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The politics of economic reform in contemporary Indonesia

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Under less than ideal circumstances, the 1997–98 Asian crisis forced a series of important economic reforms upon the Indonesian economy, including the floating of the rupiah; consolidation of the banking sector; tightened money supply, which helped offset free-falling currency depreciation but also broke the back of pervasive high inflation; food price stability; and a deregulation and privatisation agenda.

[1]

However, none of these reforms came without significant pain. Many reforms were regressive in the short term, ensuring that the most vulnerable and impoverished Indonesians suffered the most from the crisis. The chaotic fire sale of public assets by the Indonesian Bank Restructuring Agency (IBRA) helped to pay down public debt and provide much-needed liquidity, but fell afoul of the rampant cronyism of the political elite. As the *New York Times* [2] reported in 2003: 'critics say IBRA became a clearinghouse that in many cases has allowed Suharto cronies secretly to buy back the scraps of their corporate empires'.

However, despite great problems, the spirit and political necessity of *reformasi* did indeed take hold, leading to the downfall of Suharto, the rapid decentralisation of political and economic power, and a transition to democracy. And yet, with such a strong economic legacy from the *reformasi* period, how much political momentum now remains for the original program of economic liberalisation?

With the United States engaged in quantitative easing since 2008 [3], money has flowed more easily into emerging markets across Asia. Combined with high commodity prices and regional demand, this has led to an export boom. But Indonesia has mostly used this period to instigate protectionist trade policies [4], particularly in the agricultural sector, which have affected both food supply and inflation. The country's horticultural restrictions are important enough to warrant special mention. The closure of Jakarta's port to horticultural products — through which 90 per cent of all Indonesian horticultural imports enter — constituted a major protectionist measure, and one which augurs a deeply worrying trend: that active import restrictions are again being used in Indonesia after a hiatus of over 25 years [5].

This flush of protectionism can be directly linked to domestic political considerations; import duties are being used as a quick way to fix widening gaps in the government budget created by burgeoning costs from politically sensitive fuel and electricity subsidies. These subsidies will likely cost US$32 billion in 2013, a whopping 20 per cent of the government budget [6], and threaten the future sustainability of Indonesian government spending. This ongoing uncertainty is also undermining investor confidence, raising the cost of finance in both the Indonesian private and public sectors. President Susilo Bambang Yudhoyono must be credited for easing the subsidies in June 2013 even in the face of mass protests [7], but it is unlikely to be any political stomach for further cuts during the remainder of his term. Interestingly, the fuel subsidies are regressive, with even the Indonesian Coordinating Ministry for Economic Affairs admitting in 2008 that fuel subsidies are an indiscriminate and ineffective way to realise welfare transfers, with the wealthiest 40 per cent of households currently capturing 70 per cent of the benefits [8].

Political opposition to further economic reform is not only rooted in intransigent populism and practical budgetary concerns, but also in the deeply personalised politics of patronage so ubiquitous in Indonesia. The government is then left in the difficult situation of having to balance technocratic decision making against political considerations. Mari Pangestu's demotion from trade to tourism minister is a perfect example of the retrograde steps in economic reform that can result from the unsavoury compromises of personal politics [9]: 'Yudhoyono's move to shift Pangestu … was evidence of political meddling not uncommon in a government seemingly failing to win a battle with graft … "The 2011 reshuffle was determined by party and personal loyalties and not driven by an assessment of the performance of ministers"'.

Indonesia's democratic transition has increased the potential for populism in frustrating economic reforms, but has not diminished the old role of personal politics. Having reaped the dividends of the *reformasi* period, further reforms are now encountering increased resistance from entrenched interests, with political elites not yet benevolently wedded to a broad platform of economic liberalisation.

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[1] 

: **http://www.eastasiaforum.org/wp-content/uploads/2013/11/Pangetsu-APEC.jpg**

[2] As the *New York Times*: **http://www.nytimes.com/2003/10/02/business/indonesian-bank-agency-fading-out.html?pagewanted=all&src=pm**

[3] quantitative easing since 2008: **http://ftalphaville.ft.com/2008/11/20/18483/m3-where-art-thou**

[4] protectionist trade policies: **http://www.eastasiaforum.org/2013/10/02/indonesia-living-dangerously-as-it-neglects-economic-reform**

[5] hiatus of over 25 years: **http://www.eastasiaforum.org/2012/06/18/indonesia-s-new-protectionist-trade-policies-a-blast-from-the-past**

[6] the government budget: **http://www.nytimes.com/2013/05/03/business/global/03iht-subsidy03.html?_r=0**

[7] mass protests: **http://www.cnn.com/2013/06/17/world/asia/indonesia-protests**

[8] 70 per cent of the benefits: **http://www.eastasiaforum.org/2012/05/04/26135/**

[9] compromises of personal politics: **http://sea-globe.com/rebel-with-a-cause/**

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