

CHAPTER I

INTRODUCTION

A. Background

Economic liberalism today, known as neoclassical liberalism, is the re-emergence of classical liberalism economic system in 18th and 19th centuries. According to Adam Smith, the characteristics of liberalism economic system are the limited authority of government in managing as well as controlling the economic sectors and each individual has the right to own and operate for profit in which investments, distributions, income, production and prices of goods and services are determined through the operation of market economy. Therefore, there will be only the 'invisible hand' from the government to control the economic activities indirectly through the regulations and the policies.

As time goes on, neoliberalism arranged a policy which is often taken to be Jhon Williamson's Washington Consensus. This re-arrangement gives new characteristic of neoliberalism economic system. It contains a list of proposal that appeared to have gained consensus approval among the Washington- based organizations such as IMF and World Bank. The reforms are described as¹:

1. Fiscal rectitude, meaning that governments would cut expenditures or raise taxes to maintain a budget surplus

¹ Williamson, J. H. (1999). *The Washington Consensus: Debate* (New York: Columbia

2. Competitive exchange rates, which means that the government would accept market-determined exchange rates, as opposed to implemented government-fixed exchange rates.
3. Free Trade, which means the removal of trade barrier, like tariffs, subsidies, and regulatory trade barriers
4. Privatization, which means the transfer of previous public owned enterprises, goods and services to private sector.
5. Undistorted Market Prices, meaning that government would refrain from policies that would alter market prices.
6. Limited Intervention, with the exception of intervention designed to promote export, some kinds of education of infrastructural development.

The implementation of liberalism especially in economic sector was begun in the new order era in 1966. The economic system of Indonesia has changed from the guided economic system into more democracy under the period of Soeharto. In this periode, the economic system became more open which was reflected by reestablishing the relationship with westerns. One of the symbols that showed a good relation between Indonesia and western was the reengagement of Indonesia to become one of United Nation members and other international organizations such as World Bank and International Monetary Fund which has ever broken in the previous leadership. There were so many homeworks from the previous period to be vitalized by the new order leadership especially in economic aspect for example the huge

amount of foreign debt, the shortage of basic needs and fuel, the deficit of national income, and many other problems.

The rehabilitation was not only focused on the economic aspect but also in social and political aspects since the stable condition in every aspect in Indonesia was required to make cooperation with other countries especially with those International Organizations for example UN, IMF and World Bank. In the beginning of this period, the government also had to pay the foreign debt which reached 530 Millions US Dollars, whereas Indonesia could only earn 430 millions US Dollars from the export of oil and gas commodities and non- oil and gas commodities.² Therefore, the schedule for the next foreign debt was much needed for Indonesia to be able to afford the import activities as well as fund the economic development process so that it could fulfill the citizen needs.

To increase the national income, Indonesia did not only rely on export activities but also on the foreign investment especially in Oil and Gas sector. Indonesia was rich of both minerals which were predicted by Atik Suardy and J.taruno P.H. (2005), Indonesia has 60 basins³, 73% of them were contented in off shore, 31% was in the deepest sea and 17% was in the land especially in the remote area for example South Sumatera, West Java, East Kalimantan and other places. According to Dr. Kurtubi (2005), the head office of Pertamina and the Center of Oil and Energy Research, Indonesia has 60 basins, 38 of them have been exploited, and

² Tulus Tambunan, *Perekonomian Indonesia Sejak Orde lama Hingga Paska Krisis* (Jakarta: Pustaka Quantum, 2006) page 21.

the rest have not yet.⁴ It contains huge amount of energy that makes some developed countries compete each other to monopolize the national wealth of Indonesia, reaching around 77 billion barrels of oil and 332 trillion cubic feet of gas. But, in exploiting the energy resources, Indonesia needs capital, high technology and other supporting factors. Therefore, Indonesia through the coming of foreign investor and the foreign debt is expected to be able to encourage the economic development especially from oil and gas sectors. But the loan which initially became the cure to recover the unstable economic condition, now it becomes the curse for Indonesia especially for the low-middle class people who feel the impact directly.

In 1961, there was an important moment that signed the concentration of oil and gas development in Indonesia that was the establishment of national Oil Company known as Pertamina. Pertamina determined a lot in managing the exploitation of oil and Gas under national license. In this situation Pertamina was not the oil company but more as the big boss of oil and gas industry in Indonesia.

