Indonesia Walks A Tightrope

by Michael Billington

Indonesia's fourth government in four years, headed by President Megawati Sukarnoputri, the daughter of Indonesia's Founding Father Sukarno, came to power only last August. It was handed the formidable task of guiding the nation to safety across a tightrope spanning an abyss with two monsters below: On the one side, is the unpayable debt burden left over from the 1997-98 looting and forced devaluation carried out by global speculators and their protector, the International Monetary Fund (IMF); on the other side, is the threat that the nation-state itself could be broken into pieces, as separatist, ethnic, and religious violence continues to tear at several parts of the archipelago. These regional crises were aggravated by the poverty brought on by the economic collapse of 1998, and by Western governments and their controlled non-governmental organizations (NGOs), whose intent was to balkanize the country. Added to this is the now undeniable onset of the collapse of the dollar-based global financial system, and the push for a global war against Islam by most of the American political leadership (Indonesia is the world's largest Muslim nation). It now seems a miracle that the government has survived as long as it has.

The debt—over $130 billion, nearly equal to the country's Gross Domestic Product—is a classic case of what *EIR* has termed "bankers' arithmetic." The foreign portion has actually been paid off several times over when measured in the rupiah, Indonesia's currency (see "Indonesia Has Paid It's Debt!," *EIR*, Nov. 23, 2001). But, because of its forced devaluation to less than one-fourth of its former value in the 1998 speculative feeding frenzy called the "Asian crisis," the debt payments count for next to nothing, and the debt remains, as a cancer, eating at the real economy.

The domestic portion of the debt, about $71 billion, came about entirely from the government intervention to save the banks and state industries in 1998, after the IMF precipitated a run on the banks, by demanding the sudden closure of several financial institutions as a condition for not cutting off international credit. (The IMF admission, after the fact, that this was a mistake, has not alleviated the debt burden.) To make matters worse, as one of the IMF "conditionalities," the government is now selling off the banks it saved in 1998, to foreign banks and speculators. This means that, in addition to the increasing foreign control over the nation's banking system, the debt service payments on the government bonds, which were given to these banks to keep them afloat, amounting to billions of dollars every year, will no longer stay within the country. In fact, the sale in March of a majority share of one of Indonesia's leading banks, Bank Central Asia, to U.S.-based speculator Farallon, brought the government just over $500 million, and yet, the government must pay *every year* about $700 million in interest on the bonds given to the bank in 1998—money that will now go to a foreign company.

A Debt Moratorium

However, Indonesia also finds itself in a new financial/economic geometry, which came to a head with the demise of Argentina as the IMF poster-boy. Before the April meeting of the Paris Club of Indonesia's lenders, the government told the West bluntly that the country could not afford to pay the debt service due this year—neither the principal nor the interest. The Paris Club then granted the country an 18-month suspension of debt service payments—over $5 billion. The private lenders, clearly unwilling to see another Argentina explode at this time in Asia, followed suit.

Under normal circumstances, this would be called a debt moratorium, but the phrase has never been uttered in public. Standard and Poor's announced well ahead of time that it would necessarily have to lower Indonesia's sovereign credit rating to "selective default," but all were assured that this was only a "technical" matter and the rating would be lifted as soon as possible.

Officially, it was reported that Indonesia's compliance with IMF conditions had justified the restructuring of the debt. Indonesia has, in fact, complied to a great extent with IMF demands—beginning privatization of state-owned banks and industries, cutting subsidies on fuel and other necessities, and other structural changes. But the government has refused to rush the process, lifting subsidies very slowly, and refusing to sell certain state assets at fire-sale prices, or when faced with strong domestic opposition, from the legislature and from state-sector employees.

The privatization targets set by the IMF have not been met in the past two years, and plans to privatize two pharmaceutical companies, a port operator, and a coal-mining firm are on hold, while bids on a telecom company and a property company were deemed to be unacceptably low, according to the Office of the State Minister of State Enterprises. In the case of the pharmaceutical firm PT Indofarma, the initial plan to sell 51% in the company was reduced to a far smaller portion "to ensure the company would still produce cheap medicine for the poor," according to a *Jakarta Post* report.

