Indonesia: Develop Infrastructure or Lose National Sovereignty

by Mike Billington

Indonesia, the world's fourth largest nation by population, is at a crossroads, brought about not only by the incredible destruction of the far western province of Aceh by the earthquake and tsunami of Dec. 26, 2004. Even before that disaster, Indonesia's recently elected government of President Susilo Bambang Yudhoyono (known as SBY) had convened an "Indonesian Infrastructure Summit" for Jan. 17-18, bringing together government and business leaders from around the world to address the conjunctural crisis facing the Indonesian economy.

Seven years after the massive 1997-98 speculative attack on this once-developing nation—when the global hedge funds and the international banks centered on the IMF destroyed the nation's financial system, looting tens of billions of dollars from the economy and the 240 million Indonesian people—this new government is determined to revive the nation's economic development. However, it is threatened, once again, with being set up for the kill by the "economic hit men" of the now-bankrupt IMF-based financial empire, as it was in the hot-money days of the late 1980s and early 1990s.

The Infrastructure Summit addressed the massive infrastructure deficit across the entire nation, which has become progressively more severe since the 1997-98 financial warfare, and the intense debt-looting in the subsequent seven years. There has been a near-total collapse in productive foreign investment since the crisis, although there was no shortage of looting, with one result being that over half the national banking system is now in foreign hands.

Although the Summit was addressing the pre-existing crisis, the devastation of the earthquake and tsunami dramatically shaped the discussion. The death toll in Indonesia as of Jan. 31 had reached 233,000 (more than 280,000 Asian-wide), with the injured, the homeless, and the orphaned many times greater than that figure. An estimated 350,000 buildings and 500 bridges in Aceh were destroyed, while 91% of the sanitation facilities, 80% of the roads, and 80% of the electricity is out of service or destroyed. Current estimates of relief and reconstruction costs for Aceh alone are $4.5 billion. As a result, a major emphasis at the Infrastructure Summit was placed on the reconstruction of Aceh, although not to the exclusion of national infrastructure needs.

The Legacy of the Debt

Sri Mulyani Indrawati, the Indonesian Minister for National Development Planning, presented to the Infrastructure Summit the government's ambitious plan for $145 billion in infrastructure investments over the next five years. She acknowledged that "In the last few years, very little private investment has happened here," while "at the same time, the debt overhang that is the legacy of the crisis [of 1997-98] prevents an increase in debt financing." Unfortunately, having identified the problem, she, and the other government officials at the Summit, accepted this "legacy of the crisis" as irreversible, and to be borne by Indonesia alone, and not by the those who committed the crime. The reality is, that Indonesia has already paid its legitimate debts!

The Nov. 28, 2001 *EIR* published a study of the financial crisis in Indonesia called "Indonesia Has Paid Its Debts!" The report used the premise that the devaluation of the Indonesian rupiah to less than one-third its former value during the speculative assault of 1997-98 was not primarily of Indonesia's making, but was the intended result of the speculators and their backers in the international financial institutions. The report demonstrated that the many foreign investments in power, water, oil, and other large infrastructure projects during the 1980s and 1990s, were of the sort known in the colonial era as "unequal contracts," in which the entire risk was placed on the colony, all debt was denominated in the foreign currency, and even the cost of the product (such as electricity) was set in the foreign currency. Thus, when the national currency was driven to one-third its value through speculation and manipulation, the debts of Indonesia tripled overnight, in rupiah terms, without a single penny being borrowed, while the cost of utilities to Indonesian businesses and consumers skyrocketed, strangling the economy, despite the fact that there had been no change in the physical productive structure (see **Figure 1**).

The study also calculated how much foreign debt Indonesia had actually paid in the three years after the crisis, by computing the dollar value of the payments made in the *pre-devaluation value of the rupiah.* This demonstrated that the $54 billion in foreign debt service paid between 1998 and 2000 actually cost the nation and the people of Indonesia more than three times that amount in domestic labor, raw materials, products produced and exported, and so on, than it would have if the currency had not been massively devalued. Thus, in terms calculated in the 1996 rupiah, it was as if $187 billion had been paid in foreign debt, although the nation was credited with only $54 billion paid. The difference, $133 billion, was almost exactly what Indonesia still owed to the international creditors—that is, in real, physical terms, Indonesia had paid its debts (see **Table 1**).

