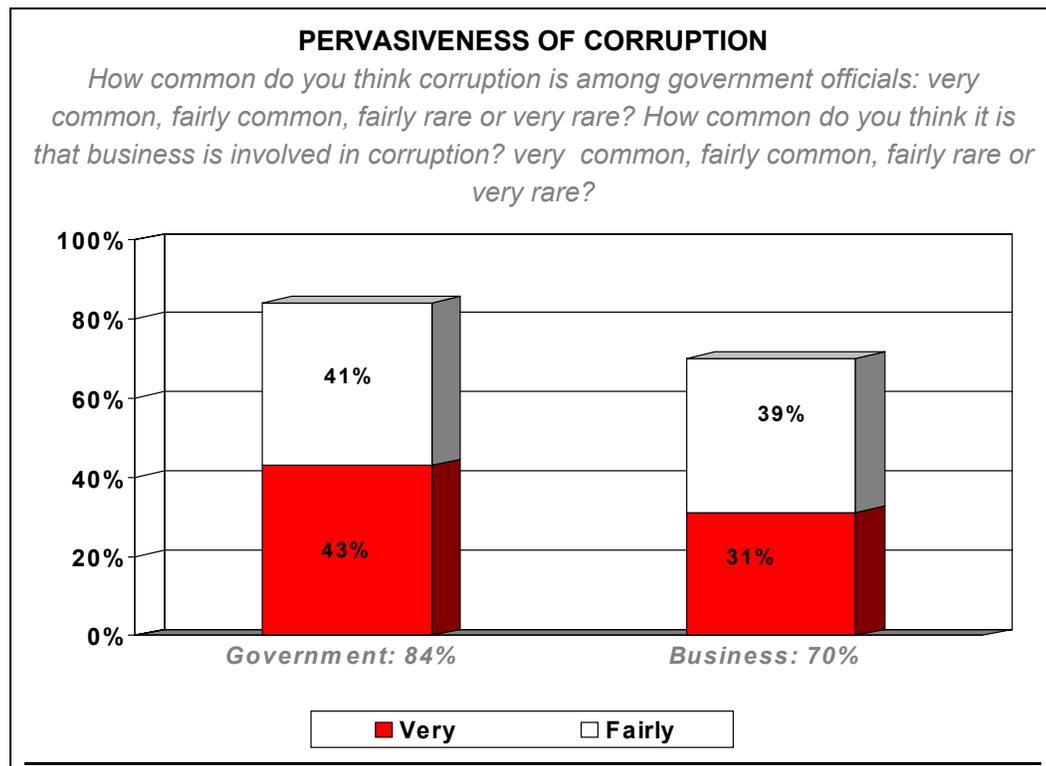
Executive Summary

- Most Indonesians see corruption as a widespread problem, though business is seen as less corrupt than government.
- Many Indonesians know someone who has bribed a government official or police officer.
- The public think corruption increased after local government was given more autonomy in 2000 and 2001, but many say it has declined since Yudhoyono became president.
- High crime rates remain a reality in Indonesia and fear of crime is greatest among the most frequently victimized groups.
- Most Indonesians associate *shariah* with Islamic law and approve of local governments passing by-laws based on its principles.
- The public is concerned that some *pesantren* might teach fundamentalist Islam and an overwhelming majority supports government oversight and requiring the boarding schools to teach secular subjects along with religion.
- Although terrorism is a serious concern for most Indonesians, a significant minority does not reject violence.
- More Indonesians favor the U.S. led anti-terrorism effort than oppose it, but public attitudes towards America are generally negative.
- Substantial proportions of Indonesians voice support for a boycott of American and Danish companies' products.

This section details Indonesians' views regarding corruption, crime, *sharia*, and terrorism. It also explores attitudes to Indonesian-American relations along several dimensions, including views of the U.S., the American-led War on Terror, and trade relations.

In the wake of the profound economic crisis and political transformation it has experienced since 1997, Indonesian society is passing through a turbulent period, confronting difficult social, religious, and law enforcement issues. The public sees corruption as a pervasive problem, which has worsened at the regional level since the local governments were given more autonomy, but credits President Yudhoyono with making progress against it. The results also indicate that high levels of crime persist, although insecurity is principally a feature of urban areas. There is substantial anxiety

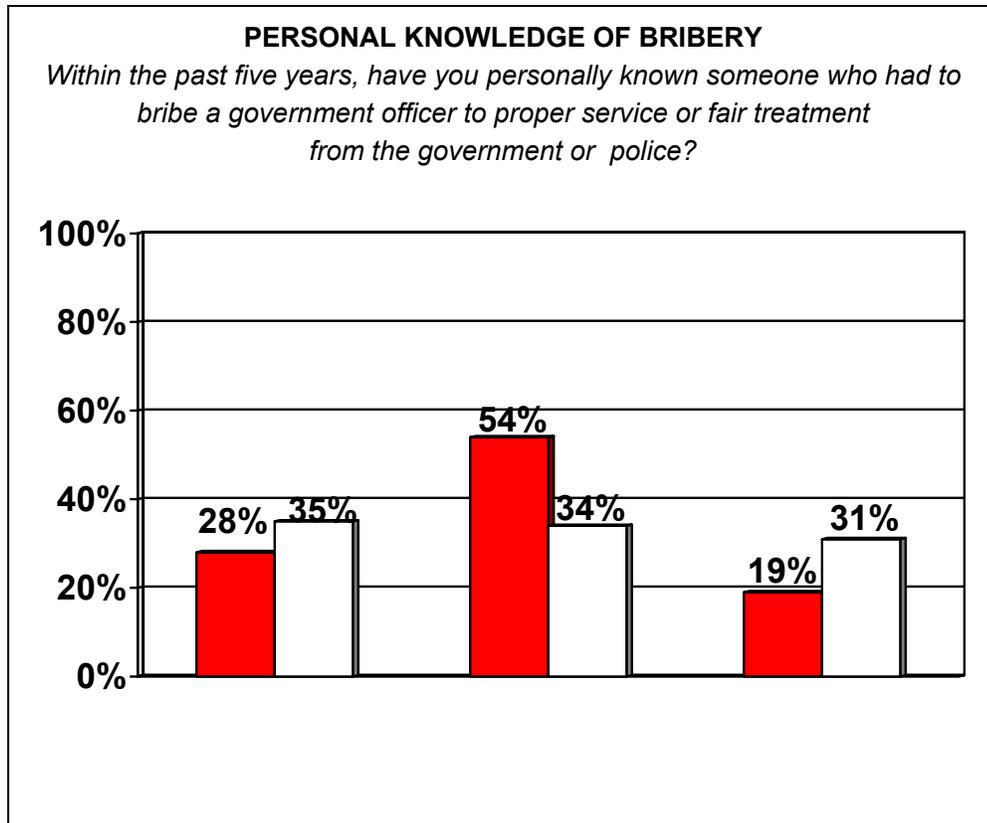
about extremist influences in *pesantren* and strong support for requiring them to teach secular subjects and the government licensing of the religious schools. Terrorism causes even greater worry, and is widely, though not universally, condemned. Indonesians were fairly supportive of the U.S.-led War on Terror, although they were generally unfavorable to America at the time of the poll. Indeed, there is a surprising level of support for boycotts of goods from both the U.S. and Denmark -- though slightly more for shunning U.S. products.



Indonesians say corruption is very widespread, although they see business as somewhat less corrupt than government. More than eight in ten (84%) indicate that corruption is very or fairly common in government, while seven in ten (71%) say the same about business. Corruption is seen as very common in government by 43% of the public and in business by 31%.

High level (better-paid, better-educated and, presumably, better-informed) Indonesians are the most likely to perceive corruption. These include members of the A/B income group (53% say corruption is very common in government, 46% in business), city dwellers (57% government, 37% business), and particularly young urban women (60% government, 42% business). Women who did not finish primary school also saw corruption as very frequent (61% in government, 43% in business). Perceptions that

