Fuel price rise in Indonesia triggers protests

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The Indonesian government's decision to slash fuel subsidies in early March and raise prices by 29 percent has provoked weeks of street protests and led to stormy scenes in the country's parliament during the debate over the issue.

The political tensions underline the dilemma facing President Susilo Bambang Yudhoyono in carrying out the demands of the IMF and World Bank. His administration is carrying out a program of economic reforms in order to attract investment and boost the country's flagging economy. Cutbacks to government spending, and to state subsidies in particular, are high on the agenda.

At the same time, these measures are deeply unpopular. In 1998, President Suharto's decision to implement the IMF's demand for fuel price increases was a significant contributing factor to the protests that forced him from power. In 2003 Yudhoyono's predecessor, Megawati Sukarnoputri, backed away from plans to cut the subsidy after large-scale demonstrations.

On March 2, the day after the decision was announced, student-led protests erupted across the archipelago. Around 3,000 students gathered outside the State Palace in Jakarta, calling for Yudhoyono and his deputy Jusuf Kalla to step down.

Protesters took over radio station RRI to denounce the fuel policy and the government's arrogance. One student broadcaster told the audience: "The present regime has no sense of crisis. It has made the controversial decision despite the hardship faced by people in [tsunami-ravaged] Aceh and many other regions."

In South Sulawesi's capital Makassar, thousands of students gathered in front of the provincial legislature. A fuel truck was hijacked and held at the Muhammadiyah University until riot police finally moved in. Elsewhere in the Sulawesi, and also in Cirebon and Bandung in West Java, bus drivers joined students on the streets.

By the end of the first week, demonstrations had been reported in at least 10 cities. A national opinion poll by the Indonesian Survey Institute, indicated that 70 percent of the population was opposed to fuel price rises. While not on the scale of 1998 or 2003, protests have nevertheless continued outside the Indonesian parliament building in Jakarta virtually every day.

The demonstrations have the potential to involve the country's urban and rural poor who will be hit by higher transport costs, both directly and indirectly. At least 40 million people in Indonesia live below the poverty line on less than $US2 a day.

Despite insistent demands from big business and foreign investors, Yudhoyono hesitated for four months before implementing the measure. Yudhoyono, a retired army general, won last year's presidential election by promoting himself as "a man of the people" and capitalising on hostility to Megawati's failure to improve living standards.

Desperate to defuse the opposition, the government has followed the World Bank line—subsidies only help the rich. A publicity campaign portrayed wealthy car owners as the main beneficiaries of cheap petrol that previously retailed in Jakarta for at around 20 US cents a litre.

The administration has pledged to put half of the 20 trillion rupiah ($US2.1 billion) saved through the cutbacks into programs designed to assist the poor. Kerosene, widely used by the rural and urban poor for cooking and lighting, has been exempted from the price hike. The commodity is now reportedly in short supply.

The issue provoked intense debate in parliament. On March 17, a physical brawl erupted between deputies, two of whom were knocked out. The government, however, has refused to back down.

Vice President Kalla, head of Golkar—Suharto's old

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party and the largest parliamentary faction—bluntly told a recent meeting of party delegates that the policy was unavoidable. The government, he said, was "very sorry that for a better future, people have to undergo a bitter experience now. But a sick person will not recover without taking the bitter pill."

Rising oil prices led to a ballooning of the subsidy last year to 59 trillion rupiah ($US6.31 billion). Even after the cutbacks, the cost this year is expected to be 40 trillion rupiah or 10 percent of the government's budget. Like other so-called economic reforms, however, the brunt is going to be borne by those least able to afford it.

The parliament did not block the subsidy cuts, but registered a limp protest calling for the government to review the decision as part of the 2005 budget discussion. The result evoked an angry response from demonstrators outside. Megawati's Indonesian Democratic Party-Struggle (PDI-P) and the National Awakening Party (PKB), which between them control 161 seats, boycotted the vote.

In further token moves, Cabinet Secretary Sudi Silalahi announced that state ministries had been instructed to develop plans for free education, free health care and free third-class hospitalisation for the poor. He said the government was planning action against those contributing to fuel scarcity, particularly of kerosene, and would monitor prices.

Yudhoyono is under pressure to implement other economic restructuring measures. Big business is calling for a crackdown on corruption, lower corporate taxes and changes to the country's labour laws to allow for mass sackings in order to attract investors. Last year foreign direct investment slipped to the lowest levels since the 1970s.

A former Japanese diplomat in Indonesia Takeshi Kohno bluntly warned on the *Bloomberg.com* web site last October: "The labour issue and fuel subsidy problem—essentially a class issue—will be a test for Yudhoyono as he has to balance between populist policies and market-orientated policies ... [He] will need to override temptations to fall in populist policies as they will irritate the market and investors."

In an article in March entitled "SBY [Yudhoyono's acronym] slow to grasp nettle of change", the British-based *Economist* noted that economists had been "anxiously waiting" for the fuel price hike. Yet Yudhoyono "and his economics team agonised for months ... thus raising doubts about how quickly they will go on to overhaul Southeast Asia's largest economy."

The magazine complained that the administration had promised a major policy overhaul during the first 100 days of office but, "had little to show for itself beyond a well-attended conference for potential investors in Indonesia's infrastructure.... The list of what hasn't happened is a bit depressing."

To contain protests against this agenda, Yudhoyono is relying on two factors. Firstly, the opposition parties—the PDI-P and PKB—led by former presidents Megawati Sukarnoputri and Abdurrahman Wahid are thoroughly compromised by their terms in office. These so-called democratic reformers presided over deteriorating living standards and worked hand-in-hand with the military and Golkar in attacking democratic rights.

Secondly, Yudhoyono and Kalla have intimate connections with the state apparatus and military that was built up under Suharto. Yudhoyono publicly called on the police to go easy on protests against the fuel price increases, clearly hoping they would fizzle out. But there is no doubt that the former general will not hesitate to use the full force of the army and police to crack down on any determined political opposition to his government.

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