Indonesian government made some short term policies which became the followed up response toward the Tap MPR No.XXIII Tahun 1966. It regulated about the renewing of Indonesia Basic Economy, Finance and Development with the aim at encouraging the private to become the strategic sectors in Indonesia. The most important policies which were taken by the new order government to encourage the foreign investor were Act of Foreign Direct Investment that has been published in

⁴ *Wahid, Politik Indonesia: Eksploitasi Sektor Migas Indonesia* (Accessed: September 17, 2007).

1967 and UU Act of Domestic Investment in 1968.⁵ In 1971, Indonesian government through Pertamina introduced a new agreement known as Production sharing. This effort was made to attract the investors to come and invest in Indonesia especially in this sector. To stimulate the work of those policies, the government also did some deregulations in every aspect related to economic development especially the investment. The government also returned back some enterprises which were nationalized by the previous government to the owners. Since Indonesia has started implementing the liberalism especially in economic sector so that the western countries treated Indonesia specially and gave Indonesia so much attention especially by giving the debt.

Until the early of 80s, the Western especially the donor countries, IMF and World Bank known as "Washington Concensus" required Indonesia to do some deregulation in some sectors so that the economic development could run better and it was assumed to be able to attract many investors. In 1983 Indonesia government deregulate the banking system and in 1984 followed by deregulation of trading system. So, Indonesia in the new order became much relayed on the foreign investment and the foreign debt since Indonesian government had no other choice except to accept the deregulation of "Washington Consensus" containing of 10 points.

Indonesia has been addicted to the foreign capital so that all economic activities could run well. In September 1997, the rupiah exchange rate was getting

weak so indirectly this situation shaken the economic condition. Initially, the government tried to recover this problem by its own through canceling some projects as much as Rp 39 trillion so that it was expected to decrease the national outcome. But the condition was getting worse and forced Indonesian government to take other action. In October 8th 1997, the government decided that Indonesia needed the debt from IMF as much as 40 billion U.S dollars. For the compensation, IMF asked Indonesia to sign the Letter of Intent on January 1998 which required the elimination of subsidies for fuel and electricity⁶.

Foreign debt was an inevitable thing to conduct all economic activities. It was dilemmatic for the government in that time because when the government did not ask the foreign loan from IMF, the economic activities would stop and the impact would be burdened to the citizen so that they could not fulfill the needs. As time went on, in February 4th of 2000, the Direction Council of IMF in Washington conducted the meeting with Indonesian government. It agreed about the reforming agenda in energy sector with the compensation of aid as much as 260 million U.S dollars and 5 million U.S dollars in the 3 years later.⁷ The agreement established a restructuring idea which was reflected by Act of Oil and Gas No.22/ 2001. It was all about the energy restructuring which is becoming the part of economic reformation process to encourage the increasing of national economic efficiency. This is the reason of donor

⁶ Tulus Tambunan, Op. Cit., Page 42.

⁷ Tulus Tambunan, Op. Cit., Page 43.

countries and IMF as well as World Bank in giving the debt to Indonesia since Indonesia had potential oil and gas resources.

B. Research Question

Through the background above, there is one core of problem:

- What are the impacts of economic liberalization upon oil and gas sectors in Indonesia dealing with the restructuring of Act No.22/ 2001?

