

# New Indonesian president raises fuel prices

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Indonesian President Joko Widodo's newly-installed government last week cut the fuel subsidies on which millions of the poorest among the nation's 250 million people depend, increasing the cost of petrol by 31 percent and diesel by 36 percent.

The November 17 announcement was the first major policy decision of Widodo's presidency since his October 20 inauguration. It was a signal to big business, the money markets and foreign investors that their longstanding demand for "structural reforms" would be implemented.

As well as cutting the subsidy, Widodo has appointed ex anti-corruption commissioner Amien Sunaryadi to head the Upstream Oil and Gas Regulatory Special Task Force—a move that is seen in financial circles as a welcome attempt to rid the oil and gas sector of its mafia-like cronies.

The government has foreshadowed further cuts next year to the subsidies, which consume about 20 percent of government spending. Fuel prices are still about 10-15 percent below what the financial press calls the "real price."

The rises will increase transport and living costs, including for basic food items. The central bank increased its benchmark interest rate from 7.5 to 7.75 percent to curb inflation, which is still expected to reach 8.1 percent, year on year, by the end of 2014, compared with the current rate of 5 percent.

Since the days of the Suharto dictatorship, fuel price subsidies have helped the oligarchic ruling elite control social unrest. Over half the population lives under or near the United Nations poverty line of \$2 a day. Wages, even in the economy's "formal sector," are less than half those in China.

In the midst of the 1997-98 Asian financial crisis, the IMF forced Suharto to sign off on a wide range of pro-market measures including cutbacks to the fuel subsidies. The resulting strikes and demonstrations

helped precipitate the collapse of his regime in 1998. The fuel price rises carried out after that, including by Widodo's immediate predecessor Susilo Bambang Yudhoyono, also provoked widespread protests and riots.

There were protests this time, but much more muted. The most serious clashes between police and protestors were in Makassar on Sulawesi, in the eastern part of the archipelago. There were protests during the week before the announcement in Makassar, Solo, Surabaya, Jogjakarta, Lampung and Palembang. On the day of the announcement, at least eight separate protests occurred in Jakarta, with tear gas being used by police in the city centre. By Thursday last week, however, most of the protests had dissipated.

Widodo's ability to impose the price hike underscores why powerful sections of Indonesia's ruling elite backed his election and helped package him as a "man of the people." This image was cultivated from his election as mayor of Solo to his winning the post of governor of Jakarta in 2012. Among those promoting Widodo was Prabowo Subianto, his rival in the presidential election campaign, who currently leads the opposition majority in the parliament.

Another early backer of Widodo was Jusuf Kalla, a senior figure in Golkar, the political instrument of the Suharto dictatorship, who is now Widodo's vice president. Ultimately, Widodo was adopted by former President Megawati Sukarnoputri's Indonesian Democratic Party of Struggle (PDI-P).

Under conditions of widespread public disaffection with the entire political establishment, a new face was needed as global economic storm clouds gathered. Prabowo, a notorious Suharto-era general, was regarded by many in ruling circles as too close to Suharto-period cronies and their interests and tainted in the eyes of voters.

Before his election, Widodo hid much of his pro-

market agenda, but foreshadowed the fuel hike, while promising relief for farmers, fishermen and the poor through cheap health care and cash payouts.

While some politicians, including PDI-P representatives, baulked at the subsidy cuts, Widodo was prepared to ride out the protests, declaring: “Let’s wait one or two days. This is a normal reaction to a decision.”

A threatened strike by bus and mini-van operators in Jakarta, which would have caused chaos and possibly provoked further protests, was called off when the Jakarta government authorised an increase in fares.

Significantly, Prabowo and another key opposition figure, Golkar leader Aburizal Bakrie, said virtually nothing as Widodo moved on the subsidy. The decision was made on behalf of the entire ruling class.

The subsidy cuts are just the first instalment of the agenda demanded by business to restructure the sharply slowing economy. Growth rates are predicted to drop to 5 percent, down from over 6 percent in 2010. Exports of coal and rubber to China are falling, the budget and current account are in deficit, and there are fears of global uncertainties and reduced capital inflows.

The London-based *Financial Times* noted a report by Barclay’s analysts that concluded: “The ability of [Widodo] to push through a fuel price hike shortly after taking office should strengthen investor confidence in his administration’s resolve to implement crucial but unpopular economic programs.”

Widodo’s government claims that the initial reduction in subsidies will free up over \$US8 billion of the state budget for infrastructure spending and other programs, but the benefits of these projects will flow to the corporate and financial elite. His infrastructure priorities include 5 deep sea ports, 24 smaller feeder ports, 10 airports, 25 dams, 2,000 kilometres of road construction and 10 industrial parks.

This will require nearly \$500 billion in infrastructure investment. Widodo has promised to cut red tape and approve investment permits within 15 days. Speaking to one group of global investment managers, he promoted his ability to deal with reluctant landowners who are holding up projects.

In order to push his austerity agenda, Widodo is continuing, with the help of his spin doctors, to promote his fraudulent image as an ordinary man sharing the necessary sacrifices. Over the past week,

the media provided stage-managed coverage of him and his wife travelling economy class to attend his son’s high school graduation in Singapore.



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