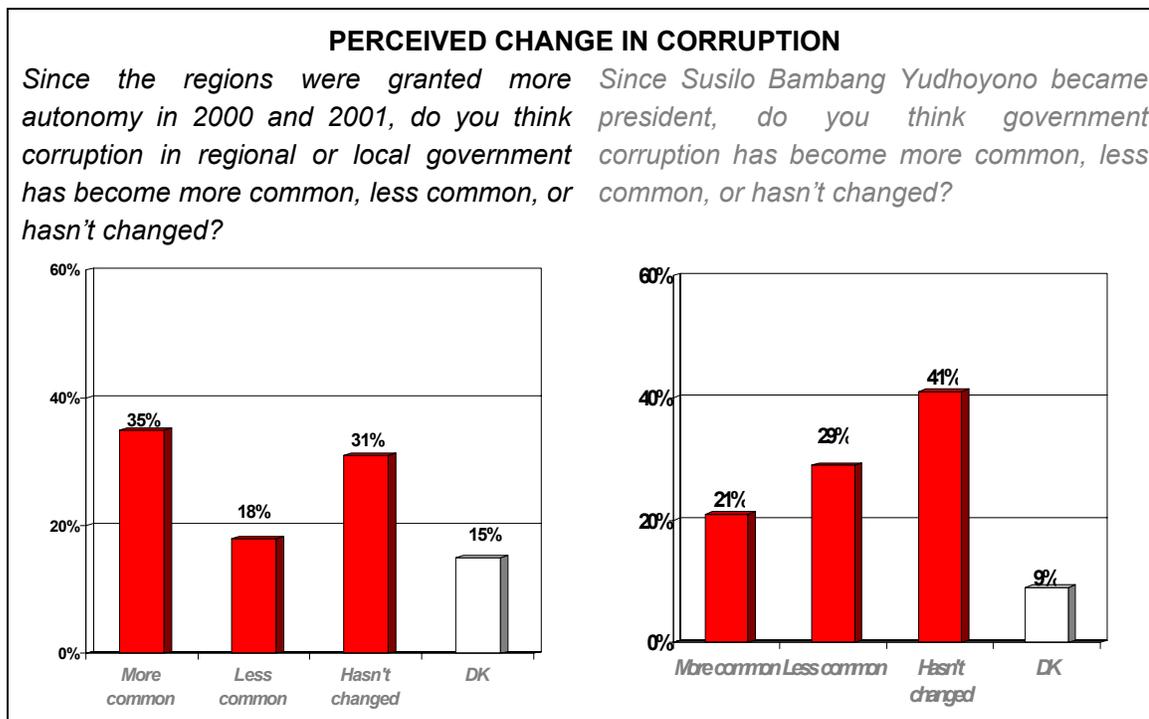
corruption in government is very common are also above-average among economic liberals (51%) and blue collar workers (49%), though these groups do not see it as more frequent in business than does the general public. In geographic terms, Sumatra was the region with the most frequent perception of corruption in government (49%) and business (45%).



Slightly more than one-quarter of Indonesians (28%) said that they were aware of someone who paid a bribe to a government official or policeman in the year prior to the poll. In addition, nearly one-fifth (19%) said they did not know whether they knew a bribe-payer, which may reflect reluctance to indicate awareness of bribes. Just over half (54%) definitively said they had no knowledge of bribes being paid

In general, the higher level and more urbanized groups were the most likely to report instances of bribery in the poll, including Christians (51%), city dwellers (47%), the A income group (41%), and high-school educated men and blue- and white-collar workers (all 33%). There was also some awareness of bribery at the lowest levels – 34% of the E income group reported it. (Curiously, though residents of Sumatra were the likeliest to say their government was corrupt, those in Sulawesi were by far the most frequent to

report bribes, 56% saying they knew of them.) There also is some consistency in political views among those more likely to be aware of bribes: they tend to think the country is headed in the wrong direction (33% of that group reported bribes) and to be more private business oriented. The latter include people unfavorable to state owned enterprises (42% reporting bribes), those who prefer private ownership (36%), supporters of free trade (37%), and economic liberals (44%).



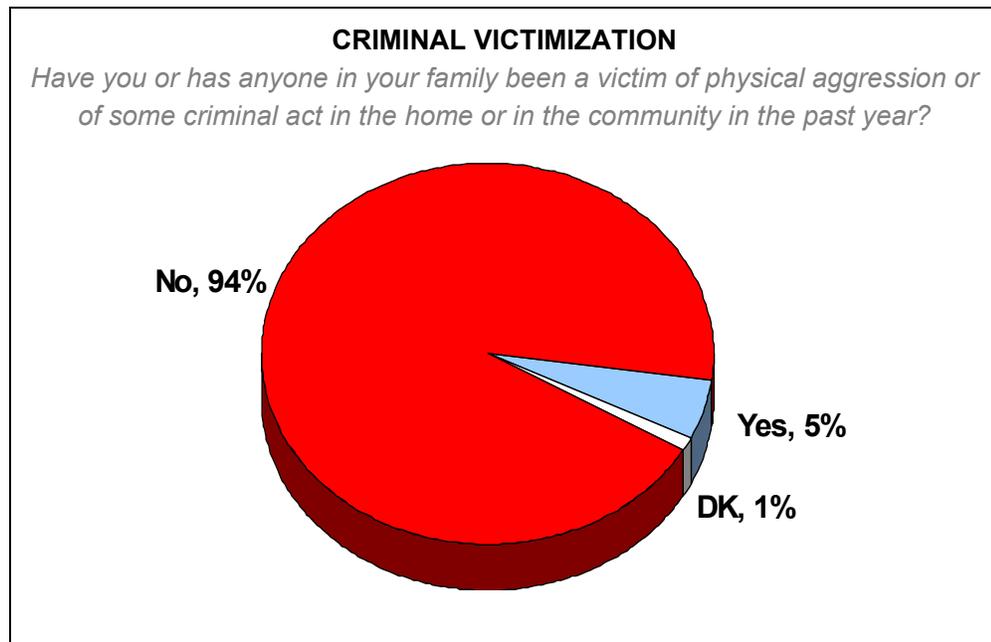
Indonesians feel that corruption in regional government has increased since local governments received more autonomy in 2000 and 2001, but also believe that President Yudhoyono's anti-corruption drive has had an impact since he took office in October 2004. One-third of the people think corruption has increased with more regional autonomy (35%), while 18% think it has decreased. Since Yudhoyono took power, almost three in ten (29%) say corruption has become less common, while just over two in ten (21%) think it has become more so.

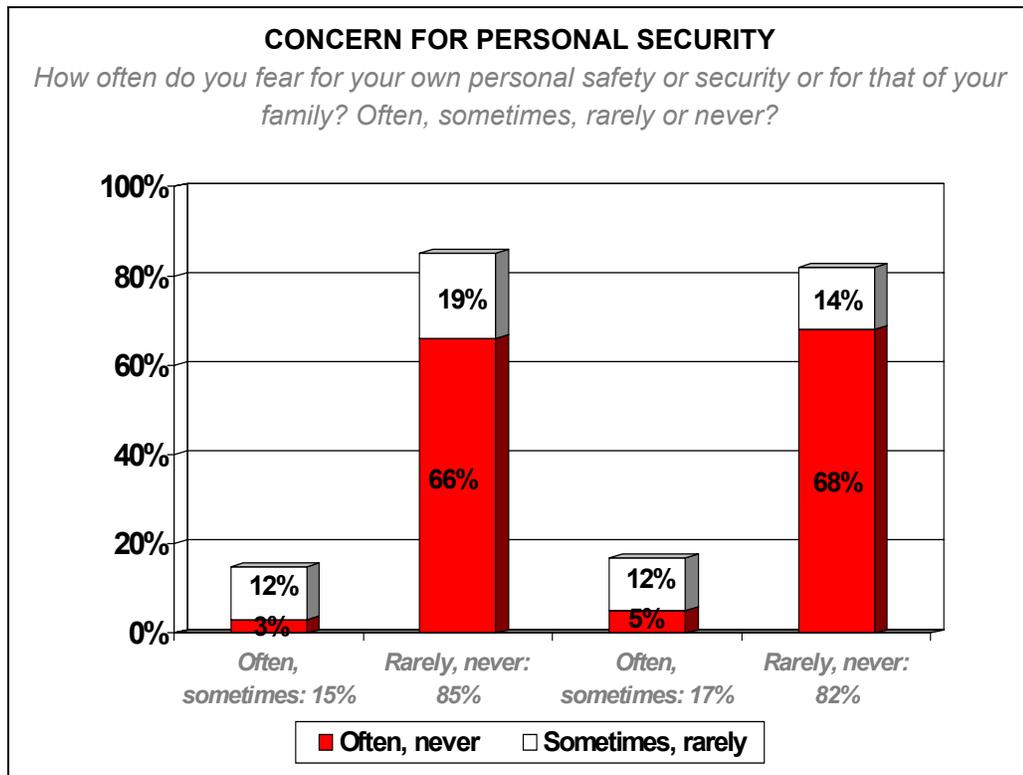
Those who think corruption has worsened both in the regions and under Yudhoyono tended to be from the highest level of the socio-economic spectrum. This is the case of the A income group (52% say corruption is worse in the regions, 41% worse under Yudhoyono), urbanites (47% worse in the regions), and Christians (51% worse in the regions, 31% under Yudhoyono). Women with less than primary education also saw corruption generally increasing: 49% said it was worse in the regions, 33% said it had

grown under the new President. Other groups who saw corruption as worse in the regions were secondary-educated women (41%) and the residents of Sumatra (56%), who had complained of government corruption the most frequently.

Many high and low level Indonesians perceived a reduction in corruption under Yudhoyono. Among Indonesians with secondary education, 35% said it had shrunk, as did 36% of the B income group. Just over one-third (34%) of rural residents said corruption had been reduced under Yudhoyono's administration. The strongest common thread in the poll results on changes in corruption reflected attitudes to the President himself: 36% of those satisfied with Yudhoyono's job performance also felt corruption had been reduced on his watch.