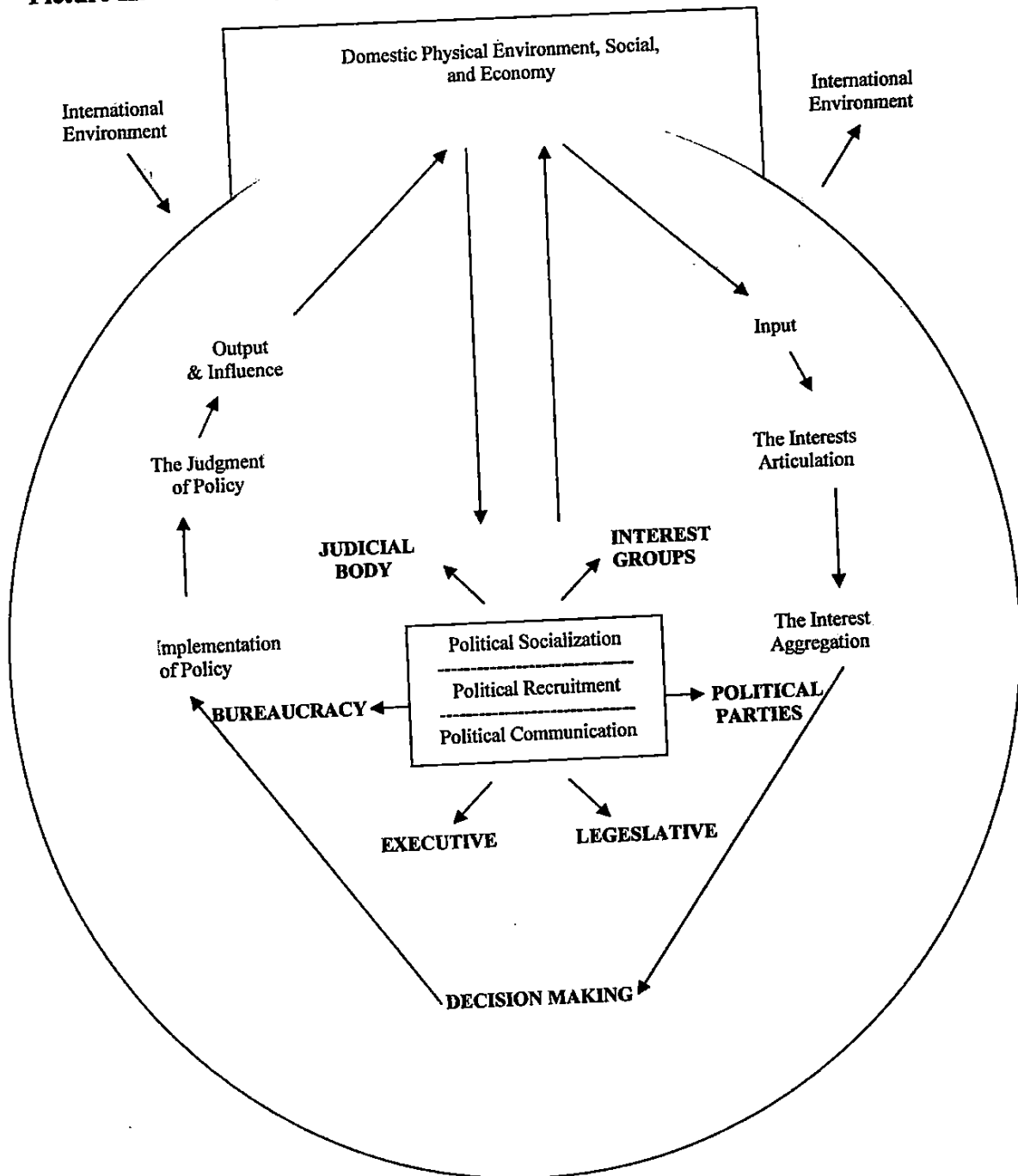
C. Theoretical Framework

The next discussion will explain about the impact of economic liberalization in oil and gas sector in Indonesia theoretically. The writer uses two theoretical frameworks in describing this case. The theories which are suitable with this case are The Political System Theory and The Dependency Theory. Those theories concern more in analyzing the process of decision making and the impacts in the internal/ domestic economic distortion.

The first theory is the Political System Theory. According to Gabriel A. Almond (1974), the political system was built from three interconnected concepts in which system, structure and function.⁸ The political system is an organization which is used by the people to formulate and achieve the objectives.

⁸ *Metode Penelitian Politik* (Yogyakarta: Graha Widya, 2006)

Picture II: Political System with Its Environment (Structure and Function)⁹



⁹ Ibid, Page 29.

Picture II shows the connection between the structure and function, the process and the decision/ policy making as well as the work of system. In the middle of the picture, there is a box which contains three political functions. Actually, those functions do not involve directly in the decision making process, but they are so important in determining the work of political system. The arrows, which are from the functions appoint to the citizen (domestic), and to the interest groups, political parties, legislative body, executive body, bureaucracy and judicial body, describe the influence of those three function.

Political socialization is the function that develops and strengthens the political behavior among the citizen, trains the people to do the political roles, administrative and certain judicial work. This function involves the family, school, communication media, church, and other political structures. Political recruitment is the function in selecting the people who can be directly involved in political activities and can take a part in governmental position. It is supported by the communication media as a mean to publish it to the people. Every single news about the political activities has to be informed to the people whether from electronic media of printed media. The people will be easily in accessing the information in political system and activities so that the people will be understand well about the political dynamics. In the end, it will increase the political participation of the people that can create a democratic and developed country. This is actually becoming the function of political

In the edge of the circle, there are several functions which are needed in decision making process in every single political system. Before that, the individual and groups in society have to determine their interest first, what they really want to get from politics. It is called as interest articulation. The interests and demands are accumulated and processed into some alternative policies as the interest aggregation for example the increasing or the decreasing of tax. These processes are usually accommodated by the interest groups as well as the political parties. Some alternative policies will be processed by the government (legislative and executive) to make an applicable policy for the people. The bureaucracy and some administrations will manage and handle the implementation of this policy in the citizen. The political system also has judicial body to control the implementation of this policy whether it runs in the right tract or not. This body also has authority in giving the adjudication and punishment. After the implementation of the policy, there will be any output and influence in the society itself whether it is positive or negative. The implementation of policy can also influence the economic life, social structure, as well as the culture in the domestic people. The output and demand will create other interests and demands by the people in the political system.

