Indonesia Searches For a Mission

by Michael Billington

A public debate is raging in Indonesia over the nation's relations with the International Monetary Fund (IMF). The Cabinet of President Megawati Sukarnoputri is divided, having heard calls for a complete break with the Fund, which drove Indonesia, from 1998 on, into effective default. The Parliament has summoned a group of economists to present their views on the matter. The press reflects a broad argument over the IMF among both elected officials and academics.

Nonetheless, the IMF on June 21 approved the Letter of Intent submitted by the Indonesian government on June 11, and released a $358 million tranche of the $5 billion credit line extended to the country in January 2000.

But there is a huge elephant squatting in the middle of the debating chamber, which no one dares mention, for fear of challenging the *terms* of the debate. That elephant is the collapsing U.S. economy, and with the dollar now falling, that elephant is starting to stink in a way which is harder to ignore. Several Indonesian leaders cling to the delusion that a U.S. recovery is going to drive a recovery in Asia. Others claim that the increasing value of the rupiah, Indonesia's currency, reflects the strength of a "recovery" of Indonesia's economy—whereas it is primarily a result of the fall of the dollar in international currency markets. The debate is not unique to Indonesia, but Indonesia's large population, and the huge debt imposed upon the country by the speculative assault on the Asian economies in 1997-98 and the subsequent dictates of the IMF, make Indonesia the most likely and most vulnerable target of Argentina-style destruction in Asia.

For reasons not yet clear, the IMF-centered financial institutions in the United States and the British Commonwealth countries have not yet cracked down as brutally in imposing austerity on Asian nations as they have against Ibero-American nations. But, the crisis that Asian nations face is growing. And, U.S. 2004 Presidential pre-candidate Lyndon LaRouche has warned that the dollar collapse can not be put off beyond October. To prepare for that breakdown crisis requires, first, that the truth be publicly presented and necessary protective measures implemented, and, second, that Indonesia act to assert its influence internationally to effect the necessary solution: the creation of a new world economic system.

Dump the IMF

Indonesian Planning Minister Kwik Kian Gie, who is also deputy chairman of President Megawati's political party, the Democratic Party of Indonesia-Struggle (PDI-P), reopened the debate on the IMF in a June 1 speech at a celebration in honor of the national "*pancasila*" doctrine of ecumenical unity and the promotion of the general welfare, initiated by Indonesia's Founding Father Sukarno, President Megawati's father. Kwik said that continued subservience to IMF conditionalities would lead the country to further economic bankruptcy and disorder. He called for a national movement to regain the country's greatness, asking if the nation were not capable of rebuilding its national integrity and regaining the sovereignty and honor of the nation.

Kwik's call for severing ties with the IMF at the end of the current contract, at the end of this year, was supported by Vice President Hamzah Haz and Speaker of Parliament Amien Rais. Coordinating Minister for the Economy Dorodjatun Kuntjoro-Jakti, who is responsible for negotiations with the IMF and other international financial institutions, defended cooperation with the IMF, but President Megawati has not spoken out on the debate. Although there are rumors of a Cabinet shift to deal with the "split," it is also possible that the government prefers that both, contradictory positions, remain on the table.

There is some truth being told. President Megawati attended the UN World Food Summit in Rome in June, where she hit directly on the reality that the cause of the vast starvation sweeping the globe is the unpayable debt burden. "Without an effective solution to the debt problem and flexibility by financing governments and institutions for debt rescheduling, I am afraid the efforts to fight poverty and to bring about food security will only become even more difficult," she said.

Former Finance Minister Rizal Ramli, one of the most astute economists in Indonesia, in an op-ed in the *Jakarta Post,* warned that economic policy is dominated by "an excessive euphoria," which may keep consumer confidence up, but "can be dangerous, as it creates conditions for a sudden shock or surprise that is disadvantageous to all of us." He reviewed the facts of the Indonesian economy: The budget deficit for the first quarter of 2002 more than doubled the target of $300 million; growth in the first quarter fell to 2.15%, from 3.4% in 2001 and 4.8% in 2000; growth forecasts for 2002 of 3-4%, if reached, would not even absorb the growth in the workforce, adding to the already horrendous unemployment rates; foreign direct investment has fallen by 60% in the first four months of 2002, despite substantial speculative portfolio investments in the stock market; domestic investment also fell by 30%; and non-oil exports fell by 9.6% in the first quarter. Even the rate of increase in consumption, rising from the depths following the crash of 1998, has fallen by half this year.

