Indonesia Again Faces The Speculators' Gun

by Mike Billington

Indonesia has been subject to the looting and subversion of the "economic hitmen" as often, or perhaps more often, than any nation on Earth, so the current assault by the international synarchist banking circuit, its institutions, and its associated hedge funds should not have been unexpected. This time, it has sent the national currency into free fall, and is draining the foreign reserves. The attack is of special note, however, because it comes as the world financial system itself is careening out of control, and Western financial analysts are warning that an explosion in heavily indebted Indonesia, together with similar crises in other developing-sector nations, like the Philippines and Brazil, could be the spark that ignites the now-inevitable global collapse of the dollar-based financial system.

The crisis in Indonesia is also of special interest because of the actions of ExxonMobil, playing the role of a modern-day British East India Company in asserting control over its colonial subjects and their raw material wealth, and subverting the nation's sovereignty.

In the past weeks, Indonesian President Susilo Bambang Yudhoyono has been forced to expend billions of dollars of the nation's reserves to defend against currency speculation, which has reached a level comparable to that of the 1997-98 speculative attack on the rupiah and other Asian currencies by George Soros and the hedge funds. Indonesia was, by far, the worst hit by that attack, because of the sweetheart contracts negotiated between Western corporations and former President Suharto and his family, which had placed the entire risk of default or currency collapse, upon the Indonesian government.

Those contracts were the intentional result of two decades of "economic hitmen" operations against the country, as documented in the now-famous book by John Perkins, *Confessions of an Economic Hit Man,* (San Francisco: Berrett-Koehler, 2004). Perkins describes his first major assignment in the early 1980s, in Indonesia, setting up the government and the state oil company, Pertamina, with contracts *intended* to create financial crises and foreign dependency over the long term. Perkins identifies George Shultz as a leading controller of the "hitmen." Shultz has served variously as the head of Bechtel Corp., U.S. Secretary of State, and, most recently, as the architect of the neo-conservative cabal running the Bush/Cheney Administration, and he continues to personally oversee their Indonesia policy.

When President Suharto (right), in 1998, succumbed to IMF demands to impose austerity, including cutting fuel subsidies, riots broke out across the country, that led to his downfall. Current President Yudhoyono (left) is facing a similar challenge from the IMF today.

This cabal, together with the International Monetary Fund and the other international financial institutions, is demanding that Indonesia strangle its domestic economy with higher interest rates, squeeze the population and the nation's businesses with higher fuel costs through lower fuel subsidies, and return to the "government guarantees" for foreign investments of the Suharto era, which bankrupted the country in 1997-98. Thus far, President Yudhoyono and his economic team have shown little willingness (or ability) to resist.

ExxonMobil's Greedy Blackmail

At the peak of the crisis after the currency collapse of 1997-98, with Indonesia flat on its back, ExxonMobil purchased the rights to exploit the Cepu oil field in Java until 2010. It was sold to them by President Suharto's son, Tommy, who had earlier used his family connection to buy the field from Pertamina. ExxonMobil soon discovered that the oil field was far larger than earlier believed; in fact, it is one of the largest deposits in oil-rich Indonesia. Then, the oil giant told Indonesia that it would *refuse to develop the oil field unless the government granted it 20 more years of control over Cepu, beyond the 2010 specified in the contract.*

Government officials told *EIR* that ExxonMobil went even further, turning off the existing oil wells on the property, as a form of coercion to get its way. The official also reported that it is an assumed point of law that a lease to a foreign oil company includes the proviso that the deposits *must* be developed, or the government can reassert sovereignty over the property. Beyond doubt, Indonesia would have been within its rights to seize the property and begin production.

The directors of Pertamina, and other officials, insisted that the sovereignty of the nation should not be so treacherously compromised by transferring rights to its oil wealth under conditions of blackmail, and that Pertamina was, in any case, fully capable of developing the Cepu field itself, if ExxonMobil refused to carry out its responsibilities under the contract.

Meanwhile, foreign investments were close to zero in the years after the destruction of Indonesia's currency, and Indonesian oil production fell steadily, with no new fields brought on line. This year, Indonesia went from being a net oil exporter to a net *importer,* just as oil prices went through the roof.

The fight over Exxonmobil continued for several years. When Yudhoyono was elected President in September 2004, he promised to settle the dispute, and in July 2005, the government announced a deal, capitulating to ExxonMobil and granting it 20 additional years of control over Cepu. Pertamina's current president, Widya Purnama, has refused to sign on to the deal, despite the fact that the contract will be a "joint venture" between ExxonMobil and Pertamina. Nevertheless, the Yudhoyono Administration asserted that it will proceed.