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Some 5% of the respondents said that they or another family member had been the victim of physical aggression or some criminal act in the past year. This is the same level of criminal victimization recorded in the 2003 Charney Research Indonesia poll and is generally considered to be well above the levels prior to the economic crisis of 1997-98. It is almost twice the rate of the victimization found in similar surveys in the United States (3%), which has one of the highest crime rates among developed countries.

The biggest cities are the most dangerous areas (12% of residents reported criminal victimization), while Sumatra is the most dangerous region (9%). In contrast, only 2% of the residents of cities under 1-million and 4% of rural dwellers say they or their families have been victimized. The groups who were the most frequent crime victims included the highest (A) income group (14%) – the most attractive targets; women who did not finish primary school (12%) and older urban women (8%) – high-vulnerability groups; Christians (9%), an affluent and visible minority; and young urban men (9%) – probably the most aggressive citizens.

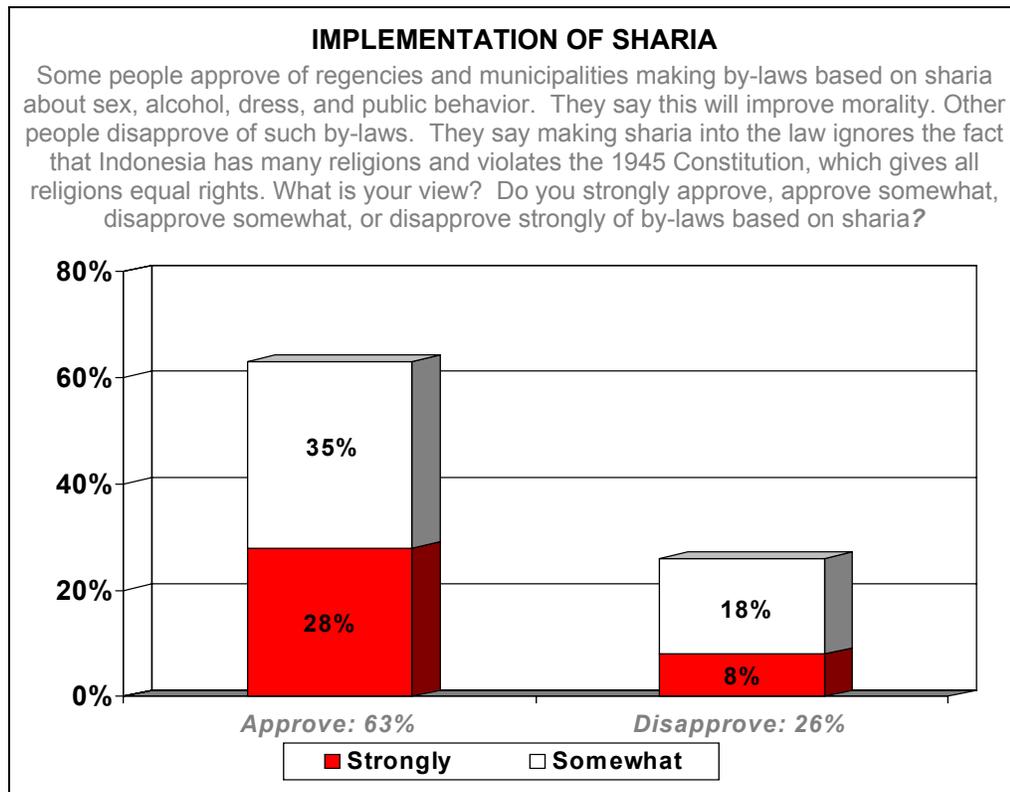
Some 15% of Indonesians worry sometimes or often for their personal safety, though only 3% do so often. Two thirds are never afraid for their personal safety (66%), while another 19% are rarely concerned. These proportions are little changed from the 2003 Charney Research poll results.

The patterns of fear of crime largely follow the reported incidence of crime. The highest-income Indonesians worry the most about it (A income, 33% often or sometimes concerned), followed by Christians (26% concerned). Urban residents, particularly those under 35 -- both men (20%) and women (20%)—also are likelier to fear for their safety, as are Sumatrans (23%).

DESCRIPTION OF SHARIA

When you hear the term "sharia," what does it mean to you ?

- | | |
|--------------------------------|-----|
| • Islamic legal system | 54% |
| • Pillars of Islam | 19% |
| • Basic moral principles | 12% |
| • Something good for Indonesia | 2% |
| • Something good for women | 1% |
| • Other | 2% |

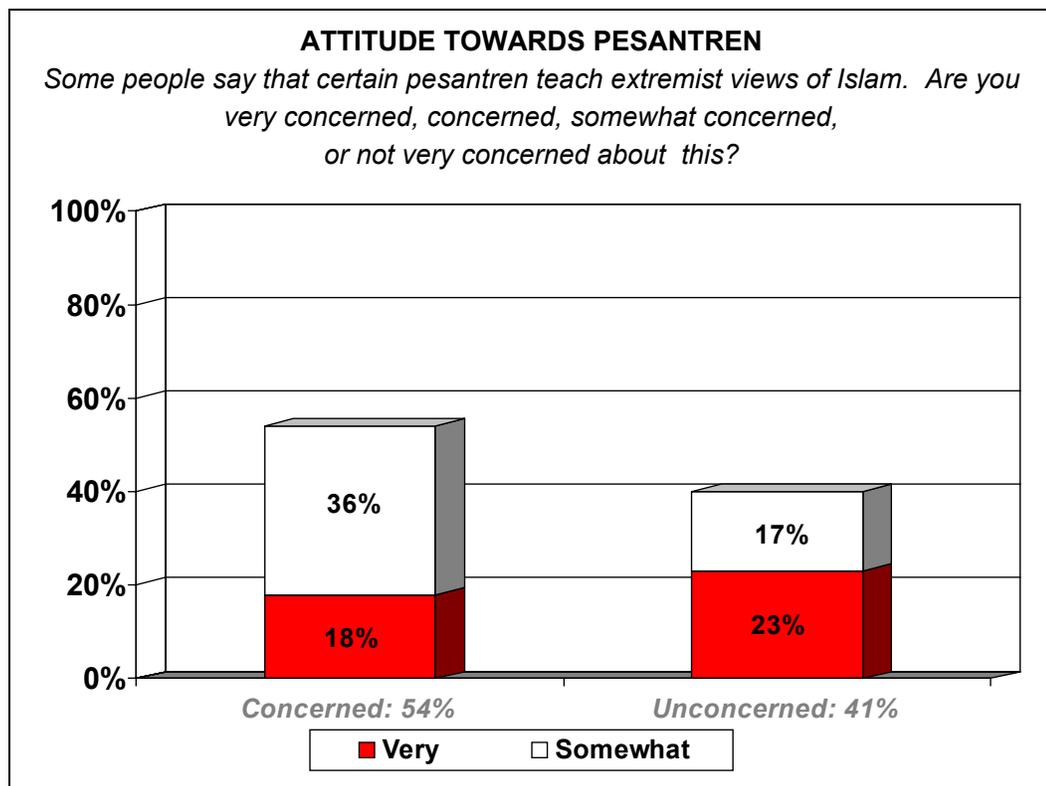


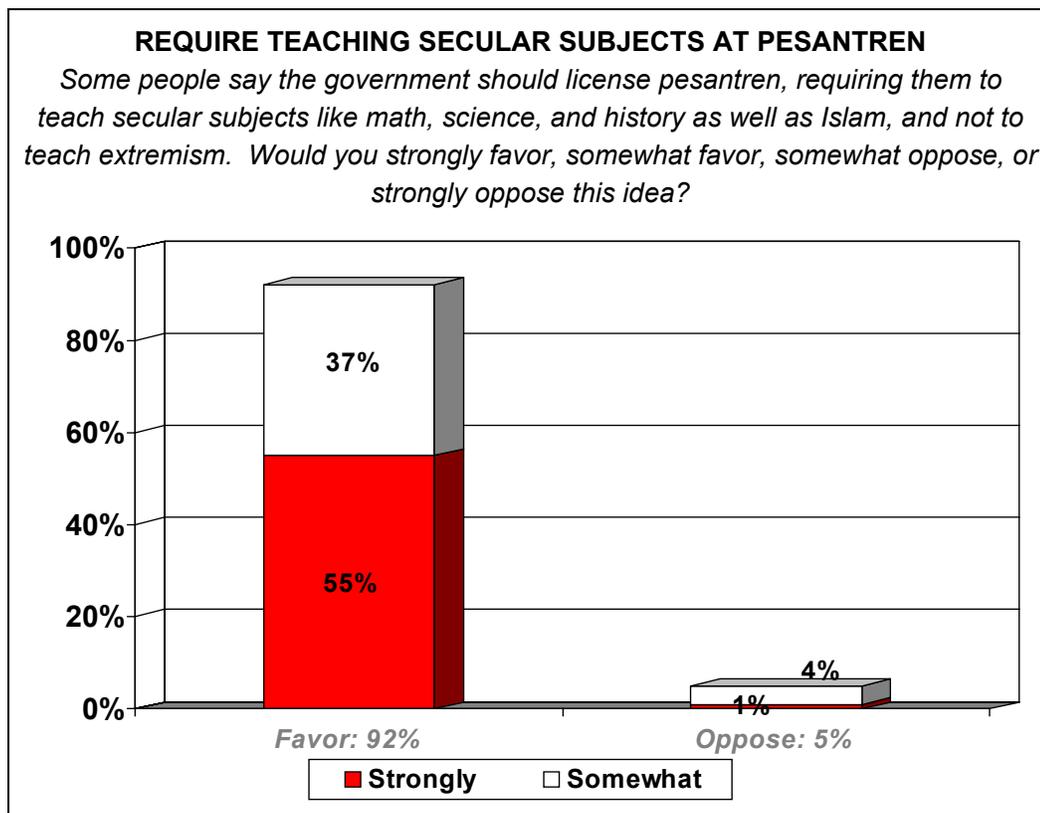
The majority of Indonesians associate *sharia* with the Islamic legal system (54%). Another fifth (19%) consider *sharia* to be aspects of the Pillars of Islam, such as *shahadah* (the confession of faith), *salat* (prayer), *zakat* (alms), *siyam* (fasting), and the *hajj*, while 12% regard it as referring to basic moral principles (honesty, morality, gender roles, etc). This pattern prevailed in all demographic groups.