The political system in one country must be influenced by other country whether from tangible or intangible action. The tangible action can be reflected by the foreign penetration in loan, investment and technology transfer. And, the intangible action is usually done through the ideology and culture. So, the international

including in the most important political activity for example the decision making process.

This theory is applicable in analyzing the decision making process in the political system of one country. In this case is the economic liberalization that brought some consequences and impacts in Indonesian oil and gas sector.

Indonesia has been trapped by the foreign debt since the new order era began which indirectly influence the domestic environment, social and economy. It was an inevitable condition. Old order regime left a lot of homework for the new government such as debt, unstable political condition, poverty in the society and many other problems. The government tried to find a new strategy to make a better condition for the people. There was two main focuses on the betterment effort, political as well as economical aspects. A good political stability was required to get a better economic condition. In the previous government, Indonesia has been vacuumed from the United Nation membership. So, the new order government took the first action in repairing the political condition by becoming the active member in United Nation again. That was the beginning story of Indonesian foreign debt. Indonesia was becoming more financially dependence on the international institutions such as World Bank and IMF. Indonesia has been addicted with the foreign loan to do the economic development.

The government did not realize that the economic growth by the debt was so fragile and not sustainable, moreover after the economic crisis shaken this country in 1997. There were so many chaoses in the society from the coup d' etet of President Soeharto by the students, market plundering by the people, high basic needs prices

high inflation and many others. This condition threaten the economic development in this country. The government needed more money to pay the export and import activities, pay the economic projects, help the bank from liquidation threat and so on. Shortly, Indonesia needed more loan from other countries or international organization to recover the deficit budget that has been rearranged by the government. It was such an inevitable situation to have the loan, though the government has canceled some big economic projects, but it did not work at all. The government considered that the loan was urgently needed.

Actually, in this case the demand of loan was not directly articulated by the common people, so they need media to bring the aspiration to the government with the right procedure. The media is known as the interest group. The interest groups could come from the non-governmental organization as well the business men. They brought and articulate the aspiration and demand from society to the bureaucracy in the next procedure. The common people only demanded about the stable economic condition which is idealistically reflected by the low prices of the basic needs. If the government has much money, so the economic activities will run well for example the export and import activities. Both activities will bring beneficial for the people because by importing some products, people can fulfill the needs that can not be produced in Indonesia such as electronic, vehicle and so on. In the other hand, export activities will support the economic growth as well. When the production activities can run well, it is expected that the people can get the needs easily with lower prices. Since in the market mechanism, the price will be lower if the product is abundant and

vice versa. Above those all, the government needs capital to make it run well. In this case, the government only had one way out by asking any loan from IMF otherwise the government could run the economic activities. Finally, In October 8th 1997, the government decided that Indonesia needed the loan from IMF as much as 40 billion U.S dollars. For the compensation, IMF asked Indonesia to sign the Letter of Intent on January 1998 which required the elimination of subsidies for fuel and electricity¹⁰. This was the representation of international environment influence in Indonesia economically.

After the interest articulation had been done by the interest group. The aggregation of interests were handled and managed by the political parties. After that, the accumulation of the interests were processed by the legislative and executive that arrange the draft of oil and gas Act No. 22/ 2001 in 2000 and it was legalized in October 23rd, 2001. Somehow, the legalizing process of this act brought some disagreement from 13 members of the House of Representative.¹¹

Actually, the regulation making process of Act No.22/ 2002 was not coming from the citizen's demand but it was becoming the consequence of the debt through Letter of Intent. Since there will be no one does something for something. IMF asked Indonesia to do the privatization in some national asset in this case was Pertamina and cut any kind of subsidies in Indonesia. Because of the government did not have other choice in that time and the loan was urgently needed, so the government

¹⁰ Tulus Tambunan, Loc. Cit.

