

The Politics of Fuel Subsidy Reform in Indonesia under the Yudhoyono Presidency (2004-2014)

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Abstract

Since the early 2000s, Indonesia has been trying to relieve the immense budget of energy subsidy by pushing for a reform. Energy subsidy reform, however, has been subjected to heated debates in the legislative arena, which neither the proponent nor the critics seem to be consistent with their position. As yet, no scholarly research has examined the political dynamics of energy subsidy in the Parliamentary debates, despite its importance in determining the success of the reform. For this reason, this article examines the pattern of political actors' behavior regarding energy subsidy in the legislative arena and how it influences the outcome of the reform. Focusing on the fuel pricing from 2004 to 2014 under President Yudhoyono and subsequent transition to President Jokowi, this paper argues that the features that shape the political actors' behavior were their electoral agenda, the ability of the President to ensure the discipline of the coalition members, and the timing. Consequently, these findings confirm that the high levels of political competition in Indonesia is the main roadblock to reform success. This article also suggests that expanding the analysis to the legislative arena, rather than solely focusing on the executive branch, provides a more comprehensive framework to understand the dynamics of subsidy reform in Indonesia.

Key Words: Indonesia, energy subsidy, legislative debate, reform, political economy

I . Introduction

Indonesia has experienced a surge in energy demand for the last several years. Yet, in contrast with the increasing appetite for energy, oil production has been steadily declining. In the pressure to meet the increasing demand, a glaring problem with government spending has stood out in the form of fossil fuel subsidy. The government under President Suharto (1967-1998) first introduced energy subsidy in the 1970s to reduce transportation costs and thus lower the price of goods and services. Over the years, as the population has grown from over a hundred million in the 1970s to more than a quarter billion in the 2000s, energy subsidy has become a burden on the national budget. In its worst year, energy subsidy captured one-fifth of the annual budget and drained the funds intended for the education and health (Dapice and

Cummigham 2011). Energy subsidy reforms which entail raising retail fuel prices were also justified by social welfare and environmental concern (Bulman, Fengler and Ikhsan, 2008 ; Beaton and Lontoh 2010 ; Dahlan 2012). This pressing issue forced the government to call out for a reform.

This article is an analysis of energy subsidy reform¹ as a case study of why political actors choose a certain set of behaviors and how the interaction between actors in the legislative arena shapes the government policy. It observes the sequences of fossil fuel subsidy reform and the oscillating position of the political actors throughout the Yudhoyono administration (2004-2014). Focusing on the annual budget meeting in the Parliament (*Dewan Perwakilan Rakyat*, DPR, or People's Representative Assembly) that has been largely ignored by previous studies, this article analyzes why neither proponents nor critics of energy subsidy reforms were consistent with their position. President Yudhoyono raised the fuel price three times during his time in office, first in 2005, then again in 2008 and 2012. At these times, the positions of political actors in the Parliament were wavering. The most prominent example was the shifting positions of the *Partai Demokrat* (PD, Demoratic Party)² and *Partai Demokrasi Indonesia Perjuangan* (PDIP, Indonesian Democratic Party for Struggle)³.

PD, the political party of President Yudhoyono, was a strong proponent of fuel subsidy reduction throughout his administration. Whereas the PDIP, the opposition party, repeatedly attempted to block the reform. However, the two parties eventually switched positions in 2014, after the PDIP won both Presidential and legislative elections. When Yudhoyono's successor, President Joko 'Jokowi' Widodo from the PDIP decided to cut the subsidy few months after the inauguration, PDIP decided to rally behind the President. PD on the other hand, voted to oppose the cut. What was the reason for this difference? What explains this change of heart?

Focusing on the institutional determinants to examine the behavior of political actors during the reform attempts, these findings confirm that institutional elements that shaped their behavior were the electoral pressure, the ability of the president to discipline the coalition members in the Parliament, and the timing of the reforms. Consequentially, this article argues that the high levels of political competition in DPR is the main roadblock to the reform success. The contribution of this argument is twofold. Firstly, it sheds a light on the broader political context surrounding energy subsidy, which leads to the government policy. Secondly, it provides an alternative reading on Indonesia's energy subsidy by focusing on the high levels of political competition associated with the current political arrangement brought about by democratization in 1998.

1 Fossil Fuel subsidy reform in this article refers to pricing reform only. For broader context of Indonesia's energy subsidy reform see Beaton *et al.* 2017. This analysis only covers the downstream energy subsidy or the subsidy that intended for the general public. The main goal of this type of subsidy is to lower the price of goods, thus making them affordable for people to purchase (Diop 2014). Upstream energy subsidy or the subsidy that aimed to the industry is beyond the scope of the analysis.

2 PD, the political party of President Yudhoyono (2004-2014)

3 PDIP, President Megawati (2001-2003) and President Jokowi (2014-).

II. Methodology

Methodologically, this article begins by reviewing the existing literature on energy subsidy reforms. Arguing that the existing literature only partially explains the case of Indonesia, this article adopts institutional analysis from Carrey (1997) to explain what motivates the political actors to vote for or against the reform. Firstly, it identifies the 'value' of the political parties, which in this paper are represented by their economic ideologies. The political parties that lean towards economic nationalism are more likely to oppose the reform, while those that are more accommodative to open market principles are more likely to vote for the reform.