The survey found considerable support for local by-laws based on *sharia*, which have been passed to regulate dress, personal behavior, and commercial activity. The respondents were presented with two alternative arguments concerning regencies and municipalities implementing *sharia*. One statement posited that by-laws governing sex, alcohol consumption, dress, and public behavior based on *sharia* would improve morality. The other argued that Indonesia has many religions, so implementing by-laws based on *sharia* would violate the guarantee of equal rights for all religions enshrined in the 1945 Constitution. After hearing these arguments, more than three Indonesians in five (63%) approved of regencies and municipalities implementing by-laws based on *sharia*. Only one-quarter were opposed (26%), a smaller proportion than those who supported the proposal strongly.

Three groups of Indonesians are particularly supportive of *sharia*-based by-laws. One is those worried about crime: 76% of those who feared for their safety favored such by-laws, as did city dwellers under 35 (73% of men, 69% of women). A second is those who may fear the breakdown of order, tradition, and morality: 73% of rural people, 72% of the unemployed, 71% of white collar workers, and 68% of working women favored *sharia* based by-laws. The most intensive support exists among pro-Islamist and anti-Western Indonesians: 86% of the small minority favorable to Islamic extremism backed *sharia* by-laws, as did 74% of the most anti-American citizens. Among the best-off Indonesians, where these three factors – concern about crime, morality, and American influence -- combine, support for *sharia*-based laws also was powerful: 74% among the A income group (of whom 41% were strong supporters), and across the upper-upper middle income group as a whole (A/B/C1), 70%.

Support for *sharia*-backed by-laws was weaker among those less concerned about enforcing Islamic morality or less threatened by big-city disorder. Thus Sulawesi – more tolerant on many issues in this survey – also was the only region to oppose *sharia* by-laws, 51% against to 41% in favor. Opposition was also relatively strong among Christians (44%, although 46% were still in favor). The other groups where opposition ran over 40% were men who had not finished primary school (41% opposed, 37% favorable) and smaller-city (250,000 to 1-million) residents (40% opposed, 48% in favor).



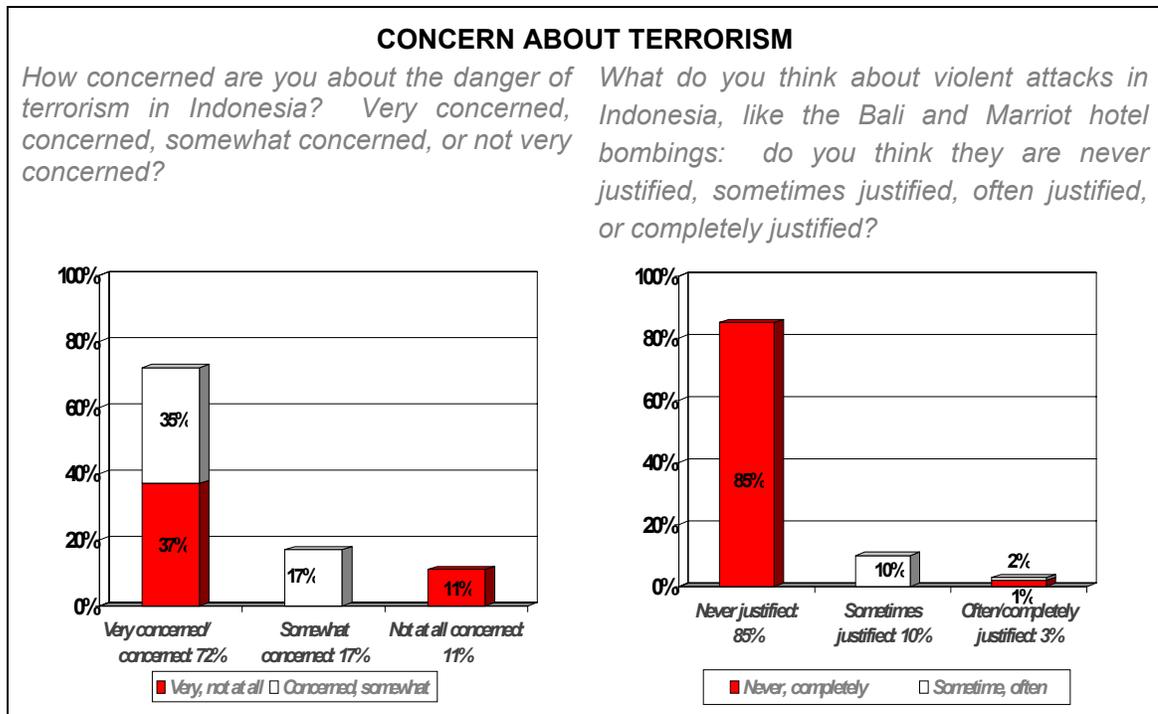


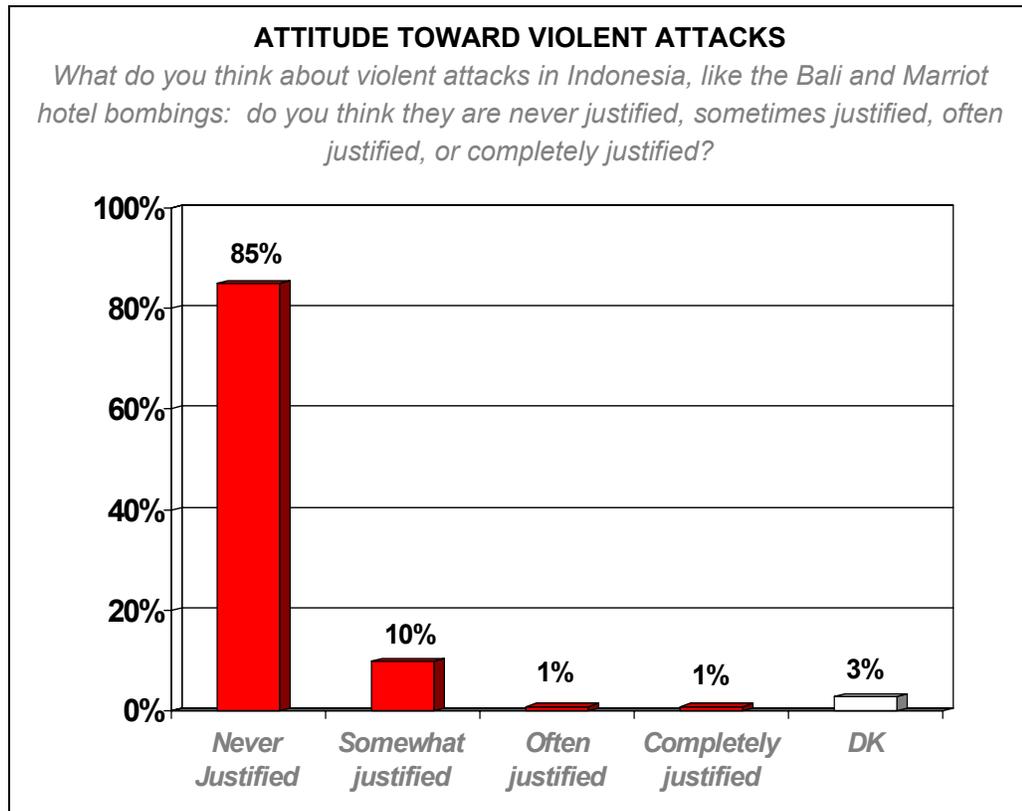
A majority of Indonesians worries that some *pesantren* may teach extremist views of Islam. All told, 54% of participants express concern about extremism in *pesantren*. However, only 18% of the public is very concerned, and two-fifths of the population is not worried about the issue. Concern is greatest among those Indonesians most opposed to Islamic extremism (73%), along with Christians (67%), urban women (67%), and urban men under 35 (61%), and two low-end groups (women who did not finish primary school and the lowest E income group, both 61% concerned). Geographically, concern was strongest among residents of Sumatra (67%) – reputed for intense religiosity -- and Sulawesi (66%) – which the survey findings paint as a more liberal area.