The Debt Weapon

However, the deal signed with the IMF does not signify that the government has capitulated to all the IMF demands and conditionalities. In fact, Indonesia has, to some extent, used the "debt weapon" in its negotiations with the interna-

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tional lenders, telling them that, since Indonesia cannot pay the debt service anyway, they must grant the nation a moratorium. Minister Dorodjatun negotiated a moratorium on both principal and interest payments on the foreign debt during talks with the Paris Club of lender nations and the London Club of private lenders in April and May.

Other measures out of keeping with IMF demands have also been grudgingly tolerated, such as the refusal to carry through with an agreement to sell Bank Niaga (one of the many banks taken over by the government during the 1998 crisis), when the bids received were but a small fraction of the market value of the institution. The IMF sent Minister Dorodjatun a letter insisting that the country proceed with the sale, and several others scheduled for this year, regardless of the price offered. Nonetheless, the government scrapped the sale, and announced that it would offer 20% of the company through stock offerings, and only then proceed with offers to (mostly foreign) strategic investors, and only at an acceptable price. A similar policy will be followed in subsequent bank sales.

The Legacy of the IMF

The moratorium on the foreign debt service will not even solve the short-term debt problem, however, because the problem of the domestic debt is equally as serious as that of the foreign debt. In an interview with *EIR* on June 19, Indonesian economist Sri Mulyani Indrawati, an adviser to the previous government and a professor at the University of Indonesia, explained that the government had no significant domestic debt before the 1998 crisis. After the speculative attack on the currency, which devalued the rupiah more than threefold, the IMF, she said, demanded that 16 of the most troubled banks be shut down. "That created what you would call an 'unexpected response' from the people. The people saw the banks not only as banks, but, because the banks were owned mostly by people connected to President Suharto at that time, the trust of the people in the whole banking system was destroyed. It was a very messy process, of course, because then the government had no option. . . . The situation was creating a systemic panic among the depositors in Indonesia, which would collapse the whole banking system. So that was the beginning of why the government imposed the blanket guarantee and the subsequent policy [of government takeover and recapitalization of the banks] which created the domestic debt."

The result was that more than $73 billion in government bonds was provided to domestic banks to recapitalize and meet Bank for International Settlements' standards. The government must now make interest payments to the banks holding the bonds, amounting to about $7 billion per year. Of course, these payments do go into the Indonesian economy and stimulate growth—unless the banks are sold off to foreign bidders, which is exactly what the IMF demands, no matter how low the price. In fact, Planning Minister Kwik strongly opposed the sale of Bank Central Asia (BCA) to a U.S. speculative outfit called Farralon, precisely because the sale price was less than the $480 million in interest payments that the government must pay out to the bank *every year* on the bonds held by the bank, bonds which were loaned to the bank by the government in the first place! In fact, the government payout to a foreign owner on the BCA bonds alone is greater than the annual loans received from the IMF.

Sri Mulyani believes that servicing the combined foreign and domestic debt of Indonesia is simply unsustainable, and the temporary moratorium does nothing to solve the problem. "I think, definitely, that the international financial architecture needs to be improved or redesigned," she told *EIR*. "There has to be room to create an opportunity for a developing country like Brazil, Argentina, Indonesia, or China (which is not suffering yet, but nobody knows how long they can continue growing like this), when they have to make adjustments. That should be done in a situation that does not create unfair punishment, because usually the crisis comes together with political change. . . . In that kind of situation, to force the country to go through an adjustment process is very difficult, and, predictably, almost every country will fail."

Most important, Sri Mulyani, who received her PhD at the University of Illinois, and is now a Visiting Professor at Georgia State University, recognizes that the United States is facing a crisis not dissimilar from that facing Indonesia. Asked about *EIR* Founder LaRouche's view of the "delusion" of a recovery, she said: "The confidence crisis [in the U.S. economy] is actually quite serious. It depends on how strong the authorities—and especially with the U.S. being the so-called policeman of the global system—can work to correct the weaknesses, including the accounting and the CEO behavior. It involves a lot of significant companies that are symbols for the system itself. A government that tries to influence the economy by putting more money through fiscal or monetary policies, can rescue the economy in the short run, yes, but in the long run, the sustainability of any recovery will depend on the fundamentals. . . . The attitude in judging the price of stock can create a bubble, and can burst in a very short time. If what happened in Indonesia in 1998, where everyone lost confidence in the system, not just due to economic factors, but also political factors—that can happen, even in the U.S., if you have a leadership problem. *If you have a very severe political problem, it may happen, like a doomsday scenario.*"

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