¹¹ Pertamina, *Peraturan Pemerintah Tentang Pertamina* (Jakarta: DKPP I P3ES, 2004), page 44

accepted the requirement of IMF by such kind of structural adjustment program through the Letter of Intent. In February 4th of 2000, the Direction Council of IMF in Washington conducted the meeting with Indonesian government. The meeting agreed about the agenda reformation in energy sector with the compensation of aid as much as 260 million U.S dollars and 5 million U.S dollars in 3 years later.¹² The agreement established a restructuring idea which was reflected by Oil and Gas Act No.22/ 2001 about the elimination of oil subsidy and the restructuring of PT Pertamina from the Stated Owned Company (BUMN) into the shareholder (Perscro). It meant that the government has made a risky decision. It was about the energy restructuring which was becoming the part of economic reformation processes to encourage the national economic efficiency. There was too much intervention from other countries in Indonesia including the most crucial thing in decision making process. It might become the private area of Indonesia since the decision ideally had to recover the citizen demand not the 'donor countries' demand. Indonesia has hocked the crucial asset which was in oil and gas sector so the life can continually goes on.

The implementation of this new regulation brought two consequences in which the privatization of Pertamina and the elimination of oil subsidy. This implementation process was controlled by the judicial body, though there were many protest and negative responses from the people. The consequences of the policy implementation gave significant impacts and suffered the people. The impacts were Pertamina lost its power in controlling and managing the oil and gas sector, and the

elimination of oil subsidy hampers the economic growth in Indonesia. The output and influence in the society will bring another interest and demand that makes the circulation of political system will always move on.

The second explanation will be the case application by using the Dependency Theory. It is defined as the foreign penetration and external dependency that causes huge distortion in periphery economic structure, and the later on will encourage the suppression from government to the citizen in the dependence countries.¹³ Most of the third world countries recently have become very dependent which is caused by a huge foreign penetration especially in economic sector. The penetration can be done by some ways for example through economic, politic, culture and the growth of time of one country.

According to Theotonio Dos Santos:

The dependence means that the economic life in one country is influenced by the development and the expansion from other country economic life where the country only becomes the effect receiver. The dependence relations between two or more countries, and the relation between economic systems with the world trade, become the dependence relation if the economic of some countries (dominance) can be independent while the economic in the other countries (dependent) is changing as the effect of the expansion, whether positive or negative.¹⁴

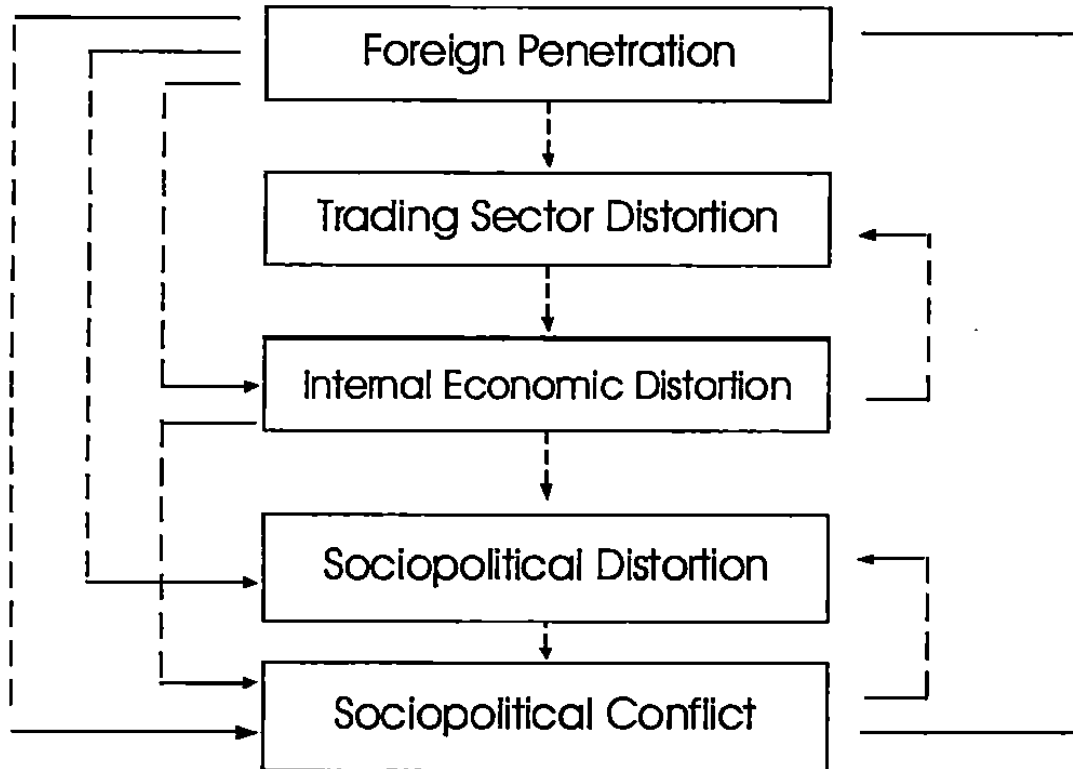
The similar theory in some dependence theory is from the existence of gap between center country and the periphery. The same definition suggested by Andre Gunder Frank is that the backward of countries (satellite) is caused directly from the

