Indonesian budget sets stage for further political instability

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The Indonesian budget presented to parliament last week has led to deepening tensions within the country's ruling elites over the direction of economic policy and to protests by students and workers over the politically explosive issue of fuel price rises.

The major features of the budget had already been laid out by the IMF in the detailed prescriptions contained in the Letter of Intent signed by the Indonesian government on September 7, which include privatisation, bank restructuring, cutbacks to social spending and the abolition of price subsidies.

Over a quarter of the total budget spending of 295 trillion rupiah ($US34 billion) has been allocated to debt repayment—56 trillion rupiah to interest payments on treasury bonds and 22 trillion rupiah to the servicing of foreign loans. Most of this reflects the huge cost of recapitalising the country's banking system in the wake of the financial collapse of 1997-1998.

Of the remainder, 14 percent has been earmarked for state salaries and another 11 percent set aside for infrastructure—the bulk of which will be devoted to attracting investment. Subsidies on fuel, electricity, food and credit still account for 16 percent of the budget, but all of them are projected to be progressively reduced. After money for the military and for substantial corporate bailouts is taken out, little is left for the welfare, education, public health and housing programs that are so desperately needed by the majority of the population.

The Letter of Intent indicated that the government had “to give priority to the rapid restructuring and privatisation of the telecommunications sector.” Plans have also been drawn up to sell off state-owned electricity, oil and natural gas services. The restructuring and privatisation of these state-owned enterprises will inevitably lead to another round of job cuts and higher electricity prices.

The budget implemented another key IMF demand to decentralise administration and provide a 50 percent boost to regional governments to bring their total funds to 74.9 trillion rupiah ($US8.5 billion). Accompanying these financial changes are plans to allow regional governments a greater say over economic development. While the government has announced the measure as a means of quelling separatist demands in resource rich regions, such as Aceh and West Papua, international capital is no doubt keen to exploit the greater autonomy to bypass Jakarta and cut deals with governments at the regional level.

The budget was brought down in advance of a meeting of Indonesia's creditors—the Consultative Group on Indonesia (CGI)—in Tokyo next week, where every item will be closely scrutinised to see whether it meets the demands of international investors. The Indonesian government will be seeking an extra $US4.2 billion in loans that are crucial for financing the budget deficit.

No sooner was the ink dry on the budget papers, however, than conflicts began to erupt between the IMF and the Indonesian government. When the Indonesian parliament objected to the sale of stakes in the Bank Central Asia and Bank Niaga, the government announced a delay. The following day IMF officials sharply criticised the government for breaking one of its commitments.

Earlier in the week the IMF and World Bank sent a joint letter to the coordinating economics minister Rizal Ramli taking the government to task for its proposed $US2.7 billion bailout of the Texmaco group. The letter, which was leaked to the Jakarta press, set off further criticisms of the government, which has also provided trillions of rupiah to prop up other floundering business conglomerates. The IMF is pushing for an end to such bailouts in order to clear the way for international investors to snap up assets at bargain basement prices.

The Wahid government is walking an increasingly fine line. On the one hand, it desperately needs IMF loans to shore up the budget and the economy as a whole. As a result Wahid is compelled to implement the economic and political demands being made by the IMF and the major powers for the dismantling of all barriers to international investment in Indonesia.

At the same time, the government faces stiff opposition within Indonesia from sections of the ruling elite, including businessmen, state officials and the military, who stand to lose out if the economy is completely opened up and state enterprises sold off. Those affected include, but are not limited to, layers connected to the former dictator Suharto and his family.

Furthermore, the ruling class as a whole is concerned at the potential for the IMF-imposed measures to trigger social unrest. An immediate cut in fuel subsidies of 12 percent contained in the budget has already resulted in protests over higher fuel and transport prices in the major centres.

More than 20,000 police were placed on high alert in anticipation of protests against the reduction of fuel price subsidies. The sharpest clashes occurred in Makassar in South Sulawesi where transport workers and students brought the city to a halt. Police shot and wounded five students.

In Jakarta, a relatively small demonstration of 300 university students rallied in front of the presidential palace to demand an end to fuel price rises and for Suharto to be tried on corruption charges. In Medan, the provincial capital of North Sumatra, students from the Indonesian Maritime Academy demonstrated against the fuel prices and then marched on the government-run television station. In Bali students demanded the confiscation of the wealth of Suharto and his associates to pay for oil and education subsidies.

The poorest layers of society will be hit hard by higher prices for kerosene, which is widely used for cooking and lighting, and by higher transport costs. The budget papers foreshadow a further 20 percent increase in fuel prices next April as part of plans to phase out all fuel subsidies by 2004.

The Wahid government is particularly nervous about ending subsidies. In 1998, when former military strongman Suharto lifted fuel prices in line with IMF demands, demonstrations erupted that led to the collapse of the regime. Earlier this year, Wahid delayed planned cuts in the fuel subsidy after widespread protests were threatened.

As rising prices for fuel and other commodities impact on the lives of ordinary working people, social discontent and unrest is certain to grow. On Tuesday 500 workers organised by the Indonesian Union Solidarity Forum (FSUI) protested outside the presidential palace in Jakarta demanding lower fuel prices and a 100 percent increase in wages. A spokesman said that, contrary to government claims, the price of food and other essential commodities had risen by as much as 20 percent since the budget was brought down.