The Privatization Trap

The Indonesian government knows these facts, but does not believe it can simply renounce the illegitimate debt. In

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FIGURE 1
Indonesia, Percent Change in Total Debt
(Dollar Valuation vs. Rupiah Valuation, Measured Against Previous Two-Year Interval)

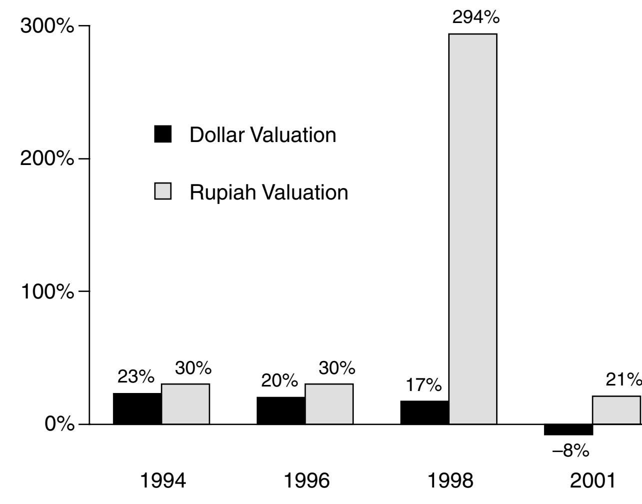

TABLE 1
Indonesia's Debt Service Payments
(Billions)

Year	In Dollars	In Rupiah	Dollar Value Paid If Calculated In 1996 Rupiahs
1998	$17.5	140,125	$58.8
1999	$17.9	126,821	$53.2
2000	$18.8	180,482	$75.7
Total	$54.2	447,428	$187.7
Subtract total dollars paid			–$54.2
Unaccounted debt paid			$133.5

fact, the Minister of Finance, Dr. Jusuf Anwar, in his speech to the Infrastructure Summit, acknowledged the "unequal contracts" of the pre-crisis era and their consequences, referring to the government "guarantees," which assured the foreign investors full payment in dollars, and full purchase of the output, whether needed or not: "We had disastrous and costly experiences with 'Guarantees' or similar instruments under pre-crisis public-private projects, particularly in the power and energy sector," Dr. Anwar said. He added that the "current level of public infrastructure investment, at $1.5 billion in 2002, is less than a quarter of the $8 billion in 1994."

But will Indonesian officials ignore their own warnings, and accept new versions of the "unequal contracts," believing that this is their only hope to build the nation's physical economy? Some government officials are afraid that they will.

Despite the fact that the IMF/World Bank policies imposed on Indonesia during the financial warfare of 1997-98 are now acknowledged to have been a major *cause* of the collapse of the Indonesian economy and banking system (even the IMF itself issued a *mea culpa* about their mistakes in dealing with the crisis), it is these same institutions which Indonesia is depending upon today to organize the proposed infrastructure investments. Nor was there any discussion (at least publicly) of the fact that the IMF-centered dollar-based financial system is now careening into a free-fall collapse, as the take-down of the productive sector in the U.S. and Western Europe has now caught up with the hyperinflationary expansion of national debt, trade deficits, and financial aggregates in the U.S. Indonesia may be negotiating with a corpse.

Indonesia intends to cover between 20-40% of the needed $145 billion through government spending, depending on the private sector, mostly foreign investment, for the remainder. Unfortunately, the U.S. has long since gone out of the practice of nation building as a government endeavor, even for infrastructure, which by its nature should be the responsibility of governments, not the private sector. One leading American expert on Southeast Asia told a recent Washington forum, after a trip to Indonesia and discussions about the then-upcoming Infrastructure Summit, that China and Japan were offering many billions of dollars of government-guaranteed soft-term investments, while the U.S. would offer only private investments with stiff conditionalities. Thus, Indonesia has been told (by the IMF institutions and their U.S. mouthpieces) that it must make its infrastructure "profitable," not for the economy as a whole over the long-term, as it should be, but immediately, in the short term, in the form of an assured return to the investor in the infrastructure project itself. This is a return to the "unequal contracts" of the pre-crisis era, and the result will certainly be the same.

One positive partial alternative on the horizon is the growing investment from China, which is widely acknowledged to be on terms far more respectful of Indonesia's sovereignty and financial situation. China came to the Infrastructure Summit armed with more than $1.5 billion in infrastructure investment offers, and more can be expected when Chinese President Hu Jintao visits Indonesia in April. Although China's highly favorable terms of investment are dismissed by many Western experts as an effort to buy its way into a new market, the fact is that China looks at foreign investment the way the U.S. once did—as a means for mutually developing productive economies which will be both friends and trading partners, rather than as a source of short-term profits and political control.