¹³ Mohtar Mas'ood, *Ilmu Hubungan Internasional: Disiplin dan Metodology* (Jakarta: LP3ES, 1992), page 202.

development in center countries (metropolis).¹⁵ There are three main components which support the dependence theory: 1. foreign capital, 2. Local Government in the satellite countries, 3. Bourgeois. In fact, the development only runs among those components, the poor people only become the labor with low salary sharpening the gap between the rich and the poor. There are some characteristics of capitalism development in satellite countries: 1. the economic life is dependent, 2. there is cooperation between the foreign investor and powerful class in satellite countries, they are the official government, the land lord, and the trader class, 3. there will be a sharper gap between the rich and the poor in satellites countries.

There are several ways which are used by industrialized countries to do the penetration for example through economic, politic, culture and other growth of time of one country.¹⁶ The economic penetration is usually done by the loan, Foreign Direct Investment and technology import from the industrialized countries. While in the politic and culture penetration, it is provided by material packages and symbolic for example through television, newspaper, book and others. Those penetrations really influence the import activities upon luxurious goods which will make a high

Picture I: The Simple Model of Dependency Theory:



Source: Raymond Duvall, et. al., "A Formal Model of Dependencia Theory: Structure and Measurement", in R. Merrit and B. Russett (Eds.), *From National Development to Global Community* (Allen & Unwin, 1981).

The penetration process causes a pattern which is characterized by the increasing and the development of foreign trading and the emergence of enclave area in periphery especially producing export commodities so that it makes a trading distortion (Box II). The coming of investor will encourage the industry development in periphery by moving high technology from their countries to the periphery's factories since the labor in the periphery countries was paid relatively low. The products use the international branding license and then the products are exported to other countries with high prices. Moreover, Indonesia which is becoming a production

country with a cheap salary of labor also has to sell the products with international standard prices. Sometimes, it is going to be unfair since the labor salary is too sharp with the profit which is earned by the capital owner countries. The penetration patterns, dependency and trading are influential in economic condition of periphery countries.

The patterns support and are supported by economic growth which contains dangerous internal structural distortion (Box III). First, unequal economic growth which is the export enclave sector grows faster than other sectors. Second, the economic sector becomes divided. It means that each economic sector is not related to each other clearly. Though the automotive sector is growing well, only a few numbers of productions produce any capital tools such as tractor which can help the increasing of agriculture sector production. Third, in this economic pattern also implementing unequal payment of labor sharply between one sector to another for example the mining labors usually take higher salary than the agriculture labors.

In the Scheme II, the arrow from “internal economic distortion” to “trading sector distortion” of dependency theory reflects the elimination of export enclave sector is a hard problem and it is not the pressure from raw material production to the manufacturing production by hiring low salary labors.

The Dependency Theory interprets this growth phenomenon with some distortions uniquely. First, they compare the growth pattern with the economic model which is growing slowly, equal, homogen and integrated. Second, they argue that the distortions in the periphery countries are the causes of dependency patterns. Third, this

penetration is related to other distortions in social and political system in periphery countries. The conflict emerge from some groups seeing that the other groups get bigger 'cake' compared to them while their 'cake' become smaller. In inegalitarian society, every changing (whether it is positive or negative) of total national income will stimulate the conflict about the distribution of 'cake'. This conflict is getting serious when one country faces unstable economic condition.¹⁷

The dependency theory in this case is used to view the external factor of foreign penetration in economic sector through the loan from IMF that stimulate the coming of investors which have a significant role in influencing the economic growth in Indonesia. As a result, Indonesia is now trapped by foreign penetration in the form of finance (loan or Foreign Direct Investment) and technology to develop the economic sector which is expected to drop the profit to the citizen welfare.

In this theoretical framework, the writer explained first about the consequence of economic liberalization through the debt trap and the foreign investment and than the discussion would be followed by the impacts. It showed the dependence of one country (Indonesia) to the donor countries. The background has been explained about the history of Indonesia could become an addicted country of foreign debt. Foreign debt is needed when the national income and the expanding is not equal. To recover this situation, Indonesia needs loan from other countries to improve the economic development for example import and export activities. In export activities, Indonesia

relied on oil and gas rather than on other Indonesia products such as from agriculture since both mineral are wanted by other countries and have high prices.

