Fuel price rise provokes unrest in Indonesia

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Gas prices rose by 44 percent in Indonesia on Saturday as the government of President Susilo Bambang Yudhoyono (SBY) moved to eliminate most of the state subsidy that has been in place since 1945.

Last Monday, even before the House of Representatives approved the increase, thousands of protesters demonstrated in Jakarta and in outlying areas. Police responded with tear gas and water cannon. Protests continued on Tuesday and Wednesday.

At the end of the week, the cost of a liter was raised from 45 cents to 65 cents ($1.90 to $2.50 per gallon), and diesel increased from 45 cents to 55 cents per liter. Non-subsidized high-octane gas costs as much as $4.13 a gallon.

Thousands of workers walked off the job Friday morning in the industrial centers around Jakarta to protest the price rise. The government prepared water cannon and armored vehicles and mobilized hundreds of police and military in anticipation of the demonstrations.

The higher prices have already sparked increases in the price of basic foodstuffs, such as rice and vegetables, and are expected to drive inflation to a seven-year high, from the current 4.9 percent to 7.2 percent.

Half of Indonesia’s 240 million people live on $2 or less a day. Cuts to state price subsidies will significantly worsen and increase the incidence of poverty in Indonesia.

According to the UN International Fund for Agricultural Development, the poor are now worse off than they were before the devastating 1997 financial crisis that swept the region, and the gap between rich and poor is widening.

President Yudhoyono, a former general from the Suharto era, has claimed that the impact of the fuel price increase will be mitigated by a government handout of $15 per month for four months to the poorest families.

This is a short-term measure, a pittance designed to briefly assuage anger and stem protests. The targeted funds will reach only a small portion of Indonesia’s population. As with previous handouts, what little funds are disbursed will be pocketed by well-off social layers through the country’s pervasive nepotism and corruption.

The opposition Indonesian Democratic Party of Struggle (PDI-P), led by former President Megawati Sukarnoputri, voted against the subsidy cut. Megawati denounced SBY’s handout gesture as “legitimized political bribery” in the lead up to next year’s general election. As the country’s president in 2003, Megawati attempted to slash fuel subsidies, but was forced to back down after large-scale protests.

The Indonesian government’s decision to cut subsidies comes in response to a worsening economic situation, and under intense pressure from international finance capital. For the first time since the 1960s, Indonesia has a trade deficit, which emerged last year in response to depressed world prices for natural resources and commodity exports, such as plywood, textiles and rubber. Demand has also fallen in the wake of the continuing worldwide economic slowdown.

At the same time, Indonesia has also developed a current account deficit, the first in 14 years, and foreign reserves have dropped by almost $20 billion in the past two years.

Under pressure from foreign investors, the rupiah has weakened steadily. Even after the approval of the fuel price rise on Monday, which was intended to calm investors’ fears, the currency fell to its lowest value since 2009, trading at 9,960 to the US dollar Friday, down from 9,927 Thursday. Banks were selling dollars at more than 10,000 rupiah.

Pressure on the currency has intensified further with capital outflows driven by global fears that the US and

Japanese central banks will slow their asset-purchasing programs.

Under these conditions, Indonesia, the largest economy in South-East Asia and a former member of OPEC, has come under increasing pressure to eliminate the fuel subsidy, an action long demanded by the World Bank. The international ratings agency Standard and Poor's recently downgraded its outlook for the country from positive to stable.

Only a few years ago Indonesia was one of the economies, along with China, predicted to pull the world economy out of recession. Even last year, the Indonesian economy grew by 6.2 percent, and the government predicted growth of 6.8 percent in 2013. This estimate has since been revised down to 6.3 percent.

But the economic growth has resulted in a sharp increase in the cost of the fuel subsidy. Demand for fuel has risen, and car sales reached a record 1.1 million units in 2012, more than double the total just three years earlier. Fuel subsidies rose to 212 trillion rupiah ($21.4 billion) in 2012 from just 45 trillion rupiah in 2009.

Since 2008 Indonesia has been a net importer of oil. It currently pays $39 billion annually for the oil it imports, about 40 percent of consumption. With increases in consumption and rising oil prices, the reduced fuel subsidy is still budgeted to cost $20.2 billion this year, nearly 4 percent of total economic output.

The return of a current account deficit together with a weakening currency has revived memories of the Asian economic crisis of 1997, when years of export growth were followed by a sudden outflow of foreign investment. For Indonesia and other countries in South-East Asia, the short-term loss in GDP reached 10 and even 20 percent.

Protests against fuel price rises have a long history in Indonesia. Last year the government attempted to raise fuel prices but was met with major protests. Earlier gas price rises in 2005 and 2008 also sparked mass opposition.

In 1998 a mass movement against the slashing of government subsidies on food, fuel and electricity dictated by the International Monetary Fund contributed to the fall of the military dictatorship of General Suharto, who came to power in 1965 in a military coup in which hundreds of thousands of workers and rural poor were killed.

The current fuel subsidy cut is a measure of the crisis now engulfing Indonesia. As Hatta Rajasa, coordinating minister for the economy, said in announcing the subsidy cut, "The government made this choice as a last resort… The global crisis has impacted our economic growth."