

UNSEEN CATALYST OF ECONOMIC SLOWDOWN : UNDERSTANDING ECONOMIC CONSEQUENCES OF POLITICAL POLARIZATION IN INDONESIA

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Abstrak

Dalam beberapa tahun terakhir, polarisasi politik telah meningkat di banyak negara dan semakin terlihat di Indonesia. Meskipun semakin banyak literatur tentang polarisasi politik di seluruh dunia, penelitian tentang topik ini dalam konteks Indonesia khususnya hubungannya dengan ekonomi masih sangat sedikit. Hal ini berimplikasi penting pada pembuatan kebijakan, karena lingkungan politik yang terpolarisasi dapat mempersulit pencapaian konsensus mengenai isu-isu ekonomi yang akan berdampak pada kesejahteraan sosial rakyatnya. Sebuah penelitian deskriptif dan pendekatan kualitatif akan digunakan untuk makalah ini. Studi ini bertujuan untuk memperdalam pemahaman kita tentang dampak ekonomi dari polarisasi politik, dengan menyoroti bahwa meskipun ketidaksepakatan politik pada tingkat tertentu dapat menyehatkan demokrasi, polarisasi ekstrem dapat berdampak negatif bagi kinerja ekonomi Indonesia. Ia berpendapat bahwa polarisasi bukan hanya akibat tetapi juga penyebab perlambatan ekonomi, menekankan perlunya kebijakan yang menganjurkan studi interdisipliner dan persatuan politik yang lebih besar.

Kata Kunci: Perekonomian Indonesia; Pertumbuhan ekonomi; Polarisasi Politik; Politik Indonesia

Abstract

In recent years, political polarization has been on the rise in many countries and has been increasingly observed in Indonesia. Despite a growing body of literature on political polarization around the world, there is a notable absence of research on this topic in the context of Indonesia especially with its relations to the economy. This has important implications for policy making, as polarized political environments can make it more difficult to reach consensus on economic issues that will impact the social well-being of its people. A descriptive research and qualitative approach will be used for this paper. The study aims to deepen our

understanding of the economic effects of political polarization, highlighting that while some degree of political disagreement is healthy for democracy, extreme polarization can have negative consequences for Indonesia's economic performance. It argues that polarization isn't just a result but also the cause of economic slowdown, emphasizing the need for policies that advocate interdisciplinary studies and greater political unity.

Keywords: *Indonesia's Economy; Economic Growth; Political Polarization; Indonesia's Politic*

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INTRODUCTION

In today's world, political polarization has emerged as a pressing concern, and Indonesia is no exception. The 2019 survey undertaken by the Centre for International Governance and Innovation (CIGI) in conjunction with Ipsos has revealed that a majority, specifically 58%, of the Indonesian respondent concurs that the prevalence of political polarization has amplified in recent times, primarily attributable to the rise of social media ([Centre for International Governance Innovation, 2019](#)). This increasing divide between political parties due to the deepening ideological divides and growing tensions between political factions and groups have significant implications for various aspects of society. The significance of this study is highlighted by the need to understand the impact of political polarization on economic development in Indonesia.

The available literature on the impact of political polarization on economic performance provides mixed findings. Some studies suggest that political polarization can lead to economic stagnation, lower economic growth and reduced investment. For instance, a study by Alberto Alesina ([Alesina et al., 1996](#)) found that political polarization can negatively affect economic performance and can also lead to policy uncertainty, as governments may be less able to implement long-term economic policies in the face of political turmoil. Similarly, research by Qiaoqiao Zhu shows that political polarization can lead to policy gridlock and hinder economic growth ([Zhu, 2021](#)). Other studies suggest that political polarization can have positive effects. For example, the existence of a polarized ideology within the government can lead to notable advantages for the public in the long run, as illustrated by Abraham Lincoln's "Team of Rivals" ([Goodwin 2005](#)). In this regard, Lincoln emphasized the importance of polarization of opinions to ensure that all perspectives are taken into account while making decisions ([Goodwin, 2005](#)). Some argue that this approach is vital to improve democracy to function effectively, ([Sunstein, 2002](#)). as good quality democracy can lead to better economic outcomes in the long run ([Nairobi et al., 2021](#)).

