Indonesian government retreats from immediate fuel price rise

John Roberts
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A partial backdown by the Indonesian government over fuel price hikes has opened rifts in the political establishment in Jakarta and brought sharp condemnation in the international financial media. The planned increases, which were due to come into force on April 1, had provoked widespread popular protests.

The parliament agreed on March 31 to delay any rise until the Indonesian Crude Price exceeds the government's budget benchmark of $US105 a barrel by 15 percent. The World Bank estimates that the threshold could be reached as early as next month, paving the way for fuel price rises in June or July.

President Bambang Susilo Yudhoyono has been under pressure from big business and foreign investors to slash the budget deficit. In 2011, fuel subsidies amounted to $18 billion or 15 percent of the total state budget. Rising oil prices, from $75 a barrel in October to around $116, driven in part by speculation about a US or Israeli military attack on Iran, mean that the figure could reach $30 billion for 2012.

The Yudhoyono administration proposed to cut the subsidies so that the price of premium fuel would rise by 33 percent from 4,500 to 6,000 rupiah (49 to 65 US cents) a litre.

The last-minute March 31 backdown came after more than two weeks of mass demonstrations across the country. Police reported over 1,000 demonstrations, attended by tens of thousands in the major cities. Some 20,000 soldiers and police were deployed in Jakarta alone, where the media reported the protests were dominated by trade unionists and students.

In Jakarta and Makassar, the largest city in Sulawesi, protesters blocked off streets and set fires. There were violent clashes with police, who attempted to suppress the protests. Around 750 arrests took place in just four days from March 23 to 26. Police reported 16 police stations had been damaged.

Indonesia's poor will be hardest hit by increased prices. A construction worker commented to Reuters on March 27 at a demonstration in Jakarta: "I reject the planned hike. I am poor, life is difficult. And this will make life even more difficult."

A World Bank report published this month estimated that 25 percent of the country's 237 million people live below the "near poor" line of $30 per month. Oil price increases will affect transport, food, clothing and other essential commodities. The Indonesian central bank estimates that the proposed fuel price hike will increase the official inflation rate from 3.56 percent in February to 7 percent. The World Bank predicts inflation for 2012 at 5.2 percent without the oil price increase, and 8.5 percent if it goes ahead.

Media commentators have compared the protests to those in 1998 that contributed to overthrow of the Suharto dictatorship. Demonstrations also erupted in 2002 and 2008 against similar proposals to cut fuel subsidies and raise prices. More than a decade after Suharto's downfall, the distrust of the Jakarta political establishment remains as great as ever.

Interviewed by the *Wall Street Journal* on March 31, Castlerock Consulting managing director Mike Crosetti claimed that many Indonesians knew that the money could be better spent than on subsidies but no one believed the funds would be properly spent. “They have lost faith in the government and figure it’s better to keep the money in their pockets,” he said.

Indonesian National Economic Committee vice chairman Chatib Basri told the *Christian Science Monitor* on April 2: “There were protests then (in 2008), as always, but not like this. Political trust is low because of scandals related to the ruling party.”

Senior figures in Yudhoyono’s Democrat Party are embroiled in corruption scandals that are partly to blame for its growing unpopularity. Support for the president has fallen from 60 percent in the 2009 election to an approval rate of 45 percent. Polls indicate that his party would receive only 14 percent of the vote, compared to 20 percent in 2009.

Fitch Ratings agency, which in December gave Indonesia an investment-grade credit rating, reacted to the fuel subsidy backdown with alarm. It warned on April 3. “We noted the informal build-up to the 2014 elections had begun, potentially slowing governance as well as economic reform measures that could strengthen the credit profile over the long term.”

Yudhoyono rests on a coalition of parties that are already jockeying for position before the 2014 presidential and parliamentary elections. The president was forced into a humiliating reversal on the oil subsidies when coalition partner Golkar, the party of the Suharto dictatorship, refused to support the unpopular proposal.

The *Wall Street Journal* wrote that the failed subsidy bill was “an important test” of the ability of Yudhoyono and his party “to take the tough steps needed to help Southeast Asia’s largest economy to grow faster.”

The Indonesian economy grew by 6.5 percent last year and attracted $20 billion in foreign direct investment. Foreign investors see the country’s vast pool of cheap labour and abundant natural resources as a major new arena for profits. This year economic growth is predicted to be 6 percent.

But foreign capital is demanding assurances that Yudhoyono continues his administration’s pro-market restructuring. “Good governance” means slashing public spending on subsidies and essential services, upgrading infrastructure, especially ports and transport facilities, and ending the cronyism and corruption that acts as a barrier to foreign investment.

In this context, the cutting of the fuel price subsidies provides “an important test” as to whether the government can impose this regressive agenda on working people.