New Indonesian government faces slowing economy, rising social tensions

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When Indonesian president-elect Joko Widodo, or "Jokowi", is inaugurated on October 20 his administration will face a slowing economy, rising social tensions and demands from the IMF and the World Bank for "deeper structural reforms."

Widodo won the election by promoting himself as an incorruptible man of the people and friend of the poor, with promises of 12 years of state-funded education and free health care. However, all of these pledges will be rapidly watered down or completely ditched, as the new government presses ahead with the austerity measures demanded by international finance capital.

The Indonesian economy is being hit by growing international financial uncertainty and global slump, particularly the marked slowdown of the Chinese economy. During Susilo Bambang Yudhoyono's decade in office, the country's Gross Domestic Product more than trebled from $US256.84 billion in 2005 to $878.04 billion in 2013, according to the World Bank.

After the 2008 global financial crisis, the Indonesian economy continued to expand as a result of strong demand from China for palm oil, rubber, coal and other minerals, which in turn pushed up domestic consumption. During the 2010–2012 period, GDP growth averaged 6.3 percent but fell to 5.8 percent in 2013 and is predicted to drop to 5.2 percent this year, according to the country's central bank.

Despite a thin trade surplus of $124 million in July, the overall trade deficit for 2014 hovers around $1 billion. Exports have fallen 6 percent year on year. The trade deficit has only been kept in check by a fall of more than 19 percent in imports, but this signifies that consumption and domestic investment, the main drivers of Indonesia's GDP growth, are in decline.

The decline is particularly marked in exports to China, the country's largest export market. The value of exports to China fell from $204 billion in 2011 to $183 billion in 2013, both as a result of declining demand and falling international commodity prices.

Exports have also been affected by internal factors. Whereas foreign investors have been demanding massive government spending to upgrade economic infrastructure, the *Economist* complained last month of "dilapidated ports, roads and electricity supply."

The Yudhoyono administration legislated to force mining companies to build processing plants rather than simply exporting the raw materials. In January, it imposed restrictions on the export of unprocessed minerals, adding to the overall trade deficit.

Combined trade and budget deficits have been offset by capital inflows, but most of this is hot money resulting from the quantitative easing policies of the US and European central banks. To maintain capital inflows and the currency's value, the Bank of Indonesia has kept a high benchmark interest rate of 7.5 percent which affects domestic businesses.

The World Bank and IMF have long targeted fuel subsidies and demanded their removal as the means for reducing the budget deficit and making funding available for infrastructure. Indonesia, which used to be a significant oil exporter, now imports an increasing proportion of its requirements. The subsidy makes up the difference between the local fuel price of 55 US cents a litre and the imported price of about 98 cents and is expected to cost $21 billion this year and $25 billion in 2015.

Widodo faces a looming political confrontation over his plans to cut the fuel subsidy. Previous administrations have provoked widespread angry protests over cutbacks to the subsidy, which directly affects transport costs and adds to the price of essential items. In 1998, protests over the IMF-mandated fuel subsidy cuts contributed to the collapse of the Suharto dictatorship.

The average monthly wage in the “formal sector” of the Indonesian economy is just $193 compared with $406 in China. In the “informal sector”, which includes much of the rural population, 40 percent of the country’s 240 million people survive on $2 a day or less.

Widodo signalled his pro-business agenda in an interview with Reuters, embargoed until after the July 9 presidential result was announced on July 22. This included the removal of fuel subsidies along with foreign investor-friendly regulatory reforms and the renegotiation of the minerals export policy.

His win was widely welcomed by Western governments and media which were concerned that his rival, former Suharto-era general Prabowo Subianto, was too closely connected to the country’s “crony capitalists” and too supportive of economic nationalist policies. Widodo also has the backing of powerful sections of the military apparatus, but he has made clear that he will do the bidding of international finance capital.

Widodo has already moved on the fuel price subsidy. After a two-hour meeting with Yudhoyono in Bali on August 27, he told the media: “Last night I specifically requested [Yudhoyono] to narrow the budget deficit by raising fuel prices.” But Yudhoyono refused, telling the media later he had “taken pity” on the people.

Back in Jakarta Widodo declared: “I am ready to be unpopular. We need to reduce the fuel subsidies to fund more productive projects… other sectors that need subsidies more.” Of course, the “other sectors” will be those that support big business, the military and the state apparatus.

Widodo already faces opposition with his own Indonesian Democratic Party of Struggle (PDI-P). He has the support of party head, former President Megawati Sukarnoputri, but PDI-P central board member Maruarar Sirait said on August 30 that the fuel price hike must be a last resort.

Differences over Widodo’s pro-market agenda are compounding his difficulties in forming a cabinet and obtaining a parliamentary majority. The four-party coalition that supported Widodo’s ticket with vice-presidential candidate Jusuf Kalla—the PDI-P, the Muslim-based National Awakening Party (PKB), National Democratic Party and Hanura—has only 207 seats in the 560-seat lower house of the Indonesian parliament, the DPR.

The expectation that parties would break from the Prabowo camp to grab the offer of a place in cabinet has not been realised. These include: Golkar, the party of the Suharto dictatorship; Prabowo’s Gerindra; Yudhoyono’s Democrat Party; the Muslim National Mandate Party; Prosperous Justice Party and the United Development Party.

Prabowo lost his legal challenge to the election result, which was quashed by the Constitutional Court on August 21, but has continued to challenge the legitimacy of the poll. He and his allies are using their parliamentary majority to launch their own investigation into their claims of electoral fraud and are seeking a Supreme Court review of the Elections Commission’s role in the election. Prabowo’s supporters have even threatened to use their numbers in the Jakarta regional government to block Widodo’s resignation as Jakarta governor and prevent or delay his inauguration as president.

These continuing moves against Widodo point to sharp differences within the Indonesian ruling elites, particularly over economic policy, that have been exacerbated by the country’s continuing economic slowdown.