Despite the growing literature on political polarization and its implications for the economy in various countries, there is a lack of research on this topic in the context of Indonesia. While some studies have examined the relationship between political polarization and economic outcomes in other countries, more research is needed to fully understand how polarization affects Indonesia's economy, and how policymakers can respond to it. Given the diversity of Indonesia's population, its complex political history, and the challenges of democratic consolidation in the country, understanding political

polarization is vital for policymakers, scholars, and citizens alike. This research aims to fill this gap by examining the impact between political polarization on economic performance in the Indonesian context.

The study is based on the premise that while political polarization within the society might be the end-result of an economic slowdown, political polarization itself can be the first catalyst for a worsen economic growth. This research also aims to give an understanding of the economic effects of political polarization, particularly emphasizing that developing countries such as Indonesia might be more vulnerable to its adverse effects of polarization compared to developed economies. Understanding the relationship between political polarization and economic performance is crucial not only within Indonesia's domestic economy but also to its relations to economic cooperation with the international world, thus the findings of this research can provide insights and inform policymakers and stakeholders about the potential consequences of political polarization and can help them devise strategies to mitigate its negative effects.

METHODOLOGY

The objective of this research is to employ a qualitative approach to descriptive research to give an understanding of the phenomena of political polarization in Indonesia and its economic consequences. Descriptive research refers to a research technique that aims to present an account of the defining traits and characteristics of the phenomenon being analyzed. Through this method, one can uncover fresh insights, provide descriptions of existing conditions, ascertain the prevalence of an occurrence, and/or arrange data into categories ([Nanjunadappa, 2019](#)). The primary objective of descriptive research is also to deliver a precise depiction or explanation of the distinctive features and traits of a specific situation or phenomenon and to seek answers to questions based on the ongoing events of the present ([Dulock, 1993](#)).

Secondary data will be used for the research. To ensure the validity and reliability of the study findings, the data sources used will be from reputable and reliable organizations that regularly collect and report data on Indonesia's political and economic climate. The data used for this study is already publicly available and has been collected by reputable organizations, therefore, there is no need to obtain informed consent from study participants. Confidentiality and anonymity will be maintained throughout the data analysis process. This study will adhere to the ethical principles of research involving secondary data analysis.

RESULT AND DISCUSSION

A. Political Polarization in Indonesia : Identity vs Ideology

To begin addressing this inquiry, it is necessary to provide a clear definition of the term "political polarization." Political polarization refers to the accentuation of extreme views and positions in a society's politics, partisanship, and policy formation ([Crotty, 2014](#)). This accentuation typically creates a sense of division and conflict, which is evident in the current state of polarized politics. This hyper-partisanship is driven by ideological differences and has come to dominate a nation's political discourse. In the most extreme cases, each faction develops such negative perceptions of the other that a regular political opponent, with whom they would typically compete for power, becomes an enemy that must be defeated because they pose a threat to their very existence.

However, the level of polarization also plays a significant role in determining the degree of democracy in a country. In actuality, advanced democratic countries tend to have long-term polarization, which is deeply rooted in strong ideological beliefs. On the other hand, flawed democratic countries often experience short-term polarization that

arises from specific issues or events. This is due to the momentum generated by these issues, which can dissipate once they are resolved ([Jati, 2022](#)).

Several recent research articles have concentrated on the present-day polarization trend in Indonesia. The research primarily discusses the two types of Indonesia's political polarization, which is ideology and identity. Scholars often utilize both concepts interchangeably in their works. The next paragraph will provide a brief overview of these types of polarization.