Liberalization does not only encourage Indonesia to be addicted to foreign debt, but also requires Indonesia to attract the investors by making a simplest regulation such as the reduction of oil subsidy so that the fuel price can be expensive, make the cheapest labor salary, cut the tariff and tax for import product, ect. Those simplest regulations aim at attracting the investor to come and invest. Now it is becoming the trend especially in the developing countries like Indonesia by making such a loss regulation to attract the investor by ignoring the citizen welfare. This trend is famous among the developing countries with the name of "The Race to The Bottom" strategy.

Now, foreign debt is identical with the liberalism which is starting to take root in Indonesia. It means that the debt trap is becoming the tool to succeed liberalization program through IMF, World Bank, Asian development Bank and Consultative Group on Indonesia.¹⁸

According to Kwik Kian Gie (2005), Indonesia has too much depended on foreign debt until Indonesia unconsciously lost its sovereignty as a nation.¹⁹ It means that Indonesian government has lost its sovereignty and the freedom to control and manage itself. There is too much intervention from other country especially the donor countries in arranging the regulation.

¹⁸ Fathullah, *Utang Negara dan Neoliberalisme*, Bisnis Indonesia, September 8th, 2006.

¹⁹ Tony Prasetyono, *Bank, Bankrup dan Ditaklukkan* (Jakarta: Pustaka Pelajar, 2005) page

The government should be more carefully in taking a decision especially in involving the foreign intervention with a mature determination and preparation. The existence of IMF in Indonesia should get more priority to be concerned since it became the sensitive and fragile issue. It needed handling with care. If Indonesia made a wrong decision, the IMF fund would not become the cure but rather than the curse. To avoid the misleading, it needed such mapping of the essence as well as the urgency of IMF in Indonesia. According to the definition and the spirit of IMF since its establishment in July 1944 in Bretton Woods, New Hampshire, AS, IMF has been designed to help the countries with monetary problem, for example the limited Gross Domestic Product, the decline of exchange rate of currency, the broken banking system, and other finance related issues. Since Indonesia was trapped in crisis and asked for help from IMF in the last 1997, IMF has done some efforts.²⁰

First, IMF provided loan to Indonesia in cash to strengthen Indonesian Gross Domestic Product. Indonesia had a gross around 33 billion dollar, 21 billion dollar of it was Indonesian possession and 12 billion dollar was loan from IMF. The loan could not be distributed directly but it was divided into several sessions, usually per session IMF gave 400 million dollar. Indonesia also has to consider about the deadline of debt payment because if Indonesia could not return back the loan, the sanction would be burdened.

Second, since IMF did not want the loan that would not give them any profit

... they needed to such a guarantee from Indonesia that Indonesia has to run the

economic programs which is arranged by IMF (called as receipt) well and effective. Because of it, IMF asked Indonesia to arrange programs that had to be agreed which was familiar with died program for "patient". It was called as Letter of Intent (LoI). Basically, LoI should be arranged by Indonesian government itself (though in practical level, it contains IMF intervention even compulsion).

Third, IMF also controlled toward LoI implementation in Indonesia. This controlling brought two sides of impacts whether the advantage as well as the disadvantage. In general, IMF control made Indonesia always pay attention on the implementation of died program. Indonesia had to take care so that the fiscal deficit in developing countries. For example through "Washington Consensus", IMF together with World Bank formulated the fiscal deficit of one country maximally two percent toward Gross Domestic Product. The discipline of fiscal was good since Indonesia is very lack in implementing the discipline, so here the role of IMF was needed. Besides, IMF also brought disadvantages. IMF also has ever done blunder. To run the fiscal discipline, one of the mean was to decrease and even eliminates the subsidies. One of the subsidies elimination was in fuel prices. The result was high prices of fuel that has to be burdened by the citizen especially to the poor one. It also indirectly increased the other basic needs prices and other public service for example fuel, electricity, telephone ect.

Forth, it has to be believed that IMF contract can be the benchmark for international community to encourage the Indonesia economic development. The successfulness of Indonesian government negotiation with other countries in

conducting cooperation was because of IMF contract implementation since it became the guaranty for other countries to make such cooperation with Indonesia. The donor countries and other partner countries believed that economic policy of Indonesia has run in the right track which is under control by IMF contract.