The final blow fell on Aug. 19, when it was announced that the entire Pertamina leadership was being fired, including Widya Purnama, apparently for daring to cross the colonial lords of ExxonMobil. The *New York Times* began its news coverage of this event saying, "ExxonMobil has found a friend in President Susilo Bambang Yudhoyono of Indonesia."

Unlike the Indonesian economy, ExxonMobil reported a world-record profit of $25.3 billion for 2004, and has exceeded that pace in 2005, with $15.5 billion in profits for the first half alone.

ExxonMobil
Taking on the world's toughest energy challenges.

ExxonMobil is playing the role of a modern-day British East India Company, in the crisis in Indonesia, in asserting control over its colonial subjects and their raw-material wealth, and subverting the nations's sovereignty.

Speculation and 'Shock Policy'

If Indonesia's leadership imagined that such accommodation to the synarchist institutions of the world would result in kinder, gentler treatment, they were forced to correct that belief within days. The rupiah has been falling for the past two years (a total of 16%, to 10,013 rupiah per dollar, as of Aug. 23, 2005), caused, in part, by increasing foreign oil purchases, which drained the dollar reserves, but primarily caused by rising speculation in the largely uncontrolled foreign-exchange market.

On Aug. 26, the *Wall Street Journal* published an op-ed by Adam Mesurier, the economist for Southeast Asia at Goldman Sachs, titled "Indonesia's Confidence Crisis," spelling out the conditions required of Indonesia by the synarchist bankers. To avoid a further collapse of the nation's currency and equities, Mesurier warned, the country must impose "a monetary shock policy of raising interest rates, supplemented by fiscal measures such as reform of the nation's overly generous fuel-subsidy program." Indonesia must also implement "regulatory reforms," he said, primarily government guarantees like those of the Suharto era, especially in the energy sector.

But President Yudhoyono was hesitant to further undermine the economy with high interest rates, and was definitely unwilling to lift fuel-subsidies, which would raise fuel rates for both individuals and businesses. "There would be riots across Indonesia if he did that," one official told *EIR*. Indeed, it was just such measures implemented by President Suharto in 1998, at the demand of the IMF, which precipitated riots and Suharto's rapid fall from power. President Yudhoyono did raise fuel rates by 29% in March without serious repercussions, but only by promising that it would be the last rise this year.

Then, on Aug. 30, as the *Wall Street Journal* had threatened, the currency speculators went berserk, driving the rupiah down by 9% in a few hours. The government moved immediately to intervene in the currency market, stabilizing the rupiah temporarily, but bringing dollar reserves down to about $31 billion, from more than $37 billion last year. President Yudhoyono also lifted interest rates by 3/4%, to 9.5%.

The following day, the President gave a nationally televised speech in which he capitulated to another synarchist demand: further cuts in the fuel subsidies. However, he said that the cuts would not be implemented until after October (the beginning of Ramadan), which caused howls of objections from the international financial institutions. Standard & Poors immediately threatened to lower Indonesia's credit rating, saying the "core reason" was the refusal to cut the subsidies immediately, adding that the interest-rate hikes must also be "more aggressive."

The *Wall Street Journal* contributed an editorial demanding that Indonesia give up sovereign control over its currency altogether, by adopting the insane "currency board" idea promoted by economist Steve Hanke. As the *Journal* put it, the country needs to prevent "politicians and central banks" from having any say in national currency policy, by adopting "a currency board that takes all discretion on such matters out of their hands," while tying the rupiah to the dollar. The *Journal* states bluntly, "That can lead to wrenching adjustments in the short term."

Indeed, that is the intention.

President Yudhoyono issued a stern warning that speculators in the currency markets would be punished, but without currency controls in the global casino known as the floating-exchange-rate system, there is no effective means to counter speculation.

The Asian nations have offered some help against the speculators. Currency swap arrangements with Japan, South Korea, and China were doubled this week, adding another $5 billion in stand-by credit to support the rupiah. The hyperinflation in the international markets, however, means that such monetary defense will have little impact.

As the hyperinflation and speculation continue to drive up oil prices, fuel subsidies could cost Indonesia as much as $14 billion this year, a quarter of the national budget. Nonetheless, conceding to the demands of the speculators will not ease the pressure, but only result in more deadly demands. There is no way to extract "concessions" from the dying beast known as the international financial system. As Argentine President Nestor Kirchner said, after he saved his country from destruction at the hands of the international financial institutions by defaulting on the sovereign debt, and successfully negotiating a 75% reduction in that debt, "There is life after the IMF."

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