The General Welfare

This concern for the general welfare, as opposed to IMF demands, is the central issue facing this nation of 230 million people, the fourth most populous nation in the world. The government of President Megawati has taken several measures to protect the population from the ravages of the economic crisis, both those past and those to come. In agriculture, Indonesia had become self-sufficient in rice production in 1984, and remained so until the financial assault on the nation in 1997-98. Now, the government has announced plans to regain self-sufficiency by 2010, through a combination of increased yields and the reclamation of 100,000 hectares of paddy field per year. New tariffs on rice (and sugar) have been proposed by Agriculture Minister Bungaran Saragih, so as not to be "vulnerable to the wild fluctuations in the international food market."

Indonesia is also taking steps to protect its steel industry. Sutrisno, chairman of the state-owned steel company PT Krakatau, has announced that several options are under consideration to protect this critical industry, including tariffs and quotas. He pointed to the recently imposed steel tariffs in "other nations" (without naming the United States), indicating that a much-needed shift away from free trade dogma is under way.

President Megawati has also travelled extensively throughout the region, contributing the good will of Indonesia (as in her personal role in facilitating the re-initiation of discussions between North and South Korea), and calling on her neighbors to recognize the urgency, and the long-term benefits for the security and development of the region, in promoting regional investments into Indonesia's infrastructure and industry.

But such good intentions will achieve little if the overwhelming debt burden is not eliminated. A UN Economic and Social Commission for Asia and the Pacific (ESCAP) report released on April 26 warned that Indonesia's growth will fall short of other developing countries in the region because of the "massive debts that cripple the state budget's ability to stimulate growth," according to the *Jakarta Post.* Indonesian economist Prabowo, presenting the ESCAP report, said that with 40% of the federal budget going to debt service (even with the moratorium on the foreign debt), the government spends less on development than on servicing the debt, such that the country cannot build up the necessary steam to drive the economy forward. It is estimated that Indonesia needs growth of 7% just to absorb the new entrants into the labor market, but projections are for less than 4% growth for the year. Of course, these UN projections are meaningless except for purposes of comparison, since their forecast is premised on an "upturn in global demand led by a rebounding U.S. economy [which will] drive the region's growth."

The problem lies in the fact that the IMF can, at any moment, pull the plug on Indonesia's debt structure, as it did in Argentina. Unless the country, in league with other nations around the world, moves to create a new monetary system that will facilitate the write-off of the mostly illegitimate debt, and generate new credits for development, the essential control of the national economy by the bankrupt IMF-centered

Preparing a rice field for planting in Bali. Indonesia, which had become self-sufficient in rice production in 1984 and remained so until the financial assault on the nation in 1997-98, has announced plans to regain self-sufficiency by 2010.

financial institutions will remain a Sword of Damocles hanging over the nation.

Territorial Integrity

President Megawati has warned that the survival of the nation is threatened by violent separatist movements, primarily in Papua and in Aceh, and religious violence, primarily in the Malukus. When East Timor was reluctantly granted independence by the Indonesian legislature following the referendum of August 1999, the neo-colonial interests which had promoted independence continued their attacks on Indonesia, intent on using East Timor as yet another permanent source of instability and tension in the region, while fanning the flames of separatist sentiments elsewhere in the country. Fortunately, the new President-elect of East Timor, Xanana Gusmao, formerly the head of the Maoist Fretelin armed movement, has demonstrated great wisdom in dealing with these explosive issues. Breaking from his former comrades in the Fretelin, and from Jose Ramos-Horta, the anti-peace recipient of the Nobel Peace Prize, Gusmao denounced the demands for revenge against pro-Indonesian militia members or the Indonesia military, displaying true leadership in promoting peace and reconciliation among all parties. He refused to run as a Fretelin candidate, or for any party, and won 80% of the vote as an independent, while pledging to represent both sides of the bitter conflict that raged in East Timor over the past years, and to make peace with Indonesia.

On May 3, Gusmao travelled to Jakarta, where he had been held in prison for seven years for his role in Fretelin. Gusmao presented President Megawati an invitation to attend the celebration of statehood scheduled for May 19. While many of his compatriots are supporting the call coming from the UN and many Western governments for retributive trials of militia and Indonesian military officers accused of crimes in East Timor, Gusmao told the press in Jakarta: "I am not saying I don't agree with justice. Justice, yes, but what is my priority? Social justice. We suffered and died for what? To try other people, or to receive benefit from independence?" This reflects the concept behind the famous Treaty of Westphalia in 1648, which not only ended a century of religious warfare across Europe, but established mutual respect among nations, without retribution for past grievances, as the necessary basis for the development of nation-states out of the feudal past.