While ideology can predict how the political parties will vote, it does not explain why they change their vote after a period of time. Therefore, in the second part of the analysis, this article examines political competitions between elite factions during the budgetary meetings in DPR and ahead of the elections. It argues that the higher electoral pressure heightens the level of political competition, thus reduces their willingness to vote for the unpopular energy subsidy cut. It also observes how the President managed the discipline of the political parties that formed the coalition. The strong political leadership and party discipline provide a counterbalance of the high levels of political competition, thus increasing the likelihood of the reform success. For the analysis, the data was collected from primary and secondary documents and interview during the fieldwork in Jakarta.

In what follows, it begins with a brief literature review and the rationale of energy subsidy reform. Then, it discusses the behavior of political actors in the legislative arena during the Yudhoyono administration, followed by the analysis of what drove them to choose that set of behaviors. It also examines how the interaction between actors in the legislative arena shapes the outcome of the reform.

III. Literature Review

The role of fuel subsidy in Indonesia has been a subject of study in recent years. However, despite financial pressure, subsidy reforms have generally been slow and contentious. Why is energy subsidy difficult to end? To date there several attempts to understand Indonesia's energy subsidy and the reform. The first explanation focuses on the socio-economic aspect of the fuel subsidy. It emphasizes the importance of energy subsidy as social assistance to the population at large (Beaton and Lontoh 2010 ; Beaton, Lontoh and Wai-Poi 2017 ; Listiyanto 2008). This socio-economic imperative is widely adopted by scholars and international organizations alike (e.g. Asian Development Bank 2015 ; WorldBank 2012). For this narrative, the reform success depended on the availability of alternative social assistance for the citizens.

Despite its popularity, the socio-economic narrative pays little attention to the political aspect of energy subsidy. Responding to this neglect, some studies move beyond socio-economic explanation

and explore the political determinant of Indonesia's energy subsidy. Some focus on the role of subsidy as a vote-getter (Ebeke and Nguoana 2015 ; Adam 2012). Others demonstrate how domestic political institutions response to the external factor, namely global oil price, and how this interaction affects the government's ability to progress the reform (Benes et al. 2015 ; Chelminsky 2018).

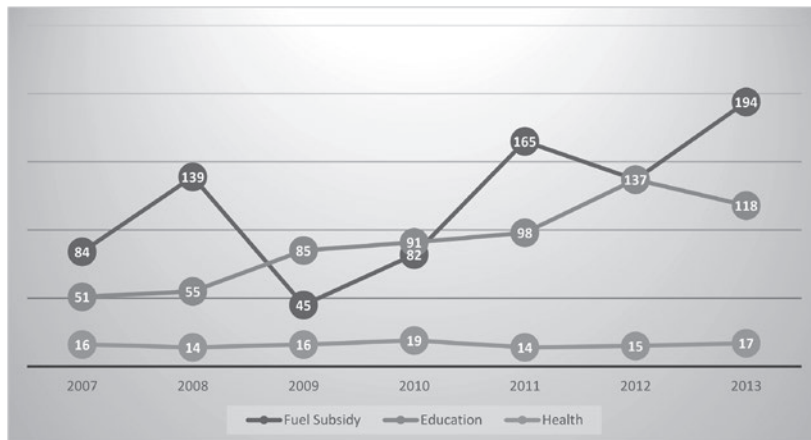
However, much of the studies on energy subsidy reforms in Indonesia have focused on the executive branch, especially the role of the President. Weighting solely on the role of the President ignored the broader political context surrounding the policy-making, which lead to the government's decision over energy subsidy and the outcome of the reform. As later shows in the analysis, the President's endorsement could not guarantee the progress of the reforms. For this reason, this article attempted to provide an alternative reading on the politics of Indonesia's energy subsidy reform, by extending the analysis to DPR and political parties. It argues that extending the analysis to the legislative arena provides a more comprehensive framework to understand the dynamics of Indonesia's energy subsidy reform.

IV. The Rationale of Energy Subsidy Reform

The herculean spending was the primary rationale for energy subsidy reform (Coady et al. 2017 ; Rentschler and Bazilian 2017 ; Sovacool 2017). Figure 1 shows that energy subsidy spending was significantly larger than the government's spending on health, and in some years, education. The surge of global oil prices has been particularly challenging for Indonesia. In 2008, during the high oil prices, energy subsidy spending ballooned from around 80 billion rupiahs a year before to more than 130 billion rupiahs. Similar jumps also were seen in 2011 and 2013 when oil prices reached more than 100 USD per barrel.

This enormous spending, which surpassed allocation for education and health combined, reinforced the critics that the program missed the intended target. Indeed, many studies have shown that energy subsidy has been primarily enjoyed by upper-income households, instead of the needy (Alleyne et al. 2013 ; Bauer et al. 2013 ; Beaton and Lontoh 2010 ; Del Granado, Coady and Gillingham 2010). Moreover, energy subsidy encourages over-consumption of oil which leads to higher carbon emission (Beaton and Lontoh 2010). Financial burden, ineffective social welfare program and carbon emission associated with fuel consumption were behind the government's rationale to launch a reform.