The first type is identity-fueled polarization. Political polarization driven by identity politics has been prevalent in both local and national elections in Indonesia in recent times ([Aspinall, 2005, 2011; Aspinall & Mietzner, 2019](#)). Indonesian political elites frequently rely on identity politics to create divisions among citizens during their campaigns. Political candidates often use religion and ethnicity as a means of gaining votes because these factors can be politically significant, as they create cross-cutting divisions based on people's beliefs and regional affiliations. This leads to the formation of communal voting blocks among the electorate, with voters aligning themselves with a particular socio-religious elite background. Consequently, the political environment centered around identity-based politics, and the elite's approach of creating alliances with divisive adversaries has exacerbated the already existing religious and ethnic divides, leading to increased tension ([Aspinall & Mietzner, 2019](#)). Resulting in political polarization that becomes prominent well before the official election campaign period.

Ideological polarization on the other hand, can be relevant when certain political powers establish strongholds among the electorate ([Fossati et al., 2020](#)). In contrast to the first approach, the ideology-driven approach cultivates evaluative voters who prioritize policy impact and party performance. From this perspective, voters also tend to be influenced by factors such as historical background, geography, and the economy.

In the context of political polarization in Indonesia, the identity-fueled polarization may become more salient than the ideology factor. This is because many Indonesians strongly identify with one or two groups, making these identities a more effective political tool than abstract ideological positions. In fact, identities can often function as a stand-in for ideology and can also serve as a representation of political leaders, who frequently align themselves with specific identity groups ([Jati, 2022](#)).

B. Social Crises Hinder Domestic Economy

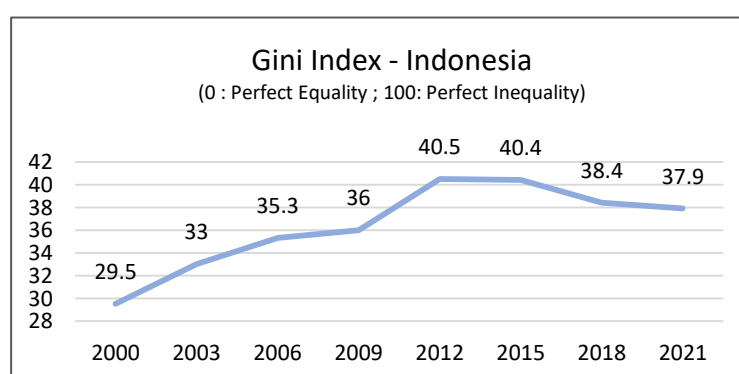
Social crises can be defined as a significant disruption or breakdown in the social, economic, or political order of a society, leading to a widespread unrest in the society and negative impact on people's lives. Throughout Indonesia's political history, there have been numerous instances of political polarization, and in most cases have led to social crises. These crises include the 1965 anti-communist purge, the 1998 riots and protests following President Suharto's fall, and the recent political polarization due to the 2014-2019 presidential and governor elections. These polarizations are characterized by sharp divisions along identity lines, making it difficult to reach consensus. This is particularly significant because Indonesia's society is more collectivist and interdependent ([Halim et al., 2004](#)), coupled with its heavy reliance on domestic economic activity, making it particularly more vulnerable for Indonesia's economy from social crises. In fact, Indonesia's net export percentage is only 21.6%, while domestic consumption accounts for a much larger proportion of 64.8% of its GDP ([World Bank, 2021a](#)). Given the circumstances, social harmony and social interaction play a crucial importance for Indonesia's economy. Chatib Basri, former Minister of Finance in Indonesia, also stated that this is a very unique condition with regard to Indonesia's economic condition because the majority proportion of Indonesia's economic performance is not much integrated with the global economy, but relies more on the interaction at the domestic level ([Basri, 2023](#)).

The Reported Social Unrest Index (RSUI), developed by the IMF based on press coverage, also reveals that social unrest can in fact have more significant economic consequences for emerging markets and developing economies like Indonesia rather than developed economies ([International Monetary Fund, 2021](#)). The empirical findings of the study reveal that social unrest exerts negative influences on economic activity by eroding confidence and increasing uncertainty. Furthermore, the investigation shows that nations with weak institutions and restricted policy maneuverability tend to experience more severe negative ramifications of social unrest. In line with this, the Growth Constraint Study conducted by Bappenas indicates that regulations and institutions in Indonesia are seen as rigid and closed. In addition, the quality of institutions has also declined due to corrupt practices and inefficiencies ([Merdeka, 2019](#)).