The Indonesians who voiced unconcern about extremism in *pesantren* were those with the strongest Islamist and anti-Western orientations, including those against the American-led War on Terror (53%), in the A income group (53%), who were strongly anti-American (52%), or wore Islamic dress or beards (51%). Rural residents were almost evenly split on the issue, 48% concerned, 46% not.

Despite the differences in concern over the threat posed by *pesantren*, there is near unanimity that the schools should be licensed by the government, required to teach secular subjects like math, science, and history as well as Islam, and barred from

teaching extremism. More than nine Indonesians in ten favor these types of government oversight (92%) and a majority of the public strongly favors them (55%). This support is impressively broad and runs across the board. Christians have a slightly lower level of support for government regulation (80%), perhaps fearing it is a double-edged sword that might also be used against their schools.





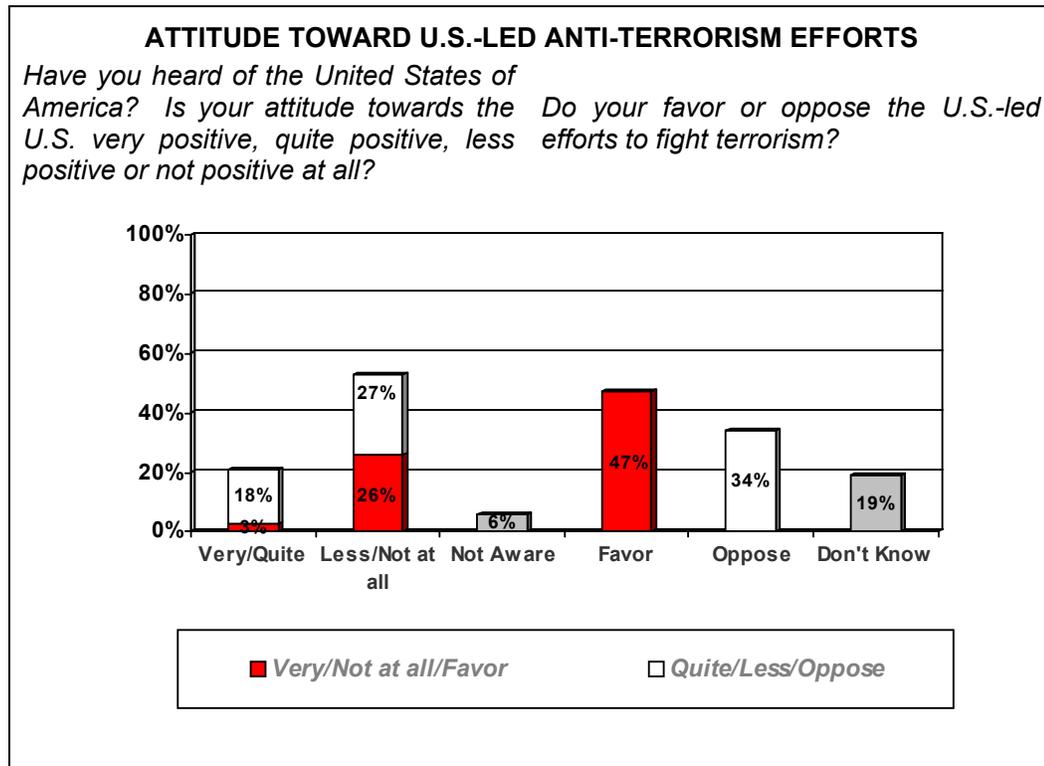
Worry about terrorism is widespread in Indonesia, although the intensity of concern varies considerably between groups. More than seven in ten citizens (72%) are concerned about terrorism in Indonesia, but only 37% say they are very concerned and 28% say they are not concerned. Those most worried about terrorism include the most vulnerable, physically or economically, people in regions that have experienced it, and those opposed by religion or ideology. Those whose lives or livelihoods are at greatest risk from terrorism expressed high levels of concern: 84% of urbanites, 81% of the unemployed, 80% among those with less than primary schooling. Concern is also keenest in regions that have seen violent conflict, Sulawesi (99% concerned) and Sumatra (90% concerned). Among Christians, who have borne the brunt of many terrorist attacks, 94% are concerned, as are Indonesians hostile to Islamic extremism (93%) and supportive of America’s War on Terror (80%). Concern also is intense among economic liberals (46% are very concerned).

Those less worried about terrorism represent the flip side of these groups: those who feel less threatened by it or are more anti-American or pro-fundamentalist. Concern was less common among those to whom the threat seems more remote: people over 50 (36% not concerned), particularly older rural men (46% not concerned), and people on Java (37% not concerned). Of those opposed to the U.S.-led War on Terror, 38% were

not concerned. The least concern, by far, was shown by those with Islamist sympathies. These included people wearing Islamic garb or beards (41% not concerned), unworried about extremism in *pesantren* (51% not concerned), and the small minority highest on Islamic extremism (80% not concerned).

No matter how concerned they are about terrorism, most Indonesians reject violent attacks like the Bali, JW Marriot and Australian Embassy bombings, though a small but significant minority is at least somewhat supportive. Fully 85% of the population thinks terrorist violence is never justified. However, 12% -- or one in eight -- says such attacks can be justified (10% sometimes, 2% often or completely). This is not an insignificant group in a country of 245-million: it represents over 18-million adults potentially sympathetic to violence, or more than the adult population of Iraq.

Unlike fear of terrorism, where the vulnerability of particular demographic groups is also a major factor, ideology appears to drive support for terrorist acts. Such support is by far highest among the few Indonesians sympathetic to Islamic extremism (fully 68% of them say terrorist violence is at least sometimes justified). Relatively high levels of support for violence also are found among those hostile to America (20%) or to business (19%), or on Sumatra (19%) with its history of conflict.. Support for violence is very low among those with the opposite views -- hostile to Islamic fundamentalism or favorable to America or business. As with concern about terror, hostility to terrorist activity is also very high among groups who may suffer if Indonesia's fragile economy is damaged as a result: jobless men (91% say it is never justified) and older people with primary schooling or less (94% never justified). Unlike people on Sumatra, residents of Sulawesi, where terrorism is largely seen as the product of the arrival of outsiders, reject it strongly (98% never justified).



At the time of the survey, the U.S.-led War on Terror had the support of a plurality of the public, although Indonesians did not have a positive view of the United States. Nearly half (47%) of the Indonesian public favored the American-led efforts to fight terrorism, while one-third (34%) were opposed. However, just over half the respondents (53%) had an unfavorable view of the U.S., slightly more than one-fifth (21%) had a favorable opinion, and one-fourth (25%) were unsure of their view.

There is a correlation between support for the U.S. and support for the anti-terrorism efforts, but negative attitudes toward America’s fight against terror are less than those toward the country itself. In our poll, 53% of Indonesians had a negative view of America as a country, while just 34% had a negative view of the anti-terror campaign it is leading. Interestingly, among those who favored the campaign against terror, 32% had a positive view of the U.S. and 44% had a negative attitude towards the country. Given the level of concern that exists in Indonesia about the danger of terror, the survey shows it is not essential for Indonesians to like the U.S. in order to accept its protection, an important finding.

Concern about terrorism turns out to have very little impact on attitudes to the U.S., but it is the key determinant of attitudes to the War on Terror. Among those most concerned about terrorism, 26% are positive to the U.S., little different from the 22% among those