The 20-40% portion of the investment to come from the Indonesian government itself will go into "sectors which are not commercially viable—such as rural roads and specific investments that help the poor and remote communities," according to Planning Minister Sri Mulyani, while the bulk of the infrastructure needs, especially in power, roads, and wa-

ter, will be offered as privatized investments, with tolls set by "market standards" and through "open competition"—a form of deregulation which is a prescription for disaster.

A sign of the danger involved is the main role at the Indonesia Infrastructure Summit of Michael Porter, a leading member of the arch-synarchist Mont Pelerin Society in Australia, who has promoted himself as an economic advisor to President Yudhoyono. Porter was the chief architect of various privatization schemes in Australia, and in Victoria in particular, but his pedigree goes back to his role as one of the primary players in the 1971-74 destruction of the Bretton Woods system. When George Shultz instructed President Richard Nixon to pull the dollar off gold in August 1971, implementing a speculative floating exchange rate system, then-IMF official Porter was instrumental in getting Germany to go along with the Shultz policy, floating the deutschemark, and he then moved on to influence Australia in adopting floating rates and other aspects of the deregulation of the financial system. Porter claims that President Yudhoyono is preparing to implement privatization/deregulation policies similar to those Porter implemented in Australia.

Indonesia has already implemented several new laws to facilitate the privatization process, including the elimination of the state monopoly on toll-roads, and the deregulation of electricity and water. The disastrous results of privatization of water (the Philippines and Argentina are but two examples) and electricity (California was literally bankrupted by its electricity deregulation fiasco), should serve as a warning that such actions open the nation to devastating economic looting.

However, the Indonesian Constitutional Court recently annulled the electricity deregulation law passed a few years earlier, based on the fact that it is forbidden by Indonesia's basic law as contained in the Constitution that was adopted with the nation's founding in 1945. The "Social Welfare" clause of the Constitution, states: "The economic sectors which are essential for the country and which affect the life of the people, must be controlled by the state. Otherwise the control of production might fall in the hands of powerful individuals who could exploit the people. The land, the waters, and the natural resources therein are basic assets for the people's prosperity and should, therefore, be controlled by the state and exploited to the greatest benefit of the people."

The meaning of the phrase "controlled by the state" was given a very liberal interpretation under the Suharto regime, allowing the "economic hit men" great leeway—a policy which left the country essentially bankrupt after the 1997-98 crisis. The government determined after that disaster that never again would they provide such unreasonable guarantees to foreign investors, which granted de facto ownership of the nation's sovereign industries and control of their resources.

Those in the government who are intent on sticking to that pledge of "never again," are concerned that the new government, under pressure to come up with investments at any cost, may repeat the errors of the past.

Pinochet's Chile Model Still 'Screwing Mexico'

by Rubén Cota Meza

As of Jan. 17, 2005, Mexico's privatized pension funds—the Retirement Funds Administrators, or Afores—were permitted to invest approximately $13.5 billion in workers' pensions savings in both foreign and domestic company stocks, as well as in foreign government bonds. Six years after having launched the private pension system in Mexico, the foreign bankers who dominate the Mexican banking system have finally succeeded in getting their hands on a big chunk of the total savings of Mexico's more than 32 million workers—which as of November 2004 totalled $39.8 billion—to be placed as bets on the international roulette wheel of speculation, exactly as they had wanted ever since Pinochet's so-called "Chile model" of private pensions was first installed in Mexico.

In 1996, the alliance of the Revolutionary Institutional Party (PRI) and the National Action Party (PAN), under the direction of then-President Ernesto Zedillo (PRI), "reformed" the Social Security law to create an obligatory private pension system for all workers in the private sector. At the time, it was said that those funds would be invested in national development projects, a deliberate deception to draw the support of PRI-affiliated trade union leaders ever anxious to please the President, in exchange for holding onto their positions of control over the working masses.

Ever since then, the bankers have fought for the right to risk the funds of individual pensions on the international markets, with the new deception that this would yield larger dividends to the supposed benefit of the workers. Now, once again, the PRI-PAN alliance in the Congress has complied, granting a "probationary period" during which 15-20% of the funds can be invested, in various forms, on the international markets.

All of these changes to the Mexican pension system have been approved without any effective opposition on the part of either the labor unions or the political parties. The private pension model that the dictatorship of Augusto Pinochet bloodily imposed in Chile, has been imposed "democratically" in Mexico, thanks to the intellectual impotence of the country's political leadership.

Enter the LYM

The next step that the bankers and the PRI-PAN alliance hope to take, is privatization of the pension system of the