The economic crisis is driving conflicts throughout Indonesia

by Michael and Gail Billington

Over the past two months, the world press has been filled with stories of bloody communal riots and terrorist battles with army troops in Indonesia. The strife is described as either religious in nature, as in the Christian-Muslim conflicts in the Maluku islands, where some estimate that several thousands may have died since January 1999, or due to separatist movements, as in Aceh, where about 300 have been killed and hundreds of government buildings and schools burned down since May 1999. East Timor, meanwhile, is facing the same fate as that of Kosovo, where well-paid foreign consultants and non-governmental organizations flood the country, while the unemployed population is becoming embittered and turning again to violence.

Such press coverage never identifies the cause of this national disaster, other than to make self-righteous denunciations of corruption and authoritarianism under the 33-year rule of General Suharto, and to attack the institution of the military. The actual cause, however, is more accurately found in a recent World Bank report that admits that fully *one-half* of Indonesian families stand only a 50:50 chance of escaping *absolute poverty,* and that nearly 20% have already dropped into that desperate category. What the World Bank will not admit, but which is increasingly acknowledged around the world, is that these conditions are the direct and intentional result of the currency speculators who carried out the looting of the Asian economies, and the International Monetary Fund (IMF), whose policy dictates, in order to force payment of foreign debt, destroyed any hope of survival.

The 'recovery' is a bailout of the banks

The economic "recovery," which is sometimes ascribed to the current situation, is nothing but the imposition, under the gun of the IMF, of a government bailout of the nation's banks. Nearly every Indonesian financial institution had been driven into insolvency by the 600% devaluation of the Indonesian currency, the rupiah, in the six months from July 1997 to January 1998; the rupiah has recovered only halfway at best, to roughly 7,500 to the dollar, compared to 2,500 in July 1997. The effect remains that the cost of all foreign debt tripled. In the new year 2000 budget, released simultaneously with a new Letter of Intent with the IMF, nearly one-fourth of the entire budget ($6 billion out of $26.1 billion) goes to interest on the government bonds issued to finance the bank bailout. Above that, another $2.5 billion goes to foreign debt service—and this does not even touch the overall cost of debt restructuring, estimated to be as high as $86 billion.

Before the 1997 destruction of the Asian currencies, Indonesia's total debt was 23% of Gross Domestic Product. The latest World Bank report suggests that that figure is now *90%* of GDP—roughly $70 billion foreign debt and $82 billion domestic debt!

The Consultative Group on Indonesia (CGI), the country's leading group of foreign creditors, met in Jakarta on Feb. 1-2, pledging $4.7 billion for fiscal year 2000, down from pledges of $5.86 billion last year, but deferring Indonesia's request also to reschedule $2.2 billion in debts falling due. This will include immediate disbursement of $300 million by the World Bank, half of its pledged social safety net expenditures. However, despite the financial and social chaos threatening the country's very existence, the World Bank has imposed a 1% fee on these new loans, loans which ultimately will only end up paying debt service in any case. Indonesia is protesting this fee.

Resistance

The IMF is having more trouble with another aspect of its neo-colonial policy toward Indonesia. Efforts by foreign firms to buy up Indonesian banks and industries at fire-sale prices have run into nationalist resistance. Two cases have become the focus of this resistance—the Bank Bali takeover by Britain's Standard Chartered Bank, and the Astra International auto manufacturer takeover by America's Newbridge Capital and Gilbert Global Equity Partners.

In July 1999, management of Bank Bali was turned over to Standard Chartered, when Bank Bali's owners failed to come up with their share of recapitalization funds—in part, due to the failure of the government to deliver on promised guarantees on interbank loans held by Bank Bali. The British bank then accused Bank Bali of a corrupt payoff to government officials and individuals politically connected to the

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then-ruling Golkar party, in exchange for collecting on the outstanding interbank obligations—a scandal that helped bring down the government of President B.J. Habibie, and led to suspension of IMF support. Bank Bali president Rudy Ramli, however, stood his ground, fighting the takeover in court, while Bank Bali employees literally ran the pack of overpaid Standard Chartered executives out of the bank building, ending the attempted takeover.

The Bank Bali deal was supposed to be the model for future foreign takeovers. When that failed, the proposed sale of the government's 40% stake in automaker Astra International became the new model.