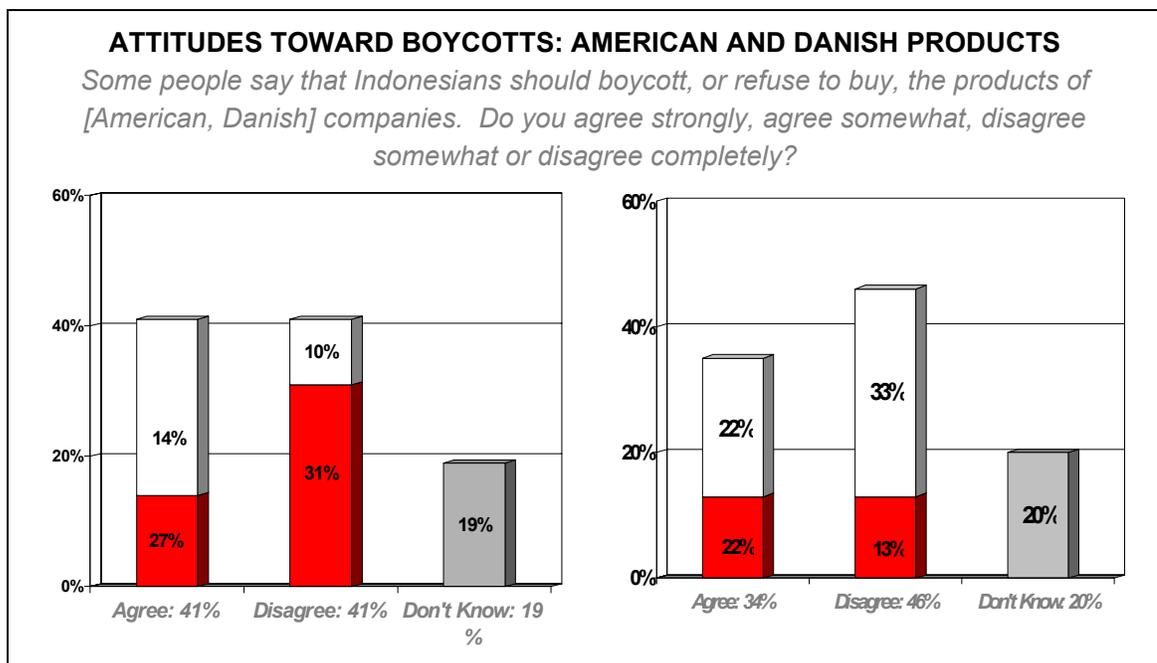
least concerned. However, among Indonesians very concerned about terrorism, 61% favor the U.S.-led War on Terror, while of those not very concerned, 57% oppose it. (However, a substantial 19% of those concerned about terror are unsure what they think about the anti-terror struggle.) Attitudes to violence also affect views of the War on Terror. Of those who say violence is never justified, 51% support the U.S. anti-terror campaign and 29% oppose it. The minority which says violence can be justified is also opposed to the War on Terror, 70% to 17%.

America enjoyed a net positive rating in only a few groups: among Christians, 48% to 26% unfavorable; residents of Sulawesi, by a massive 56% to 16% margin; and those strongly opposed to Islamic extremism (though among these, by a surprisingly narrow 47% to 46% edge). These groups also support the War on Terror by large margins (upwards of 40 points). A number of other groups were also more supportive of both the anti-terror campaign and the U.S. than the general public, although only a minority of their members was favorable to America. They included women who had not finished primary school (55% favorable to the War on Terror, 31% to the U.S.), older women (50% favorable to anti-terrorism, 29% to anti-terrorism), economic liberals (60% favorable to anti-terrorism, 32% to the U.S.), those opposed to a trade boycott of America (82% favorable to the anti-terror struggle, 37% to the U.S.).

The elite groups tended to go against the general trend in the reverse direction, opposing the War on Terror as well as the U.S.. Those most unfavorable included: the A income group (55% to the War on Terror, 67% to the U.S.), big city residents (52% to the War on Terror, 77% to the U.S.), young urban men (48% to the War on Terror, 64% to the U.S.), and Java residents (40% to the War on Terror, 64% to the U.S.). A similar pattern prevailed among those not concerned about extremist pesantren (44% opposed to the War on Terror, 60% to the U.S.) or favorable to Islamic extremism (67% hostile to the War on Terror, 66% to the U.S.). The visibility of these groups – who make up many or most of the Indonesians that foreigners encounter, in person or via the media – may have promoted the misleading impression among expatriates and abroad that Indonesian hostility to America is matched by opposition to anti-terror efforts. However, despite their high profile and influence, these groups are outnumbered by those who support the fight against terror.

Although Indonesians have favored America's War on Terror more than the U.S. itself since 2003, their attitudes toward the U.S. and the anti-terrorism effort have risen and fallen in virtual lockstep since then. In 2002, in the aftermath of the 9/11 terrorist attacks in New York and Washington but before the Bali bombing, only 34% of Indonesians were unfavorable to the U.S. but some 64% were unfavorable to the then-new War on Terror. This situation changed the next year, when anti-Americanism soared above the opposition to anti-terror efforts, in the wake of the invasion of Iraq. The highest level of opposition both to the U.S. (83%) and the anti-terror efforts (72%) was recorded in 2003. However, both had declined significantly in 2005, in the wake of the highly-visible U.S.

tsunami relief effort. They reached their lowest levels in the post-9/11 era in January 2006 (41% unfavorable to U.S., 31% unfavorable to anti-terror efforts) after the second Bali bombing underlined the terrorist threat to Indonesia and an advertising campaign publicized USAID programs in Indonesia, while the successful elections in Iraq in December 2005 temporarily muted bad news about the war there. The ratings continued to fluctuate throughout last year, with opposition increasing in April 2006 (67% unfavorable to the U.S., 57% unfavorable to anti-terror efforts), as memories of tsunami aid and the ad campaign faded under a deluge of negative headlines about the U.S. in Indonesia and Iraq, then declined somewhat by September.



Indonesians' hostility to America has spilled over to U.S. companies in general. More than two in five Indonesians (41%) express support for a boycott of the products of American companies – equal to the proportion who voice opposition (41%). This is an issue that polarizes young against old, uneducated against educated, big cities versus the rest of Indonesia, and supporters and opponents of globalization and the U.S., as well as supporters of different parties. The result is a complex set of divisions and cross-pressures on Indonesians on this issue. For instance, the young tend to be both more supportive of free trade yet also more anti-American.

Support for a boycott predominates among under-35s (47% for, 30% against) and big city dwellers (55% to 32%). It is also strong among those who live on Java and Sumatra (49% favorable in both), PDI-P voters (49% to 33%), and those unfavorable to foreign investment (58% support), an ASEAN Free Trade Area (57% favorable), or the U.S. War

on Terror (57% favorable). It receives pronounced support from the Indonesians most pro-Islamic extremism (55% in favor) and most anti-American (77% are in favor).

Opposition to a boycott of U.S. firms prevails among over-35s, 47% to 43% in favor. It is also strong among the unemployed (50% to 36%), Christians (58% to 22%), and on Sulawesi (an overwhelming 93% against). Supporters of Golkar are opposed (54% against), as are those satisfied with President Yudhoyono's job performance (49% opposed). Opponents also include those with a favorable attitude to business (51% to 42%), to foreign investment (56% to 36%), private ownership (52% to 37%), the ASEAN Free Trade Area (49% to 40%), or the War on Terror (55% to 32%).

Large groups of Indonesians (18% of the total) have not made up their minds on this issue and are available for persuasion. The largest groups of "don't knows" can be found among the over-35s (24%), the less educated (28% of those with less than primary schooling, 24% of the primary-educated), in medium-sized cities (250,000-1 million population, 30% don't know), and on Java (20%).

In the wake of last year's "cartoon controversy," a substantial segment of the Indonesian population also supports a boycott of the products of Danish companies, although Danish boycott support is slightly smaller than that for a boycott of American products. Just over one-third of the public supports a boycott of Danish products (35%), while almost half disagree (46%). The distribution of support for a Danish boycott is similar to that for an American boycott, if not as widespread, because four in five of those who back a U.S. boycott would also boycott Danish companies, while 95% of those opposing a U.S. boycott feel the same about the Danish one.

These figures need to be kept in perspective. Those who say they would boycott goods produced by American or Danish companies will not necessarily do so, just as not all those who say they will actually purchase a product in this poll will do so. The popularity of some of the American firms noted in the survey – particularly Coca-Cola and Microsoft – underlines this. Large proportions of respondents who pronounced themselves in favor of a boycott also expressed a very positive attitude to these firms. In other cases, firms may be shielded by the fact that Indonesians do not know they are American-owned or sell Danish products. Nevertheless, these figures point to a disturbing attitude developing among the Indonesian public, which may make both consumer marketing and political processes more arduous for firms publicly identified with the United States or Denmark.

Part VII: Afterward

In an effort to capture the state of the nation in Indonesia a decade after the onset of crisis in 1997, Charney Research and CastleAsia conducted a nation-wide survey in late 2006. The results have been analyzed in the preceding chapters. To add depth and context to our analysis, we also conducted 15 qualitative interviews with respondents selected from Jakarta's Decision-makers and Opinion Leaders (DMOL) in November and December 2006. Thirteen of the DMOL were Indonesians, two were non-Indonesians. Four were business people and four were from the media. Three were from academia, two were from the financial sector and two were from the NGO community. Several were active in more than one sector. These interviews were conducted after we had analyzed the results of the survey and the participants in our DMOL group were asked similar questions. At times they were also prompted to compare their own views with the attitudes reflected in the nation-wide survey.

This DMOL group overwhelmingly agreed that the country was headed in the right direction but participants were generally pessimistic or negative about the pace of reform and/or the government's ability to implement its reform agenda.

There was concern about the quality of leadership and several expressed surprise that the President's personal popularity has remained relatively high even though actual implementation of his major programs has been, in their view, very limited.

Virtually all of the elite agreed that poverty and unemployment remain the number one problems. Only one mentioned corruption and one the rule of law as problems of equal weight with poverty and employment. One DMOL participant expressed serious concern that the democratic system was allowing too much decentralization, although most of the DMOL group viewed decentralization in a positive light. Several mentioned the need for greater attention to education.