The potential economic consequences of extreme political polarization in Indonesia highlight the importance of addressing political unity and promoting social harmony. Faisal Basri, an Indonesian economist, emphasizes that promoting social harmony is one the most important aspects to achieve inclusive economic growth in Indonesia ([Indonesia Investment, 2016](#)). This is especially crucial given the country's highly diverse society and the potential economic consequences of extreme political polarization. Prolonged political polarization within Indonesia's society can pose a significant threat to the country's stability and continuity, ultimately impacting the quality of its economic activity ([Azra, 2022](#)). While Indonesia's reliance on domestic economic activity can be seen as an advantage in some respects, it also increases its vulnerability if social crises occur.

The negative impact of political polarization on economic activity has also been found to exacerbate income inequality. John Voorheis observed that historically, rising political polarization are paralleled by the continual rise of inequality ([Voorheis et al., 2015](#)). In Indonesia, income inequality is a significant issue. Although Indonesia has successfully reduced its poverty rate by over 50% since 1999, the level of inequality surprisingly has been rapidly increasing since its reformation to a democratic country. Only the top 20% of the population have enjoyed significantly greater growth in both their income and consumption compared to other groups ([World Bank, 2015](#)). As seen in Figure 1, data obtained from The World Bank shows inequality rose rapidly from the early 2000s in Indonesia, from 29.5 in 2000 to 37.9 in 2021 ([World Bank, 2021b](#)).

Figure 1. Indonesia's Gini Ratio Index



(Source : World Bank, 2021)

C. Policy Gridlock and Reduced Foreign Investment

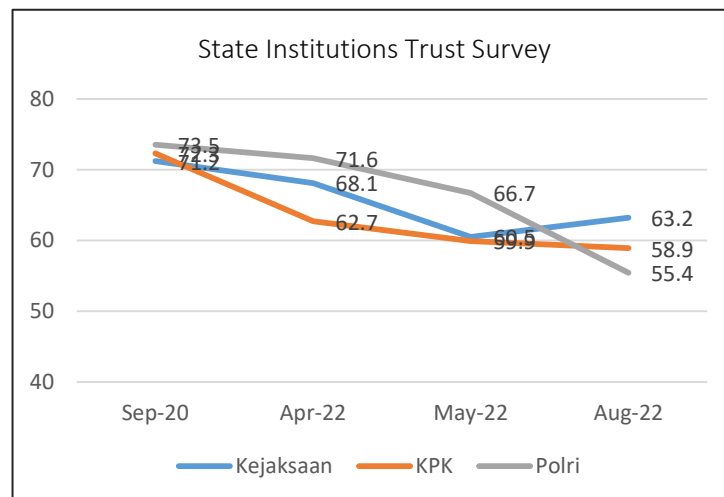
In the realm of politics, a situation known as gridlock, deadlock or political stalemate arises when it becomes challenging to pass legislation and laws that meet the requirements and desires of the public. When parties are polarized, it can be challenging for policymakers to reach consensus and pass legislation that supports economic growth

and stability. Instead, partisan disagreements can lead to gridlock, with each party prioritizing their agenda over the other's (McCoy & Press, 2022).

The formation of coalitions in a presidential system amongst multiple parties will affect the stability of the government because the government must form coalitions to carry out its programs. Coalitions built in a presidential system are not permanent and not institutionalized, making them fragile and often causing internal conflicts due to the lack of common grounds among coalition members. Such coalitions cannot create a stable government because coalition members do not always support government policies, whether legislative or non-legislative. This condition, in terms of the relationship between the President and the Parliament, is highly likely to result in a gridlock. The occurrence of a gridlock can lead to a political crisis, which in a presidential system is very complicated, because the President cannot be easily impeached due to polarized coalition in the Parliament, yet the President greatly needs the Parliament to carry out his/her programs (Nugroho, 2019). The fear of policy gridlock happens several times during political polarization in Indonesia in recent times, especially due to the rise of social media. For example, back in 2014, the opposition's growing animosity towards Joko Widodo and his coalition gave rise to apprehensions among foreign investors and citizens in Indonesia that the incoming president's proposed reforms might be obstructed. This was quite impactful as the stock market and the value of the rupiah experienced a downward trend during that period, as there were concerns that the biggest economy in Southeast Asia could be faced with political impasse, following the opposition's control over the parliament (Rostiyani, 2014). This can create an environment of uncertainty and instability, which can discourage foreign investment in the long run.