Figure 1 Energy Subsidy Spending, 2007-2013 (in Billion rupiahs)



Source: Data Pokok APBN 2013 (Ministry of Finance)

V. The inconsistent behavior of the political actors on the energy subsidy reforms

This paper examines the behavior of political actors on energy subsidy by analyzing their votes on the annual state budget. As illustrated in Table 1, the annual state budget incorporates subsidy spending. The government, led by the Minister of Finance, submits the proposal for the state budget to the parliament, which shows the projected amount that the government proposes to spend for energy subsidy in the given year. Therefore, if the government plans to reduce energy subsidy it requires approval from the DPR. In past state budget meetings, two competing arguments have dominated the Parliamentary debates on subsidy removal: Proponents of the reform have argued that fuel subsidy is a wasteful policy, whereas opponents have been concerned about the negative effect of subsidy removal on the poor. The intensity of these debates has been heightened whenever the general election has drawn near.

While removing the subsidy without any alternative safety program could be financially harmful to the needy, it also could be politically harmful to those in power. To curtail the negative impact of the subsidy removal, President Yudhoyono introduced the Unconditional Cash Transfer (*Bantuan Langsung Tunai/BLT*) program to cushion the poor from the potential negative impact of the cut. Despite this alternative, many political actors voted against the reform. In sequence, their insistence hindered the path towards gradual reform.

Table 1 The Political Factions' Position in Raising the Fuel Price

Political Party	Under President Yudhoyono	2005 ⁴	2008	2012	2013 ⁵	2014 ⁶	Under President Jokowi	2014 ⁷
PD	RC	O	O	O	O	X	-	X
PDIP	OP	X	X	X	X	X	RC	O
Golkar	RC	O	O	X	-	X	-	X
PKS	RC	X	X	X	X	X	-	X
PPP	RC	O	X	X	O	-	-	X
PKB	RC	X	X	X	X	X	RC	O
PAN	RC	X	X	X	-	-	-	X
Gerindra ⁸	OP	NA	NA	X	X	O	-	X
Hanura ⁹	OP	NA	NA	X	X	O	RC	O
RC: Ruling coalition OP: Opposition NA: not available				O: Support X: Against				

Source: Braithwaite *et al*, 2012, GSI 2014, 201

During ten years under President Yudhoyono and in the early months under the administration of President Jokowi, the country witnessed the shifting position of political actors in their view of energy subsidy. As mentioned in the beginning of this article, the most prominent example was the flip-flopping positions of PD and PDIP. PD, the ruling party for ten years under President Yudhoyono, was a strong proponent of the reform. The two parties eventually switched positions when PDIP won the 2014 legislative and presidential elections. Under President Jokowi who decided to raise the price of fuel, PDIP gave up its earlier stance. PD showed another surprising turn under Jokowi, refusing to back up the fuel price hike despite its unwavering support for the reform under the previous administration. The oscillating position on energy subsidy reforms was also found in other political parties. For example, Golkar was supporting the subsidy cut in 2005 and 2008 but switched to opposition in 2012. Similarly, *Partai Persatuan Pembangunan* (PPP, United Development Party) supported the cut in 2005 and 2008 but not in 2012 (Table 1). What explains this reversal? The next part of the article delves into the driving factors behind this inconsistent position.

4 The position was taken from the DPR meeting in March 2005.

5 The faction's view in the Parliamentary session in the Proposal State Budget 2014 meeting (formulated in 2013).

6 The faction's view in the Parliamentary session for Proposal State Budget 2015 (RAPBN 2015) under President Yudhoyono (formulated in 2014)

7 The political party's position after President Jokowi raised the fuel price in November 2014.

8 The 2009 legislative election was the first time Gerindra participated in the election.

9 Similar to Gerindra, Hanura was a first-timer in the 2009 legislative election.

VI. Explaining the Shifting Position of the Political Actors

This article presents three components that contribute to the political actors' shifting position during ten years of reform. This article argues that their changing position was mainly rooted in their desire to gain electoral support. Timing is also important to determine their position on the reform. Lastly, the President's inability to discipline the members of the coalition also contributes to this erratic behavior.

1. The Electoral Agenda

This article departs from the political parties' ideologies to understand the support (or lack thereof) for subsidy reform. Indeed, the centerpiece of the debates lies in how the reform may affect the public. Looking at it superficially, one may argue that a political party with a market-oriented ideology will be more sympathetic to the reform than a party with a people-oriented ideology. However, while ideology may explain their initial position on subsidy reforms, it fails to clarify why their position changes in a span of ten years. Here, the article dwells into their political agenda. As a popular policy, the subsidy has an electoral appeal. One way to understand this appeal is the constant public support for the policy. Therefore, the reluctance to eliminate the subsidy originated from their fear of being abandoned by the voters.

Apart from ideology, their electoral agenda also contributes massively to the political parties' perspective and thus the attitude toward the reform. Scholars have been documenting how electoral pressure could hinder the reform progress (Victor 2009 ; Pani and Perroni 2016). In the case of Indonesia, the supporters of the reforms most likely come from the ruling party, while the challengers are mostly from the opposition. This statement especially applied in the case of PD and PDIP. Therefore, it was crucial to understand the mapping of power and the context of interaction between the executive and legislative branches. This article examines the political actors' behavior in such context.