According to Kwik Kian Gie (2005), the Indonesian dependence on IMF is more acute when IMF was asked by the Indonesian government to help Indonesia in solving the monetary crisis in 1997, while IMF also asked for the compensation by intervening in all aspects of life in Indonesia. In LoI which was made by Indonesian government and IMF. There are 1243 programs which have to be done by the government especially in elimination of fuel subsidies and BUMN privatization.²¹

In general, Act No. 22/ 2001 as the consequence of debt trap and economic liberalization contains about the changing of Pertamina from BUMN into Persero and the elimination of oil subsidies. It means that Pertamina, established in 1961, initially hold a very big authority in controlling and managing oil and gas sector in Indonesia but now it is changed into Persero where the authority is limited because it is now owned by the stakeholder or the investors. It means that Pertamina today has same authority with other foreign oil company which has to obey the government regulation including the production sharing contract.

Initially, it will be hard for Pertamina to run the business and adapt with new condition which was the regulator previously and now Pertamina is the only player. Besides, Pertamina has different orientation that is profit. This new burden causes the

²¹ Entellah, "Utang Negara dan Neoliberalisme" *Pikiran Indonesia*, September 8th 2006

stuck distribution of oil in Indonesia since actually the distribution of oil is not being the obligation of Pertamina anymore but the government. But the government does not have experience in controlling this kind of thing, and again, Pertamina has to do it. This dilemmatic tasks condition contributes dilemma in Pertamina whether it has to seek as much as profit by neglecting the citizen needs and demand or dedicate itself for the people by ignoring the profit. It is a confusing choice for Pertamina.

The next planning by the government was privatization. The government was very enthusiastic to sell Pertamina to the investors with the highest prices so that the government could increase the national income through the tax and production sharing. It was also expected that the Pertamina privatization would make a cheap fuel prices because the stakeholder or the investor who bought the share has the right to open the gas station like what Pertamina has done before. The competition among the oil companies was expected to be able to decrease the oil. But the aim of government in privatizing the Pertamina has not shown yet until today. This is such an inevitable condition of Indonesia if Indonesia still wants to implement the liberalism ideology especially in economic sector or Indonesia will be left behind from other developing countries which are starting to take off from poor condition by implementing the liberalization.

The elimination of oil subsidies was also the demand of liberalization as the impact of free market policies because when the oil prices would be expensive, it would attract the investor to come and buy the share of Pertamina and would get high

economic development can run well. But this policy actually brought so many negative responses from the citizen especially the poor one because this level was affected directly to the high price and stuck distribution of oil. This complicated situation in the end could increase the poverty rate and stimulate some social problems. So, it can be stated that Act No.22/ 2001, as the economic liberalization consequence, brought more bad impacts rather than the good one especially in the lost power of Pertamina in controlling oil and gas sector and the elimination of oil subsidy that hampers the Indonesian economic growth.

D. Hypothesis

Two impacts of liberalization upon oil and gas sector in Indonesia are Indonesia through its SOE (Pertamina) lost its full control in managing the oil and gas sector, and Indonesia is not allowed anymore to subsidy the oil price.

E. Data Collection Method

In analyzing the case above, the writer uses deductive analysis method by gathering secondary data where the data is found through literature study. It contains the references about the influence of IMF dealing with the economic liberalization in oil and gas sector in Indonesia as well as its impacts which is reflected by some reformations in energy sector especially in oil and gas sector, research reports, journals, newspapers, website, and data from related institution, and other material as

F. Scope of the Research

This research takes the range of time in giving the information from 1966 when the economic liberalization was introduced in Indonesia until 2007. This research is focused the analyzing in the internal economic distortion. The implementation of liberalism was becoming the gate of liberalization to enter Indonesia which brought several reformations in oil and gas sector.

G. Organization of Research

Chapter I: Background; Core of problem; Framework of theory; Hypothesis; Method of data gathering; Scope of research.

Chapter II: Explains the dynamics of Indonesian economic development and the oil and gas sector including the chronologic of foreign penetration that lead Indonesia to the restructuring of this energy sector.

Chapter III: Explains the consequences of economic liberalization upon oil and gas sector Indonesia through the transformation of policy in Act No. 22/ 2001. It regulated about the transformation of Pertamina from BUMN to Persero and the elimination of oil subsidy. This chapter clearly mentioned the comparison between the situation before and after the implementation of new policy.

Chapter IV: Explains the impacts of the implementation of liberalization which was brought by Act No.22/ 2001. In this chapter, the writer explained

about the impact for Pertamina that has to lose its power in

controlling over the oil and gas sector and the impact for the citizen that the elimination of oil subsidy could hamper the Indonesian economic growth.

Chapter V: Conclusion and suggestions