Several participants said that leadership style was the biggest problem and that with leadership the economy would do better. In other words, conditions were ripe for improvement (optimistic) but current leadership was inadequate (pessimistic). One of the participants, a businessman, said that the economic problems were merely symptoms of deeper social problems and an overall inability to plan well.

The DMOL participants were significantly more optimistic than the general populace which was more evenly balanced between those feeling that the country was heading in the right direction and those who felt it was not. This is, perhaps, not surprising, as the economy is the biggest single problem and all of those interviewed are financially secure and professionally prominent. It was also suggested that some of the negative feelings resulted from people's high expectations that greeted the current government when it took office in October 2004, which the government subsequently proved unable to fulfill.

The government's responsiveness to recent natural disasters was generally viewed positively, but the DMOL participants were very concerned about the avian flu threat. None felt the government was doing enough. The DMOL members were positive about the government's response to the Aceh tsunami disaster, which was still ongoing, and to an earthquake in central Java. But several noted that responses were less comprehensive in similar problems (mudslides and floods) in eastern Indonesian.

Several participants also noted the government, while retaining its generally open and positive character, was showing signs of becoming defensive about persistent problems that they (and previous governments) have not been able to overcome. One participant referred specifically to the annual haze problem, where land clearing operations (much of it by illegal burning) in Sumatra and Kalimantan create serious haze and smoke pollution problems for Malaysia and Singapore. Rather than being "embarrassed" and apologizing, one DMOL participant noted "high level officials respond with defensive remarks when criticized by Singapore and Malaysia".

The Political Landscape

Although the DMOL views of the direction of society were much more positive than those of the nation as a whole, their view of SBY generally reflected that of the population where only 3% said he was doing an excellent job, 32% gave the president a "good" rating and 41% thought his performance was just "fair". Among our DMOL group, 60% thought SBY would be re-elected, if only because he is an excellent image-maker and there are no serious challengers. Three rated his chances as 50-50 and three said he would not be re-elected, but did not say who they thought would win. Uncertainty about the outcome of the presidential election is a welcome change from the New Order era and a further sign of the normalization of Indonesian politics.

In terms of the image of the political parties, DMOL participants were very surprised both that the President's party, Partai Demokrat (PD), rated so well and that parties in general were viewed so favorably. PD had the highest percentage of "very positive" and "somewhat positive" evaluations (74%), slightly ahead of all the other major parties. Overall, the large parties in the national DPR had a positive rating of 60% or more, except for PAN which still scored 58%. On this latter point, the DMOL group expressed serious confusion. Only two participants said they were not surprised. This may well reflect the fact that the elite are more disillusioned with the slow pace of institutional reform than the population at large.

With reference to the Islamic extremists, Abubakar Ba'asyir and Osama bin Laden, the DMOL group did not expect society to view these two figures too negatively. Some felt many Indonesians would not know who Osama bin Laden was and that Abubakar Ba'asyir would not be well-recognized outside of Java. Several participants expressed

the opinion that Abubakar Ba'asyir would not be rated negatively because the trial evidence presented against him for allegedly master-minding the first Bali bombing that killed over 200 was very weak and that many gave him credit for standing up to the authorities and to the West. One of our non-Muslim DMOL participants did note Ba'asyir's frequent reference to non-Muslims as *kafir*, which can be a volatile word and is seen as pejorative and offensive by non-Muslims.

In the same vein, over 70% of the national survey respondents were concerned about terrorism and 85% agreed it was "never justified". Over 10%, however, were of the view that terrorism is "sometimes" or "often justified". Almost all of our DMOL participants said the fact that 10% see terrorism as at least sometimes justified is a major worry. Several DMOL members said that, while it was a bad sign, they were not surprised. This finding is consistent with other polls on the subject. One DMOL participant went so far as to say that Indonesians do not think much about terrorism, saying: "If you ask about it, people will say it is bad, but it is more important as an issue to foreigners than it is to Indonesians".

The Business Landscape

Our DMOL group, like the nation as a whole, has a generally positive attitude towards private companies, foreign and domestic (although State-Owned Enterprises, hereafter SOEs, are seen more favorably as promoting the good of the country). The view of foreign investment is also favorable. Over twice as many viewed foreign investors favorably (54% versus 24%). Even though favorable views far outweighed unfavorable, private domestic investors did less well with only 49% viewing them favorably versus 29% unfavorably.

Several DMOL participants pointed out that there were groups among the elite who were more worried about foreign investment than the average Indonesian because their interests were more directly threatened and they worried about their ability to compete. Several commented that this attitude was prevalent in the bureaucracy as well. One also noted that many of the elite were highly negative about foreign investment when talking privately among Indonesians, but positive when foreigners were present or when they saw a business opportunity for themselves.

Our DMOL participants were not surprised that SOEs were viewed positively in terms of promoting the good of society, even though they were much more associated with corruption than private firms, foreign or domestic. They felt the positive view of SOEs is consistent with the socialist ethos of Indonesia's past that is still promulgated through the public school system. They also noted that SOEs provided basic services in many areas where there was little else. The average citizen, especially in such areas, does not feel that such services are of poor quality or that they should be even more widely available.

They believe the SOEs are providing services that would be unavailable to them or otherwise be too expensive. They are simply grateful that they have any service at all. SOEs are beneficiaries of this gratitude. In the same vein, they do not connect the corruption they see in SOEs with poor quality or inadequate services.

One DMOL participant pointed out most people have the perception that SOEs are not supposed to make a profit because they have a social function, therefore people are not worried if they are unprofitable. Another participant pointed out that such attitudes ran very deeply throughout Indonesian society. He noted that even among the elite leadership of Bank Indonesia (the country's Central Bank), there was concern about the ownership of Indonesia's large private banks by foreigners and resistance to privatizing the remaining state banks, even though their profitability was much less than private banks and their bad loan portfolios much larger.

The survey asked specifically for views on Freeport and Newmont, two large American mining companies that are frequently subjected to negative coverage in the media and legal and regulatory challenges. As a result, these companies are well known to the DMOL group. They are not, however, that well known to the general public outside the urban areas. More than half the survey respondents were not aware of Freeport and more than 75% had not heard of Newmont, although awareness was substantially higher among urban residents. Of the minority that was aware of Freeport, the favorable and unfavorable views were split about 50-50. Less well-known Newmont was viewed unfavorably by the smaller number that was aware of them, but still was viewed favorably by a significant minority.

Our DMOL participants were not surprised that, despite extensive publicity, most Indonesians were not even aware of the presence of these mining giants. One of the journalists interviewed pointed out that while these companies were very important to the country in terms of taxes paid, they have "little resonance" with the average person. He added that their impact is primarily felt by the national government and the people in the areas immediately around their extractive operations.

Many of the DMOL participants expressed sympathy for Newmont, which they felt was being unfairly treated in its on-going pollution case. The view of Freeport was more mixed, with the negative feelings seeming to be more related to the company's close association with the Soeharto regime (seen by many of the DMOL participants as a hot bed of corruption and cronyism), than alleged environmental violations. Several also noted that a very prominent Indonesian, one-time presidential contender Amien Rais, makes frequent direct attacks on Freeport that receive a lot of media attention. Another noted that foreign investors are often portrayed as "greedy and here to take from the country." Mining companies are especially easy to portray in this regard because they are literally exporting the country's soil.

When asked what foreign companies could do to improve their images and create more favorable impressions, virtually all DMOL participants said they had to be more conscious of corporate social responsibility. Several added that foreign companies needed to be even more careful to pay their taxes and to be fair to workers than domestic companies, clearly implying a strong double-standard. One DMOL participant said, "Pay attention to the welfare of the people. Engage with NGO's that really reach out to the people. The common people have to know you are interested in them and their interests."

Business, Government and Trade

As already noted Indonesians have an open attitude towards private business but are protective of state-owned enterprises. Indonesians have a generally positive view of globalization. Half the respondents said they are open to the world market and foreign investment and only one quarter said it was better to rely on the state and not seek foreign investment. The DMOL group also held a positive view, but several participants expressed surprise that "average" Indonesians retained this view. It was suggested that the public responded positively because they really do not understand the ramifications of more open markets.

The DMOL participants were much less surprised by the fact that half of those felt that SOEs and the state should be in control of Indonesia's natural resources as reflected in the constitution. While it seems like a contradiction to be both for more open markets and strong state control, the results of this survey strongly indicate that Indonesians clearly segment private sector and public sector activities in their minds. But public sector activities are not defined by any abstract or analytical notions of what is properly in the public sphere. Rather they are defined by what is already in the public sphere, i.e. whatever SOEs have is good and every Indonesian benefits from them in some way or another. Therefore any diminution of SOEs is, *ipso facto*, a loss to every Indonesian. Most of the DMOL participants, on the other hand, felt that the government should be a referee, mediator and/or regulator but not an active participant in the economy.

Labor and labor law reform has been a contentious feature of the current government's economic platform. Most of the DMOL participants expressed support for revising the country's extremely inflexible labor laws but they were not surprised by the overall sentiment shown by the survey that the majority of Indonesians feel that job security and rigid termination rules are better than greater employment creation.