Astra is perhaps the only major firm that has turned itself around and is generating significant profit. The government has come under tremendous pressure from the international financial community to sell its stake, even at a loss, to woo "the markets." U.S. investors Newbridge Capital and Gilbert Global Equity partners were given the inside track on Astra. But when the Newbridge-Gilbert team demanded all of Astra's books for a "due diligence" audit—similar to the one carried out by Standard Chartered, which audit "discovered" the payoff scandal at Bank Bali—Astra president Rini Soewandi refused, arguing that without an actual commitment to buy, the information remained privileged. Astra's management also objected to the preferential terms given to Newbridge-Gilbert. The deal is now being revised, with officials saying that the government's 40% stake will be sold in open tender. Astra officials have argued all along that the company is a "national asset" that should be "preserved."

The position of the new government of President Abdurrahman Wahid on this growing internal conflict has been uncertain, but over the past weeks, under the pressure of the impending IMF agreement, President Wahid launched a house-cleaning aimed at facilitating the takeovers. The directors of the state oil firm, Pertamina, and the state power firm, PLN, are to be replaced, while Glenn Yusuf has been removed as head of the Indonesian Bank Restructuring Agency (IBRA), which holds portions of the companies targetted for sale. The new IBRA chief, Cacuk Sudarijanto, promptly declared that his priority is the rapid selloff of Astra and Bank Bali, as well as the former number-one bank in Indonesia, Bank Central Asia. He also called for the resignation of Astra's executive, which has been refused.

President Wahid also called on the legislature to replace the governor of the central bank, Bank Indonesia, Sjahril Sabirin, after an audit reported the bank to be effectively bankrupt. Sjahril has refused to resign, and countered that the bad debt held by Bank Indonesia is entirely due to the government's instructions during the crisis in late 1997 and 1998 to extend emergency credit to prevent any bank failures. Sjahril threatened to debit all the commercial banks the amount loaned if the government failed to back the debt, leading to frantic agreement from the government, admitting that such a debit would shut down the nation's banking system.

A Hobbesian choice

One of the most extreme examples of the immediate dangers of following IMF demands comes in regard to Indonesia's plan to allow more wealth from natural resources to remain in the province of origin. The plan is aimed at cooling the separatist movements in such resource-rich provinces as Aceh, Riau, and West Papua (formerly Irian Jaya). The World Bank, however, concerned that the central government retain control of resource wealth as a guarantee against foreign debt, is warning Indonesia against "ad hoc decentralization." Indonesia is thus forced to choose between a threat to cut off foreign investment, and national disintegration.

U.S. Treasury Secretary Lawrence Summers, who visited Jakarta in late January, was no help. He brought with him a U.S. Treasury Department team to carry out what Summers called "forensic accounting." It is well known that the accounting process, led by U.S.-based accounting giant Pricewaterhouse Coopers (PwC), has been used as a battering ram for IMF demands, through audits that subject targetted firms or government agencies across Asia to scandals "revealed" by the auditors. Already, several of these audits have been shown to be politically motivated frauds. Even the Dow Jones' voice in Asia, the *Far Eastern Economic Review,* ran a cover story on Dec. 23 on PwC, titled "The Enforcer: Asia's New Power"—although, of course, the article praised this new colonialist weapon. Summers's "forensics," as the name implies, may extract some wealth from a cadaver, but will not bring the dead back to life.

Corruption: By whom?

While the IMF and related institutions rail against the legacy of corruption under Suharto, when it comes to foreign corruption during that era, suddenly there is great concern about the "sanctity of contracts."

For example, PT Paiton Energy, a joint venture between Mitsui, General Electric, and a local partner with links to Suharto's children, built a power plant in Indonesia under a contract which guaranteed a minimum purchase by the government of electricity at a fixed *U.S. dollar-denominated* rate. With the currency collapse, the government is forced to sell electricity at a U.S. equivalent of 3¢ per kilowatt hour, but must buy the power from Paiton for more than twice that price. A lawsuit brought to force renegotiation of the contract as a clear case of corrupt practices in the Suharto era provoked an international outcry that the contract must be honored to the letter, or Indonesia will lose the "confidence of the international community." The Wahid government backed down to the wrath of "market sentiment," but is trying to reach an out-of-court agreement on the pricing differential. It has also been revealed that $38.2 million was paid to "consultants" in reaching the agreement, all of which was tacked onto the calculated guaranteed government payments. Of those costs, $1.28 million went to the infamous Kissinger Associates.