JAKARTA, Indonesia—When protests against the low-budget, anti-Islam "Innocence of Muslims" video flared across the Islamic world last month, Indonesia's Habib Munzir Almusawa preached a different message to his tens of thousands of followers in Jakarta: Just ignore it.

"If we react so emotionally, then how can we show the good side of Islam?" Mr. Almusawa told worshipers at the al-Munawwar mosque here.

Only days earlier, hundreds of protesters battled with Indonesian police over the video. And separately, antiterrorism agents detained but didn't formally charge 10 people suspected of plotting attacks to topple the government and establish an Islamic state.

Indonesia, the world's largest Muslim-majority nation, is seeing a wave of new, more moderate Muslim preachers, among them Mr. Almusawa. They represent a balancing of the more militant strains of Islam that have proliferated here. Ten years ago this week, Muslim extremists bombed nightclubs on the resort island of Bali, killing 202 people in the single biggest terror attack since Sept. 11, 2001, in the U.S.
Many moderate preachers, like Mr. Almusawa, trace their ancestry to Yemen and claim to be a "habib," or a direct descendant of the Prophet Muhammad. Often they dress in turbans and flowing silk robes and draw large, enthusiastic audiences who listen to rollicking sermons into the night.
"I come here every Monday," said one of Mr. Almusawa's followers, 22-year-old Taufik Suryo, waiting to touch the preacher's robe. Hundreds more pressed around the mosque's side entrance.

There is even some optimism that Indonesia could represent a model for the wider Islamic world, particularly the 80% of Muslims who live outside the Arab heartland of the Middle East and North Africa. Najib Razak, the prime minister of Malaysia next door, says the emergence of democracies in Muslim-majority nations like Malaysia and Indonesia, after years of authoritarian rule, could help incubate democratic ideas in the countries finding their feet after last year's Arab Spring revolts.

"America also considers Malaysia a moderate, progressive Muslim country, so in terms of their engagement with the Muslim world it is important that we are a democratic country," Mr. Najib said in an interview this year.

Indonesia is particularly important in the Islamic diaspora. With a population of 204 million Muslims, according to the Pew Research Foundation, it has more followers of Islam than Saudi Arabia, Syria, Iraq, Egypt and Morocco combined.

The rise of youthful habib here—Mr. Almusawa is 39 years old—doesn't mean the struggle for the future of Islam in Indonesia is over. Hard-line groups such as the Islamic Defenders Front still abound, blockading 7-Eleven convenience stores for selling alcohol or vandalizing nightclubs during Ramadan, the Muslim fasting month.
The Front and other groups stage sometimes violent protests in their mission to introduce Islamic Shariah law in Indonesia, a constitutionally secular democracy. In recent years, the Front has attempted to close the Indonesian edition of Playboy magazine (which adheres to a no-nudity policy), and forced pop singer Lady Gaga, whom it describes as a "devil's messenger," to cancel a concert in Jakarta in May by threatening protests.

And Indonesia's terrorism problem has occasionally unnerved investors who otherwise rank the country, with its nearly $1 trillion-a-year gross domestic product, among the more promising emerging markets. "There was a real shock when the problem first arose with the Bali bombings in 2002," says Andrew White of the American Chamber of Commerce in Jakarta.

Recently, inflows have swelled. Foreign investment rose 30% year-on-year in the second quarter to 56.1 trillion rupiah, or roughly $5.9 billion. South Korean giant Posco plans to spend up to $3 billion on a steelmaking project in Indonesia by the end of next year. Suzuki Motor Corp. and Toyota Motor Corp. both plan to spend several hundred million dollars each to expand.

Indonesia's U.S. relationship has warmed, too. Washington views the country as key ally in Southeast Asia and among the G-20 grouping of major world economies. In August, the U.S. decided to provide air-to-surface missiles to Indonesia's military after a long suspension in military contact due to the armed forces' human-rights record.

For decades through the end of the 20th century, Indonesia ranked among the more moderate global outposts of Islam. In some cases, the religion merged with local beliefs to create a distinctly Indonesian version of the faith. Meantime, the long-running authoritarian government of late President Suharto cracked down on hard-line Islam.

After Suharto's regime collapsed in 1998, stricter, al Qaeda backed militants rushed in. Their goal: Create an Islamic caliphate across Malaysia, Singapore, Indonesia and the Philippines. They set off blasts in Bali and bombed embassies and top hotels in Jakarta. The attacks took 250 lives from 2002 to 2009.

Recently, though, terrorists have turned away from tourists or Western interests. Instead, they are taking on local police and security forces in their bid to impose Shariah law. Since March, more than 30 people have been arrested for allegedly plotting to bomb or assassinate security officials and politicians.

These radical groups are difficult to eradicate, Indonesia's Foreign Minister Marty Natalegawa said in a recent interview. "Terrorism can surface at any place at any time," he said. "The best we can do is of course try to disrupt and prevent and anticipate such acts, and when and if they do occur, to bring the perpetrators to justice."
Mr. Almusawa attracts tens of thousands to his prayers.

But thanks in part to preachers such as Mr. Almusawa, support for radical Islamists appears to be falling. A nationwide poll by the National Survey Institute in June found that only 15% of respondents would vote for Islamist political parties. That is a sharp decline from similar polls taken during the previous national election, in 2009, which found that 29% of voters would back an Islamist party.