A survey undertaken by Indikator reveals that Indonesia's law enforcement receives mostly negative perception from the public. When accumulated, the proportion of respondents with poor perceptions reached 37.7% in August 2022, an increase from the previous month which was only 25.8%. On the other hand, as many as 25% or approximately one in four respondents assessed that the law enforcement condition in August 2022 was already good, and only 4.5% as very good. The same survey also reveals that the public trust in state institutions is getting lower during the period of 2020-2022 (Indikator, 2022), as seen in Figure 2.

Figure 2. Trust in State Institutions Survey



(Source : Indikator, 2022)

If we also see Indonesia's position at the WJP Rule of Law Index, Indonesia ranks among the countries that lies below the global average and the regional average, particularly in the "Absence of Corruption" category, Indonesia is only placed at 94th out of 140 countries globally and ranks 14th out of 15 countries at the regional level of East Asia & Pacific, indicating that improper influence from public or private interests, bribery and misappropriation of public funds is still high ([WJP Rule of Law Index, 2022](#)). In the long term, if the level of political risk in Indonesia continues to increase due to extreme polarization, government instability, widespread corruption, and an unfriendly bureaucratic system towards industries, it will eventually reduce foreign investors' trust in investing in Indonesia. Conversely, if the level of political risk decreases, it will send a positive signal to foreign investors. This is because guaranteed political certainty will also ensure the security and smoothness of investment, making Indonesia a more attractive destination for foreign investors ([Permana & Rivani, 2013](#)).

CONCLUSION

The phenomenon of political polarization is not limited to the general population, society or community, but can also be found within political elites, such as politicians and public officials. Even though political polarization can be beneficial to some extent, extreme polarization can have significant consequences for individuals and institutions, including economic growth. The study finds that polarization is not merely a result from economic slowdown, but it can indeed also be the first catalyst for future economic decline. This understanding is important for policymakers to avoid being in a vicious cycle. The study suggests polarization can impact the behavior of society within a country and can lead to a sharp divide in opinions, values, and beliefs between different groups, making it difficult for individuals to see eye-to-eye on certain matters which is evidently more harmful to Indonesia's economy compared to other developed economies. It also can create an unfavorable environment for economic growth and stability. The lack of consensus and gridlock in passing economic policies can lead to uncertainty, which can discourage foreign investment and negatively affect the economy in the long run.

Political polarization can also have a negative impact on the reliability of government institutions. This can result in low-quality policy decisions that fail to address important societal issues that will hinder economic growth. To mitigate this issue, it is crucial to understand the factors that contribute to polarization and take appropriate steps to address them. Public officials and politicians, in particular, must balance their political ambitions with a comprehensive understanding of the economic impacts of their actions. This is where multidisciplinary discussions come in, as they draw on a broad range of knowledge and expertise, helping officials weigh the economic costs and benefits of their decisions.

Despite the efforts to carefully design and execute this study, there are limitations that should be noted. One potential limitation is that our sample is limited to Indonesia, and it is unclear whether our findings would generalize to other countries with different political systems, cultures, or economic contexts. Despite these limitations, the study will hopefully shed new light on the relationship between political polarization and economic performance for Indonesia. However, there are still many unanswered questions that future researchers could explore. For example, it would be interesting to investigate how specific types of political polarization (e.g., ideological polarization, ethnic polarization, elite polarization) affect economic performance, or to explore the role of institutions in mediating the relationship between political polarization and economic outcomes. Additionally, it would be useful to conduct more detailed case studies of specific policy areas (e.g., fiscal policy, trade policy) to better understand how political polarization affects policy outcomes and economic performance in different sectors in a more technical direction.

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