Fuel price hikes raise political tensions in Indonesia

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Widespread but relatively small demonstrations followed the announcement last Friday by the government of Indonesian President Susilo Bambang Yudhoyono of sharp rises in the price of petrol, diesel and kerosene.

According to Indonesian press reports, protests occurred in at least 15 cities on Friday and over the weekend, with the number of demonstrators ranging from several hundred to a thousand. There were violent clashes with students in Jakarta and Semarang, and in some areas students forced local legislative bodies to join the demonstrations.

Coordinating Minister for the Economy Aburizal Bakrie unveiled higher than expected price increases close to midnight on Friday, after a prolonged cabinet meeting. The price of petrol rose 87.5 percent to 4,500 rupiah (44 US cents) a litre, diesel fuel 105 percent to 4,300 rupiah and kerosene, on which the poor depend for cooking, a huge 186 percent to 2,000 rupiah.

The government and security forces are bracing for further trouble as the price hikes hit the urban and rural poor. In a country of 220 million people where at least 40 million exist on 20,000 rupiah ($US2) a day or less, thousands of police have been put on alert. In Jakarta alone, 5,033 police were deployed to 13 locations on Friday to deal with demonstrations.

Saturday night's terrorist bombings in Bali permitted Yudhoyono to divert attention away from the price rises, while providing a pretext for the extensive mobilisation of security forces, with 200,000 police placed on high alert.

The price hike flows from the government's recent decision to cap the country's oil price subsidy at $US8.68 billion for 2005. A combination of high international oil prices, growing domestic demand, increasing oil imports and declining domestic oil production, due to low levels of investment, threatened to blow the subsidy out to $US14 billion. This would have more than doubled the 2004 figure and swallowed a third of government spending, creating a fiscal crisis.

Yudhoyono remains under intense pressure from global financial institutions. The ballooning oil subsidy saw the rupiah's value fall against the US dollar to its lowest level in four years in late August, amid signs of foreign investors leaving the Indonesian market.

The international ratings agency Standard & Poor's, which last month downgraded Indonesia's debt, called the price rises an "encouraging move" but warned that it was not enough to restore investor confidence. S&P analysts told the *Financial Times:* "Although the size of the fuel price hike appears to stamp the president's authority on the government and is a statement of leadership, its belated nature highlights the risks posed by a seeming inability to formulate appropriate and timely policy responses when faced with external shocks."

The agency noted that the fuel prices remained up to 66 percent below world market levels. Indonesian officials said a committee of ministers would keep raising prices to bring them into line with the global market by January 2008, but S&P stated that the government would also have to improve "the general business environment" to lure additional investment.

Fearing an angry public reaction, Yudhoyono has been reluctant to raise oil prices. The Indonesia elite are still haunted by the massive protests over fuel price rises that played a significant part in the fall of Suharto's military-backed dictatorship in 1998. Last month, two former presidents Abdurrahman Wahid and Megawati Sukarnoputri—who was forced to back down from oil price hikes in 2003—urged Yudhoyono to abandon the price rises.

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Megawati's party, the Indonesian Democratic Party of Struggle (PDI-P), and the Islamic United Development Party (PPP) opposed any price rise in parliament on September 27. They offered no real alternative, however. The PPP rather absurdly demanded that Yudhoyono show "innovation" by scrapping the budget oil subsidy without increasing fuel prices.

Wahid's National Awakening Party simply refused to put a position on slashing the budget subsidy. Even Golkar, Suharto's old party, which supported the budget cuts, sought to distance itself from Yudhoyono by warning that his previously unveiled low-income compensation scheme had to reach the poor. In the end, the 550-member chamber voted 273 to 83 to approve the subsidy cap.

Despite gaining parliamentary support, the government was clearly nervous. In a speech on Friday before the final cabinet meeting on the extent of price rises, Yudhoyono said: "It is not an easy choice. I understand that this is a bitter pill but I have to do it to save the country's economy and the country's future."

Yudhoyono is banking on the compensation plan, plus his reputation as the country's first popularly elected president, to prevent mass political action against the government. Under the compensation scheme, those living on less than 175,000 rupiah a month will receive 300,000 rupiah each quarter over the next year. This will cover 15.6 million households, some 62 million people.

Welfare groups pointed out, however, that much of the compensation promised after the 29 percent fuel price rises in March had disappeared into the pockets of corrupt state officials. This time, disbursement has been placed in the hands of post offices and Bank Rakyat Indonesia branches.

But even if the money is fully distributed, it will be devoured by the increasing costs of essential commodities. The *Jakarta Post* reported that rice, sugar and cooking oil prices had begun to rise before the fuel price hikes were announced. Inflation is running at an annual rate of 9.1 percent, with ABN AMRO's Irene Cheung estimating that the fuel subsidy cuts will drive it up to 11 percent by December.

Interviews published by Reuters on October 1 indicate that the government's measures may fail to alleviate mass discontent. Erlina, a housewife in Padang, Sumatra said: "In the circumstances the government is trying to kill its citizens slowly because of the increase in prices ... Better if the government collects the people in a field and then shoots us, so we can die faster."

Nuriana from Surabaya, Java said she was pleased to receive the compensation but it would not be enough, "because transportation costs will rise, and also the price of sugar, rice, electricity, water and others."

Financial commentators are anxiously awaiting the political outcome. Standard Chartered's Indonesian economist Fauzi Ichsan told Reuters: "It's very risky politically. Now the concern is that if the decision triggers social unrest and the rupiah tanks further, then we go back to square one. I would say this is SBY's (Yudhoyono's) biggest political gamble."

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