"Indonesia today is a very open marketplace for ideas," says Greg Barton, a professor and expert on Indonesia and Islam at Australia's Monash University. "The emergence of habibs like Mr. Munzir [Almusawa] is a corrective to the assumption that a powerful, attractive orator is an extremist."

The crowds at Mr. Almusawa's twice-a-week gatherings build before dusk. Men and women, many of them teens, flock on motorcycles to his rundown mosque in the gritty Pancoran neighborhood in Jakarta. Vendors sell DVDs of Mr. Almusawa's top sermons along with prayer beads, prayer mats and vials of Islamic perfumes.

When the habib arrives at 8:30 p.m., the crowd surges forward. Thousands of people spill into a lot next door to gather before large projector screens. Drum-driven chants meditating on the life of Islam's founder, the Prophet Muhammad, echo through the tropical night. A typical crowd can be 30,000 strong, police say.

When Mr. Almusawa takes his place, he starts off in a deep, soft baritone before building momentum and pitch as he addresses his subject: How Muslims should shrug off the
"Innocence of Muslims" video that spread online. In his climactic thought, Mr. Almusawa calls it a test that Muslims must pass by letting the controversy go. The drums again begin and the congregation's voices swell in praise of the Prophet Muhammad.

Speaking later at his home, Mr. Almusawa, a bearlike man with a trim beard and piercing gaze, says Muslims shouldn't allow themselves to be provoked by the Christian group in California that backed the video. "People like them don't understand Islam, so we shouldn't overreact," Mr. Almusawa said. "Otherwise we are just being driven by people who don't love our Prophet and his teachings."

Dozens of people have been killed worldwide in protests against the crude video, which portrays the Prophet Muhammad as a womanizer and sexual deviant. The uproar helped set the ground for an attack in Libya that killed the U.S. ambassador.

In his addresses, Mr. Almusawa tends to focus on themes of justice and tolerance, and often speaks out about fidelity and drug abuse. He uses social-media sites such as Facebook, along with text-message blasts, to get his words to his followers.

In some respects, Mr. Almusawa's popularity stems from the rapid urbanization under way here. Millions of people have flocked to megacities such as Jakarta in recent years. As a result, many younger Indonesians are missing out on the Islamic boarding-school education that some of their parents experienced. They are finding alternatives in groups such as Mr. Almusawa's Majelis Rasulullah, or Prophet's Assembly.

Mr. Almusawa first began preaching in 1998, during the chaos surrounding President Suharto's fall. He found a bond among younger Jakartans dislocated by the economic and democratic upheavals.

"They would come to me with their problems, talking about how their parents were having affairs or their own problems with boyfriends and girlfriends," said Mr. Almusawa. "I tried to calm them down, to help them relax and see things in perspective."

There is no objective measure of the size of Indonesia's Islamic organizations, but Mr. Almusawa's is considered the largest of the new moderate charismatic groups. It claims hundreds of thousands of followers.

Indonesia also has two much larger and more established moderate groups, the decades-old Nahdlatul Ulama and Muhammadiyah. Both are considered to have millions of members. In recent years, though, they have come to be perceived as more bureaucratic, opening the field to the charismatic moderates.

Still, hard-line groups such as the Islamic Defenders Front still influence many young Indonesians, analysts say, and are active nationwide. "Other clerics plant the seed of goodness and kindness, and grow it," said the Front's Jakarta chairman, Salim Selon Alatas, who also uses the title habib. But his group, he said, will also strike out against what it perceives as threats against the faith: "We will guard the plant, and crush the bug. That's our job."
There are also more dangerous groups. Security officials and prosecutors say recruiters from terror-minded organizations are now seeking young people to carry out bombing and assassination missions.

Last month, two men in their mid-40s, Badri Hartono and Rudi Kurnia Putra, were detained and accused of recruiting youths in their late teens and early 20s to learn bomb-making and to prepare attacks on government offices. The two are in detention awaiting trial. Neither they nor their lawyers could be reached for comment.

But as Mr. Almusawa's popularity suggests, Indonesia's more moderate preachers are beginning to exert some pull of their own. A dozen or more are now using vast sound systems or television appearances to pursue new followers.

One preacher, Abdullah Gymnastiar, became a national celebrity for his witty sermons—which sometimes included sex tips for husbands who have more than one wife—before he lost many of his female followers for taking a second wife himself. Mr. Gymnastiar couldn't be reached for comment.

"They are having a significant impact by shaping a moderate view of Islam in Indonesia, especially among the young," says Arif Zamhari, an Indonesian academic who has studied the moderate preachers.

Indonesia's security agencies and government leaders in some cases directly support groups like Mr. Almusawa's. President Susilo Bambang Yudhoyono has attended several of his gatherings. And Jakarta's recently elected governor paid a public visit to Mr. Almusawa when he was recently hospitalized.

"Like politicians anywhere else, they hope that some of this popularity will rub off on them," says Mr. Barton at Monash University.

Mr. Almusawa says his next step could be to reach out beyond Indonesia's shores by producing a YouTube video on his own. Mr. Almusawa collects footage of his own prayer meetings on his battered old Nokia Communicator phone and reckons it would be straightforward to put out a film to counter the provocative portrayal of the Prophet Muhammad in the "Innocence of Muslims" clip.

"Instead of protesting or rioting, we could show the real meaning of the Prophet's teachings," Mr. Almusawa said. "If we use violence as our way, we will destroy ourselves."

—Patrick McDowell contributed to this article.

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