Pointing out that the majority of the people of East Timor live on less than 50¢ per day, Gusmao added: "Independence is not [only] having a flag, having a President. It is useless if we don't make efforts to better the living standards of our people."

On the Indonesian side, despite strong public resentment against the international intrigue that brought about the loss of East Timor, the government and the military have taken up Gusmao's appeal. Army Chief Gen. Endriartono Sutarto said on May 4: "We should look to the future with East Timor as our neighbor. We should be capable of forgetting the past, and looking toward a better future."

The Crisis in Maluku

The two most difficult crisis spots remaining within Indonesia today are Maluku and Aceh (Papua is also problematic, but is generally moving ahead peacefully, despite the recent murder of an indigenous leader). Maluku, the famous Spice Islands, had been a model for relatively peaceful coexistence between the Muslim and Christian populations until the economic collapse of 1998 provoked an outburst of communal rage, leaving over 6,000 dead so far. Laskar Jihad, a militant Islamic group created in 2000 in Java, sent hundreds of its recruits to Maluku to defend the Muslim population in the violent confrontations there—which tended to make matters worse. On the other side, British Baroness Caroline Cox and others of the Lord Avebury set travelled to Maluku, sending lying reports around the world that it was purely a case of Muslims slaughtering Christians, and accusing the Indonesian government of complicity.

The government finally succeeded in establishing a peace agreement in the region in February, which seemed to be taking hold, except for the refusal of Laskar Jihad to send its members back to Java. Nonetheless, the situation was relatively calm until April 25, the anniversary of the founding of the Republic of South Maluku (RMS), a short-lived revolt by

Malukans loyal to the colonial Dutch regime, who even fought alongside the Dutch in Indonesia's war for independence. Remnants of this group, living in exile in the Netherlands, threatened to raise their flag on April 25, and renew their rebellion. The government took strenuous measures to prevent a provocation—all foreigners were forbidden entry to the region, and the leader and 17 members of the RMS-connected group were arrested. Nonetheless, several flags were released on balloons, and the Laskar Jihad responded in profile, holding militant rallies and calling for blood. Within days, in one of the most vicious attacks of the conflict, hooded "ninja" killers raided a Christian village, leaving 14 dead, mostly women and children, in their beds.

The government has arrested Jaffar Umar Thalib, the founder and leader of the Laskar Jihad, accusing him of inciting the attack and threatening the life of President Megawati. It is also planning to put the Christian separatists on trial. The entire Provincial legislature, Christian and Muslim, has travelled to Jakarta to attempt to circumvent another explosion, and Megawati has ordered an investigation. The most promising indication that further bloodshed may be prevented is that a CNN team that arrived in Maluku was sent packing.

Aceh: Another Difficult Problem

The bloody fighting in Aceh, where more than 10,000 people have died over the past 25 years, including 400 this year, may finally be close to a solution. In February, the government met in Geneva with representatives of the Free Aceh Movement (GAM), where, for the first time, the GAM agreed to drop its demand for independence and negotiate on the basis of a special autonomy status within the Republic of Indonesia—an unnegotiable condition in the eyes of President Megawati, who will not accept the dissolution of the unified state established by her father. New talks are scheduled for May 9-10 in Geneva. For the first time, the two sides have agreed to outside participants, in the form of three "wise men." These include: Gen. Anthony Zinni from the United States, who is close to Secretary of State Colin Powell (a voice of relative sanity in the Bush Cabinet), and who was recently Powell's special envoy to the Mideast; former Foreign Minister of Thailand Surin Pitsuwan, who is not-so-fondly remembered for his efforts to break the standing agreement among Southeast Asian nations to honor each others' sovereignty; and, most ominously, Lord Avebury, whom *EIR* has documented for many years as the primary British controller of subversive operations against developing nations, with Indonesia one of his primary targets.

While the violence continues to be stoked by both sides in Aceh, the potential for a settlement has reached a crucial juncture. The greatest danger is that Anglo-American interests promoting a "Clash of Civilizations" will undermine a settlement, in pursuit of their "perpetual warfare" doctrine. If Jakarta recognizes that danger, in Aceh and elsewhere, it can be circumvented.