The debates in the parliament can be understood as a communication process between the political parties and their constituencies (Martin and Vanberg 2008). For the members of a coalition, however, taking a stance that differs from voters' preference is problematic. They face a dilemma between pursuing the government's objectives and maintaining the voters' support. The case of *Partai Golongan Karya* (Golkar, Functional Group Party) in regard to the 2012 energy subsidy cut illustrates this dilemma. As the second biggest member of the coalition, Golkar's vote was a crucial to pass the reform (Table 2). However, they refused to back up the government. Golkar's retreat was believed as an attempt to win the largest group of voters, the middle class (Adams 2012). The party was trapped between the risks of upsetting the voters and disrupting the coalition. As the party's leader Aburizal Bakrie prepared to run for president in 2014, Golkar eventually chose the latter.

The swing position of political actors was also seen on the opposition side. *Partai Gerakan Indonesia Raya* (Gerindra, Great Indonesia Movement Party) was a prime example. In the Annual Budget parliamentary session in 2013, Gerindra opposed energy subsidy eradication. Gerindra argued that cutting

fuel subsidy was a part of the neoliberal agenda, which was unfriendly to grass-roots people. While Gerindra’s position is understandable from the opposition's perspective, the party also exercised a similar strategy to Golkar. In 2012-2013, many politicians started to flirt with the possibility of competing in the 2014 presidential election. The Constitution prohibited President Yudhoyono from running for a third time and PD did not seemingly have a potential candidate to replace him. Not only preparing for the presidential election, they also determined to win as many seats as possible in the legislative election. With this prospect in mind, the political parties avoided making any controversial decision that may have hurt them in the election. Unlike Aburizal Bakrie from Golkar who abandoned his plan to run for the office, Prabowo Subianto from Gerindra eventually announced his candidacy for the 2014 presidential election.

Table 2 Political Party and Total Seats in Parliament during the Yudhoyono Administrations

2004-2009			2009-2014		
Political Party		Seat	Political Party		Seat
Coalition	Opposition		Coalition	Opposition	
Golkar		127	PD		148
PPP		58	Golkar		106
PKB		52	PKS		57
PD		56	PAN		46
PAN		53	PPP		38
PKS		45	PKB		28
PBB		1		PDIP	94
PKPI		11		Gerindra	26
	PDIP	109		Hanura	17

Source: Romli in Romli 2017

Under Yudhoyono’s government, PDIP was a constant opponent of the reforms. The party also initiated several attempts to block the government’s plan to raise the fuel policy in 2005, 2008, and 2012. After being in opposition for ten years, the political pendulum swung back to PDIP when they championed the 2014 legislative election. Several months later, their presidential candidate, Jokowi, was elected as the next President replacing Yudhoyono.

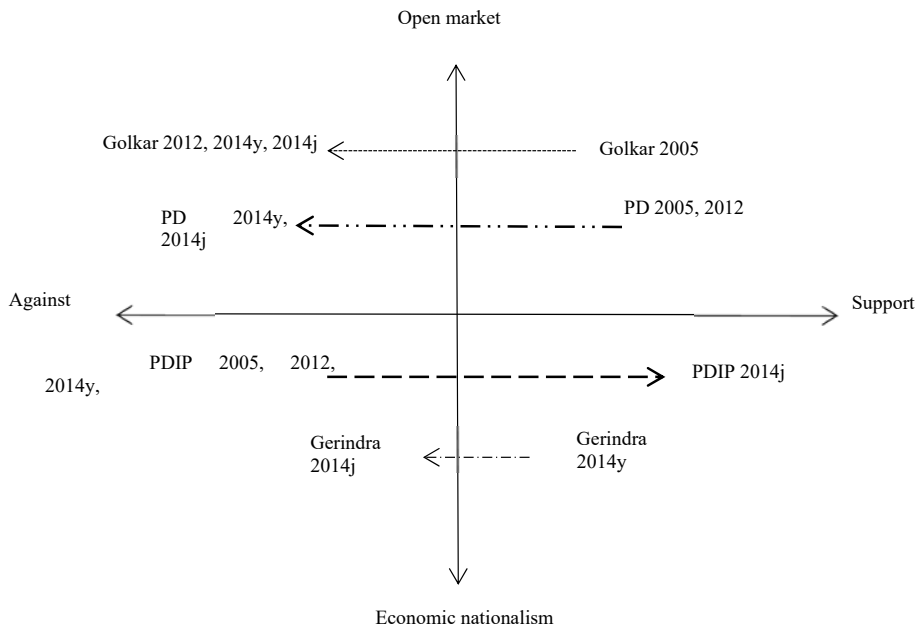
In the last months of President Yudhoyono’s tenure, PDIP was still opposing a subsidy cut. This decision created friction with President-elect Jokowi who intended to raise the price as soon as he took over the presidency. Several months after his inauguration, President Jokowi initiated his plan to raise the fuel price. It did not take a long time before PDIP finally stood behind the President and supported the decision. The switch in PDIP’s position was met with large-scale media coverage in early 2015. Many of their opponents, including PD questioned PDIP’s decision and reminded the party of its hostility toward the

reform in the last ten years.

