



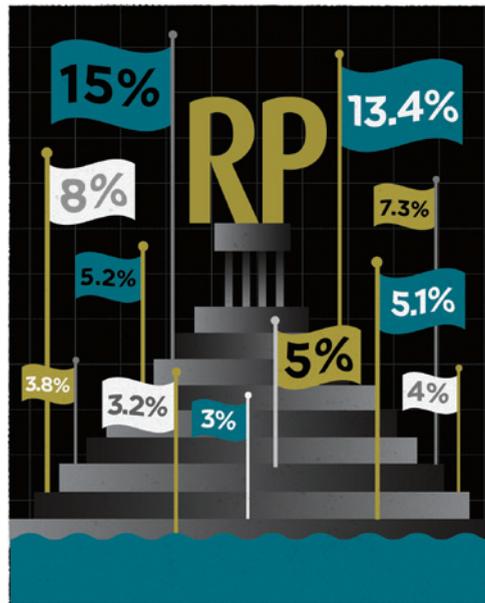
Why Radicalism and Corruption Won't Hurt Growth

Indonesia has long grappled with corruption and Islamic radicalism, along with abuses of minority religions, yet Indonesia's latest growth figures showed a promising 6.4%. How do we explain this paradox? It seems these serious issues don't have any effect on economic growth—yet it seems intuitively correct that radicalism and corruption would hamper growth. Is it really so? Or are we heading into a future that is likely affected by these social liabilities?

Nor did these issues seem to have a large impact on investment. In the first half of this year, investment in Indonesia increased 24%, according to Indonesia's Investment Coordinating Board (BKPM). Investments contribute roughly one-third of current GDP, which is the largest since 1997 Asian financial crisis. The new investment influx totaled \$8.1 billion in the second quarter, an increase of 10% from the first quarter. The overall investment total is now around \$15.6 billion. In G20, only China has a faster growth in investment than Indonesia.

We should also thank the record low interest rates as an important contributing factor to such growth. Bank Indonesia Governor Darmin Nasution is determined to keep the rate at 5.75%. We should also expect to see it remain as low into next year, if there's no improvement in the Eurozone crisis—and even an additional reductions are a possibility if economist Nouriel Roubini's prediction of a “perfect storm” come true next year. The World Bank has a less-than-rosy estimate of 3.8% for Indonesia's growth next year.

For now, Indonesia has many positive factors



For now, Indonesia has many positive factors supporting growth.

supporting growth. The government is relatively stable, and is a thriving young democracy. With high-profile efforts to eradicate corruption, tax revenues that have doubled from last year and effective efforts to develop confidence among global investors, it is understandable that the occasional Islamic extremism and rampant corruption have so far not appeared to hurt economic performance (although there is the argument that growth would be higher without these factors).

The first Congress of Indonesian Diaspora held this July in Los Angeles, for instance, is an impressive move initiated by Indonesian Ambassador to the United States Dino Pati Djalal. It serves not only as a unifying umbrella paradigm among millions of Indonesian diaspora worldwide, but also to bridge cultures, nations and peoples with a better understanding on what Indonesia and Indonesians can offer the

world. Dino's initiative in supporting dual citizenship, for example, is a much admired undertaking.

In conclusion, in the case of Indonesia, the current political environment with dashes of radicalism and rampant corruption has until now no direct causality toward economic performance, even though a degree of correlation could occur in the future. For now, those concerns aren't significant enough to completely undermine economic growth and investment. They are, however, time bombs that must be addressed in due time. How long it is going to continue ticking remains to be seen and whether the counteracting good intentions will be effective. **F**