International Issues

ASEAN is very well-accepted by Indonesians. Nearly 30% have a strongly positive view of the organization and another 43% hold a positive view. They are equally positive about prospects of the ASEAN countries opening their market to each other. Only 3% are strongly negative about opening up ASEAN markets. Our DMOL participants were not surprised that ASEAN was viewed favorably throughout society because it has been in the news in a very positive way for the last 30 years. One respondent also pointed out that many people believe that ASEAN can be a counter-balance to the dominance of the West. And as a result, "it has a long history and romantic image in the eyes of many Indonesians." He also felt that most people did not expect the ASEAN Free Trade Area to have much of a direct impact on their lives. The people who tend to fear ASEAN integration and openness the most are manufacturers and business people who are worried that they will not be able to compete. But, six of the 15 respondents questioned whether people really understood what a Free Trade Area is, another example of the Jakarta elite's consistent view that the broader populace does not understand important economic issues in any depth.

The survey results show that large multilateral organizations like the International Monetary Fund (IMF), the World Bank and other major donor groups or countries which are so much apart of the national debate, are little known to the average Indonesian. Only one of the participants expressed surprise here and his response was instructive. He remarked, "I am surprised and concerned because these institutions play an important role and provide needed capital for our development." Nevertheless, most of the DMOL participants took the view that since these organizations rarely act directly in society but rather tend to operate through government agencies or NGOs, there was little reason for the average person to be aware of them. One respondent asked: "How many people in Wichita or Arkansas are concerned or even know about the IMF or IFC?" Another said, "No surprise. In the UK, most people would not be able to tell you about the OECD or the World Bank."

When asked about their own view of Indonesia's relationships with important partners such as Japan, China, the U.S. and Europe, the DMOL responses were very mixed. Several felt that Indonesia's relationships were quite good and that Indonesia has a very responsible strategy. Several also noted Indonesia's importance because it had become a democracy and because it is the third largest Muslim country in the world at a time when Muslim relations with the major economies of the world, which are non-Muslim, are going through such a period of tension and transition.

Asked specifically about the issue of boycotting Danish products after a Danish newspaper published cartoons that were seen as denigrating Islam, and on the occasional efforts of some factions to encourage a boycott of American products

because of U.S. actions in the Middle East, all said they personally would not boycott any products on these grounds, but a number did feel that product boycotts were a legitimate political response to a grievance.

Social Issues

In terms of the nation's social problems, each of the DMOL participants were asked to name two or three issues as being the most important. Education and poverty were highlighted seven times. Employment was mentioned six times and inequality and ethnic problems were named three times each. Islamic related problems, human rights and corruption received two mentions each.

This generally reflects the tone of the national survey. Indonesians see the economy (e.g., jobs, income, inequality) as much more important than corruption. Personal security, which was a major concern in surveys several years ago, is no longer a major worry.

Most nation-wide survey respondents strongly or somewhat approve of *syariah*-inspired by laws in some regions of the country. Only one of the DMOL participants expressed surprise. Five said they were not surprised but did not think the people really understood the implications of such laws and felt that, once they did, support would drop substantially. Three, however, expressed serious concern that this was a very negative trend and two said the government was afraid to act, implying but not stating that they also felt it was a serious problem. Two specifically said it was nothing to worry about and two of the others implied as much.

Most (84%) of the national survey respondents said that corruption is fairly common among government officials and the response of our DMOL participants was strong and unambiguous. (Business was significantly better but still generated an alarmingly high 74% of negative responses.) None were surprised and all agreed that corruption was endemic in the civil service. One went so far as to say, "corruption is the life blood of the bureaucracy". Another volunteered that "there seems to be a view that corruption is wrong unless I am the one doing it". Another said there is a lot of complacency and acceptance that corruption is rampant and there is little that can be done about it.

In the national survey, 35% of the respondents said corruption had become more common in regional government with increased regional autonomy versus 18% who said less common. Thirty-one percent said there has been no change. Our DMOL participants were more cynical. Only one said that he did not think corruption in the regions had become greater. All of the others said something along the lines of "corruption is probably greater in the regions, simply because there is more money there now." One

specifically said, "Yes, there is more corruption now, but this does not mean regional autonomy is a bad thing." He was responding to the fact that many who favor more central government power and want to resist decentralization trends frequently claim that corruption in the regions proves that greater regional autonomy is a bad idea. He strongly disagreed with this conclusion.

When asked whether corruption changed since the SBY government came to power, the perception was more positive than the impact of regional autonomy. While 21% said it had become more common (versus 35% after decentralization), 29% said it has become less common since SBY took over and 41% said there has been no change. In relation to the impact of the SBY regime on corruption, the DMOL participants split along roughly the same lines as the general population. Many felt there has been little change. Some said specifically that it did seem like corruption was more difficult now, but the corrupt system is still there seeking opportunities. Several noted the fact that many more corruption cases are being brought to court as a very good sign, reflecting genuine improvement. One summed the attitude up simply by saying, "the anti-corruption campaign has been partly successful, but has a long way to go to make a real dent in the problem".

Appendix I: Methodology Statement

FIELDWORK DATES: The nationwide poll was carried out in September 2006. Interviews with opinion leaders were conducted in Jakarta in November and December of the same year.

GEOGRAPHICAL COVERAGE

To strike a balance between the cost and time of data collection and data quality, it was decided not to survey every province of Indonesia. 12 provinces were excluded without having a major impact on the results of the poll. The excluded provinces constitutes to only 11% of the Indonesian population based on Central Bureau of Statistic data of 2000 census.

SAMPLE DESIGN

The research targets for the survey are Indonesians who are aged 17 years-old or older. Both, males and females are targeted for interview in urban and rural areas. Sample size $n = 832$.

Sampling Method

The Primary Sampling Unit (PSU) was 'Kecamatan' of which there are approximately 4,000 across the nation. In order to select the PSU, a total of 41 Kecamatan were selected using the following procedure:

1. A listing was obtained from Regional Autonomy Advisory Council, Ministry of Internal Affairs, Republic of Indonesia which specifies all Provinces (32), the Kabupaten within each Province, the Kecamatan within each Kabupaten and the Kecamatan population.
2. For this survey 20 provinces were a priori selected
3. A cumulative population count across all Kecamatan was constructed
4. Starting with a random number, Kecamatan were selected systematically using an interval equal to the sampling fraction

Of the 41 Kecamatans, 16 kelurahan (villages) in urban and 25 desa (villages) in rural were selected randomly. In each kelurahan/ desa, a list of RTs (small neighbourhoods with 30-50 dwellings) was obtained and 4 RTs are randomly selected, using a random start number and using the interval computed from the total number of RTs. In each RT a

maximum of 5 interviews are done. If the RT produces less than 5 interviews, the interviewer moves to the next RT to complete the nominating interview (s).

Selection of Respondents

Within the selected RT the interviewer follows a random walk procedure. After each contact, skipping four dwellings before a new interview attempt is made. In a selected household, the Kish Grid method is used to randomly select a household member aged 17 or older. If the selected person is not available, the interviewer would call back at a later time (maximum 3 calls).

QUALITY CONTROL

As part of TNS standard practice 30% of all interviews were witnessed or back-checked by a supervisor or Quality Control team member.

FIELDWORK MANAGEMENT

Pilots and Briefing

Pilot interviews with 5 respondents were conducted in Jakarta on 31 August 2006. The purpose of the pilot interviews was especially to fine-tune the questionnaire to make it applicable in the field. Client representative observed the whole pilot interviews and made recommendations for the final questionnaire.

Prior to fieldwork, field briefing was conducted. The briefing in Jakarta was attended by interviewers in Jakarta and field supervisors from other areas. Briefing was also conducted in areas with local interviewers. The briefing content included:

- sampling procedures
- question by question training on the questionnaire
- quality control procedures
- role play

Interviewer Qualification and Experience

In this project, we used 41 interviewers and 11 supervisors. The minimum educational requirement for interviewers and supervisors is SMA (senior high school), whilst a significant proportion has a partially or completed university education. While the length of time working with TNS for interviewers varies between 1 to 5 years, all supervisors have worked for TNS for more than 4 years.

DATA WEIGHTING

Final data was then weighted according to population proportion of the provinces. The weights were calculated taking into consideration:

- the population of adults 17 years and older in the 20 provinces covered by the study
- the distribution of the provincial population by gender
- the distribution of the provincial population by urban and rural

In a few areas only one type of localities (either only urban or only rural) were sampled. For example, all areas in DKI Jakarta, which is the capital city, are classified as urban. In these few cases the urban/rural cells were collapsed, therefore the weights were calculated based on age and gender. For each cell, the “expected” value for the sample of 832 was computed and compared with the “actual” sample value for that cell.

For each cell a weighting factor was calculated which was:

- 1.0000 if “actual” equals “expected”
- >1.0000 if “actual” is smaller than “expected”
- < 1.0000 if “actual” is greater than “expected”