PDIP was not the only party that reversed its position. A long-term supporter of the reform, PD changed its position at the end of Yudhoyono's presidency. Following President Yudhoyono's refusal to raise the fuel price as proposed by Jokowi's economic team in 2014, PD voted for energy subsidy in the 2015 budgetary meeting. Table 1 summarized the political factions' positions on energy pricing adjustment during 2004 and 2014. The data was summed up from their position during the budgetary debates in the parliamentary session. Table 1 only presents the positions of political parties and does not elaborate on the views held by individual legislators in the energy subsidy reduction. The legislator might have voted differently from their party position in the voting session or might have preferred to abstain. Also, the view of each member of the political party in the energy subsidy reduction is not always in line with their party's position as PDIP showed at the end of 2014. Some of the PDIP members were reluctant to support President Jokowi's decision to raise the fuel price.

Figure 2 shows the shifting position of the political parties during the last ten years, represented by three biggest political parties during 2004 and 2014: PD, PDIP, and Golkar. Gerindra was the party of Prabowo Subianto, one of the presidential candidates in 2014 election. Had Subianto won, Gerindra would be the ruling party, and thus its vision was important to predict the direction of energy policy. The horizontal line was the direction showing whether the party supported or was against the fuel hikes, while the vertical line was the orientation (value) of the party. The categorization of the vertical direction was based on the constituency of each political party. For example, PDIP's main voters were grass-roots or working-class people (*wong cilik*). Similar to PDIP, Gerindra, which brings economic nationalism as its platform, was also famous among the middle-lower income voters. Thus, opposing the fuel price hikes could be understood as the party's attempt to satisfy its constituency's demand. The position of Gerindra below PDIP makes it closer to economic nationalist party as Gerindra chased the voters who were not accommodated by PDIP (Aminuddin and Ramadlan 2015). Likewise, Gerindra has louder rhetoric in opposing open-market paradigms compared to PDIP.

Figure 2 The Flow of Political Parties' Position in Energy Subsidy Reduction



Source: Author

Notes: 2014y: Under President Yudhoyono
2014j: Under President Jokowi

Golkar represents a rare example in Indonesian politics. Unlike most of the political parties, Golkar is more accommodative to open-market principles as it shows in its *Rampimnas 2008* (*rapat pimpinan nasional*, national leaders’ meeting) (Sugiono and Mas’ud 2008). Complementary to Sugiono and Mas’ud’s assessment, another scholar argues that Golkar’s close partnership with the technocrats and their FDI driven-development narrative during Suharto regime contributes to the party’s sympathetic attitude to the open-market principles (Dakhidae in Amalia 2017).

Golkar also consistently joined the ruling coalition even though, in the last three elections, Golkar's candidates failed to win the presidency. Golkar’s refusal to be on the opposing side was a sign that this trend would continue. Unlike Golkar that traditionally hold strong base of voters, the identity of PD’s voters was somewhat blurry. Many directly linked PD with Yudhoyono as the party heavily relies on the figure of its leader, which is commonly true of personalistic parties. Here, the article argues that the value or ideology of political parties is less significant in explaining their behavior toward the fuel subsidy reform.

Their electoral agenda also mirrored on their support toward Unconditional Cash Transfer or *Bantuan Langsung Tunai/BLT*, which serve as a compensation for the fuel price hikes. The cash transfer by no means was the only support mechanism for the eradication of energy subsidy, however it was the one that attracted the most attention. The Yudhoyono government delivered the cash for vulnerable households

in 2005 for the first time to compensate for the loss from the fuel subsidy cut. Yudhoyono's political opponents perceived the cash transfer as an unsustainable policy that would have no lingering effects. Instead of spending the money on food or school, some beneficiaries wasted the money on tobacco or used it as down payment for motorcycles.

Among those who disagreed with the cash transfer was PDIP. The opposition party fired criticisms against the governments' decision. Megawati, PDIP's leader, accused that the cash transfer encouraged the people to have "a beggar mentality" (DetikFinance 2013). The critique was shocking since PDIP was particularly popular among the low-income groups, who were also the beneficiaries of the cash transfer. Megawati suffered a backlash from her comment as the cash transfer turned out to be a highly popular program. Cash transfer also played a pivotal role for the President Yudhoyono reelection in 2009 as well as PD's victory. PDIP's cynical comment on the cash transfer was also driven by the party's concern that the handout would be turned into the incumbent's weapon to win the election. However, after witnessing the popularity of the cash transfers, the opposition party did not openly criticize the program.

An ambiguous position was shown by *Partai Keadilan Sejahtera* (PKS, Welfare Justice Party). PKS, a member of coalitions that strongly disagreed with the energy price increase, supported the cash transfer (Lingkaran Survey Indonesia 2013). Cash transfer was a compensation mechanism to buffer poor households from the adverse effects of the energy subsidy cut. In other words, the program would not be implemented without the reform. Meanwhile, the patronage dimension of the cash transfer came in when some political actors claimed the program as the fruit of their hard works. Golkar claimed that the idea for the lavish distribution from 2008 and 2009 came from Vice President Kalla, when he was the Chair of Golkar (Tempo 2012)

2. Political Leadership and the Coalition Discipline

The case of energy subsidy shows the dynamic and contentious argument within the coalition. Inevitably, the President's leadership is vital to keep the coalition in check. However, the higher the level of fragmentation in political power, the more difficult it is for the leader to maintain cohesion and discipline in the coalition. Institutional analysis reveals the fragmentation of political power commonly found in the multiparty system. Furthermore, the mixture of a multiparty and presidential system is less cohesive compared to the parliamentary system. The combination of these two systems can be potentially problematic. When the disintegration of power is high, the ability of the leader to control the institution becomes extremely important. In the case of Indonesia, no political party has been able to dominate politics since 1999. This highly fragmented political power has been a prominent feature in post-Suharto regime Indonesian politics.

During President Yudhoyono's first term, his political party, PD, occupied only 55 seats or around 7.5% of the total seats in DPR (Table 2). This modest number made Yudhoyono "a minority president", which tested the President's leadership ability. With no single political party winning half of the seats in DPR,

coalition was inevitable. When Yudhoyono's vice president, Jusuf Kalla, won the Golkar chairmanship over Akbar Tanjung by a huge margin (Suara Merdeka 2014), Golkar was locked into the coalition. The Yudhoyono-Kalla duo secured the coalition of PD-Golkar in the Parliament. This alliance provided adequate power to face the opposition, which was led by the former ruling party, PDIP. In 2004-2009, the Yudhoyono government formed a coalition with eight members (Table 2).

At some point, Golkar became a key in many government policies, including fuel subsidy reform. In a multiparty presidential system, when a coalition is inevitable, the executive often has to accommodate the biggest seat owner in the Parliament to be able to run the government. The importance of Golkar made Kalla a strong vice president. Golkar, the majority owner of the seats, was towering over the President Yudhoyono's PD (Table 2). Disagreement between Yudhoyono and Kalla appeared for the first time in the case of energy subsidy in 2005. At the beginning of his presidency, President Yudhoyono was hesitant to cut off the subsidy. Unlike the President, Vice President Kalla believed that the budget needs to be relieved from this wasteful policy (Liputan6 2013). The President however was worried about public retaliation. Finally, after pressure from surging oil prices had relented, the President agreed to raise the fuel price in 2005 (Liddle 2005).

During 2004-2009, Golkar stood firm with the government in all of the decisions to adjust the fuel price. Golkar's support was an important element for the success of energy pricing adjustments in 2005 and 2008. However, at the end of Yudhoyono's first term, Golkar began to waver. In 2009, Golkar decided to abstain from participation in Parliamentary sessions on subsidy, an action which marked the disagreement between Golkar and the Yudhoyono government. It was the year when the Yudhoyono-Kalla coalition finally cracked. In the 2009 election, Yudhoyono was not running with Kalla. Instead, Kalla became his opponent in the presidential election 2009.

In Yudhoyono's second term (2009-2014) Golkar, already under new leadership, agreed to join with Yudhoyono's coalition. Apart from Golkar, smaller political party including PKS decided to join the ruling coalition, amassed a total 423 seats. This number was far larger than the opposition, led by PDIP, with only 137 seats (Table 2). At a glance, the coalition with the more massive number of seats would easily win any battle in the parliamentary session. However, a giant coalition can be tricky to manage. An undersized coalition would lead to ineffective government. Meanwhile, in an oversized coalition, the apportionment of benefits that each member receives would be too small. The result of too little benefit for individual members is a loose coalition (Strøm and Nyblade 2007). Unfortunately, this is the case of the coalition in the second term of President Yudhoyono. Furthermore, the nature of the coalition was formed by common interest instead of common platform or ideology, which made the unanimity of the coalition highly questionable.

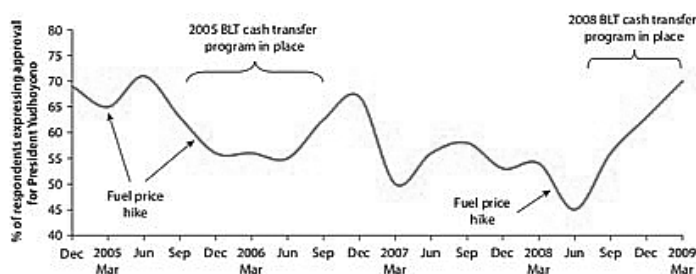
During Yudhoyono's first term with Golkar's chair as serving as the Vice President, Yudhoyono was able to keep Golkar on board with his policy. In his second term, without Kalla, the President Yudhoyono seemed to have struggled in managing the hidden competition between two major political factions, PD

and Golkar, within the coalition. The tension escalated as Golkar withdrew its support from the government proposal on energy subsidy reduction. President Yudhoyono was extremely disappointed by this decision. As the President said in a leaked video¹⁰, Golkar initially agreed with the government's proposal. However, when Golkar decided to pull back its support, PD's votes were not enough to pass the plan (*Liputan 6*, 2012).

Indeed, Golkar's vote was crucial to determine the success of the reform in 2012 as the President could no longer count on PKS's vote. PKS, the third-largest member of the coalition, had expressed its opposition to the government's plan. PKS was a rare example of a political faction that has remained consistent on fuel subsidy throughout the years. This stance however does not always sit well with PD's officials. Following PKS refusal to support the government, a PD official urged the President to remove PKS from the coalition (*Tempo*, 2012). Despite this threat, PKS did not budge, arguing that energy subsidy was necessary to cushion the poor people. Blocked by the opposition led by PDIP and failed to secure support from his own coalition members, the government was forced to abandon the plan.

Apart from managing the coalition, the President also faced additional pressure, especially when he was considering running for the second term. The ability of energy subsidy reform to affect the approval rating of the government adds pressure for the government to take action. When the President decided to run for the second term, he needed to calculate how the political cost of the reform would affect his electability. A leading survey institution in Indonesia, Figure shows how the price of energy influenced the government approval rating in 2005. Before the price hikes or around January 2005, the survey revealed that President Yudhoyono enjoyed 69% of approval rating. The President's approval rating declined after the fuel price increase in April 2005, by about 4% compared to his earlier rating in January. The drop was relatively small. However, in 2008, the drop was significant as his approval rating down from 55.6% to 36.5%. Similar fate was also experienced by Yudhoyono's successor. President Jokowi's approval rating suffers after the increase fuel price. Inevitably, price hikes led to a lower approval rating, while price cuts correspond to a higher approval rating.

Figure 3 President Yudhoyono's Approval Rating During the Fuel Price Increase



Source: O'Rourke, 2009 based on polls by Lingkaran Survey in Indonesia in Beaton *et al.* 2017, 159.

10 The video was a record of President Yudhoyono's speech in front of his supporters in PD convention.

Disagreeable performance from the President not only sinks his approval rating but also potentially jeopardizes his political party. Therefore, opposition to the reform has sometimes come from the President's own political party. While PD shows nothing but complete support for President Yudhoyono, PDIP was not always on agreeable terms with President Jokowi. Unlike President Yudhoyono, President Jokowi had to spend the early weeks of his presidency trying to convince his party to support his decision to raise the price of fuel. PDIP firmly opposed raising the fuel price while their President believed that energy subsidy should be gradually abolished. However, soon enough, President Jokowi was able to pull PDIP onto his side. He also successfully secured backup from PKB and Hanura, the two other parties that endorsed his candidacy.

While political actors need to address their constituencies' preference, they also need to have a good understanding of the burden of energy subsidy. Many of their attempts to block the fuel price hike in DPR were seemingly halfhearted. One example of this was the case of *Pansus BBM* (Inquiry Commission on Fuel) in 2008. At the beginning of its establishment, the responsibility of the Commission was to investigate government conduct on the policy of fuel subsidy. However, like many other *Pansuses*, the Commission's findings were unclear. At the end of 2008, when the government lowered the fuel price, some suggested that the Commission on fuel subsidy was no longer needed.

Keeping the DPR on board with energy subsidy reform was a challenge for the Yudhoyono administration. Interpellation and attempts at blocking in the parliamentary session followed every decision made on pricing adjustment. However, sharing a political burden with the DPR could ease some of the political strain from the government¹¹. Another of Lingkaran Survey Indonesia's surveys in 2013 revealed that almost 45% of respondents see the President as the most responsible actor behind the fuel price policy, while 26.03% respondents believed the DPR to be most responsible. These answers reflected that Indonesians were well aware of the mechanisms of the system.

Several authors suggested that, rather than follows ad hoc system, the government should follow automatic pricing mechanism to lessen the political cost (Inchauste and Victor 2017 ; Savatic 2016). The government indeed took such measure by issuing Regulation no. 12/2014 concerning the 2014 Annual State Budget. The regulation states that fuel subsidy would be set according to the Indonesian Crude Oil Price (ICP) and the exchange rate of the rupiah. Thus, the regulation allows the government to adjust the fuel price without the DPR's approval. Often, the government has had to spar with the DPR in the budget meeting process in regard of energy subsidy. Therefore, by limiting the involvement of the DPR to the supervision of the policy application, the adjustment was able to proceed faster while becoming less politically expensive. Likewise, the clear-cut regulation also made the implementation process easier for stakeholders such as the Ministry of Finance and the Ministry of Energy and Natural Resources¹².

11 Interview with an official from the Ministry Energy and Mineral Resource, conducted on August 15 2016.

12 Interview with officials from the Ministry Energy and Mineral and the Ministry of Finance, conducted on August 10 2016.

Judging from the massive spending on energy subsidy, the push and pull between the DPR and the government as well as the swinging positions of the factions might also be understood as a mere political maneuver rather than a genuine move to solve the problem. However, many occasions show that the political actors were also driven by the economic rationale of the reform. Even though the reform was suspended in 2012, the 2012 Annual Budget left room for the government to raise the domestic fuel price had the international oil price continued to soar. Using this justification, the government was also finally able to cut subsidy by raising the fuel price in the following year.

3. The Timing of the Reform

The right timing was crucial for a successful reform. As the world oil price fluctuated, the best time to launch the reform would have been when the price dropped as fuel would naturally be more affordable even without subsidy. Moreover, a stronger rupiah would put Indonesia in a better position to cut off the oil subsidy. The momentum of falling oil prices helped President Jokowi to launch the reform at the end of 2014.

The proximity of an upcoming election is also a key factor. Raising the fuel price while an election draws near is undesirable, however the beginning of the presidency is the ideal time to raise the fuel price since newly elected presidents enjoy their highest level of popularity during this honeymoon period. If the President decides to pass an unpopular policy during this period, he or she might be able to avoid suffering a heavy political cost. Indeed, President Yudhoyono raised the fuel price for the first time just five months after he assumed the office. Faster than his predecessor, President Jokowi made the decision to do so a little over one month after his inauguration.

It was a bold decision from President Jokowi, considering that he was still struggling to manage the support from the DPR. DPR was divided between two coalitions; the *Koalisi Indonesia Hebat* (KIH, the Great Indonesia Coalition)¹³ and the *Koalisi Merah Putih* (KMP, Red and White Coalition)¹⁴. The KMP, which supported his political opponent in the presidential election outnumbered Jokowi's coalition. President Jokowi faced a risk of being checked by DPR, especially after the KMP announced that they would block the President's proposal to raise the fuel price. The government however refused to back down, even though the KMP tried to invoke interpellation in the DPR following the President's decision. As expected, the decision to cut the subsidy was met with public demonstrations. However, the protests were less impactful and relatively easy to manage.

President Jokowi's success also resulted from the lower international petroleum price combined with the opposition's attention having been distracted by the debate surrounding a regulation which could have ended direct elections for governors and mayors. A specific timing could also help. Vice President Kalla,

13 KIH: the coalition of PDIP, PKB, Nasdem, Hanura, PKPI (members in the beginning of its formation). After President Jokowi took the office the KIH members were grown because most of the KMP members migrate to joint KIH.

14 KMP : the coalition of Gerindra, PAN, PPP, PKS, PBB, Golkar (members in the beginning of formation).

for example, suggested that the fuel price hikes would be better announced on the weekend or the holiday. He believes it will discourage people to go the street.

VII. Conclusion

Under President Yudhoyono, energy subsidy reform follows two trajectories; the gradual elimination of energy subsidy and the implementation of a safeguard policy to minimize the possible negative impact. Public protests, which followed every energy price hike, were the main obstacle to the reform. On several occasions, protests successfully forced the government to roll back the reform. Generally, however, thanks to safeguard policy, the demonstrations were not as massive as they had been before, nor did they carry an agenda beyond the annulment of fuel price hikes. Nonetheless, public reluctance was the driving force for heated debate in parliamentary sessions. In democratic regimes, politicians have an obligation to respond to public concerns since they owe their positions to the voters. Thus, the more salient the issue, the stronger the political actors would react.

This article examined the Annual State Budget approval process to evaluate the behavior of political actors towards the energy subsidy reform. The legislative debate on the subsidy was an example of how tight the competition is among the political actors in current Indonesian politics. The public adamancy toward the energy subsidy cut was related to the interests of the political actors, who were mainly driven by their political agendas.

Political factions utilized the issue to gain the support by objecting to the price hikes when they were in the opposition. Using this strategy, opposition parties had the upper hand position while competing with the incumbent, as they sided with the voters' preference. However, if they were in power, they took the position of pushing the reform, including raising the fuel price when it was necessary. It is once again proved that, despite understanding the paralyzing effect of subsidies on the state budget, the electoral appeal of the program trumps the economic rationale of the reform.

The President's ability to manage the coalition also played a pivotal role in the success of the reform. The more the President tightens the discipline in the coalition, the less likely the reform faces an objection from the DPR. In the first term of President Yudhoyono's administration (2004-2009), the government was able to keep close to its allies, especially the Golkar party, which had the largest number of seats in the parliament. Vice President Kalla, who was also the chair of Golkar, ensured that Golkar was always on board with the government's policy. The government successfully raised the fuel price in 2005 and 2008, even though the DPR's interpellation followed every increase.

The second term (2009-2014) of President Yudhoyono was different. PKS, one of the political parties that were consistent in their view of energy subsidy reform, was in the coalition. As PKS refused to vote for the reform, the coalition relied on its two biggest members, PD and Golkar, to pass the proposal in the Parliament. However, without Kalla as his Vice President, President Yudhoyono was struggling to manage

the rivalry between PD and Golkar within the coalition. As Golkar perceived an electoral agenda for its chair, Aburizal Bakrie, to run for president in 2014, Golkar was willing to sacrifice the coalition's proposal and voted against the subsidy reduction in 2012. Without Golkar and PKS, the government was forced to abandon the plan.

By the mid of 2014, Indonesia elected a new President, Jokowi from the opposition party, PDIP. President-elect Jokowi met President Yudhoyono soon after the Electoral Commission announced his victory. As the 2015 Annual State Budget was formulated under the Yudhoyono administration, Jokowi requested that the President raise the fuel subsidy. Since the cost of electricity has recently risen, President Yudhoyono rejected Jokowi's inquiry. Indeed, Jokowi's plan to cut energy subsidy as soon as he took over the presidency was met with criticism including from his own political party. The disagreement between Jokowi and PDIP, however, was temporary as President Jokowi managed to raise fuel price one month after his inauguration. On the other hand, the previous ruling party, PD, voted against the price hikes. The party even initiated to invoke the right of interpellation during the parliamentary session to question the government's decision, which was the same strategy used by PDIP during the past ten years.

Apart from their electoral agenda, two factors that influenced parties' changes in stance on fuel subsidy were their position in the government (whether they are ruling party or opposition) and their orientation. Political parties with lower-middle income voters as their primary constituency, such as PDIP and Gerindra, have a bigger incentive to oppose the reform. However, as soon as PDIP became the ruling party under President Jokowi, the party changed its stance. On the other hand, the coalition parties during Yudhoyono's presidency, PD and Golkar, went from being supporters to opponents of the reform based on their perception of how energy subsidy would affect their electability.

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