The 'Pertamina Affair' in Indonesia

June 12 (NSIPS) — Ten years after orchestrating the destruction of the leftist Sukarno government in Indonesia, the International Monetary Fund has launched a destabilization of the very military regime it had installed at that time to loot the country.

The IMF campaign undertaken after years of looting operations against the Indonesian economy, was begun with the financial watergating of the anti-IMF, state oil company Pertamina. It has culminated with issuance in March 1976 of a confidential IMF white paper which demands the gutting of the country's few remaining development projects for the express purpose of servicing Indonesia's huge foreign debt. The IMF document represents the Lower Manhattan policy now being enforced against the entire Third World, and the battle raging in Indonesia over its implementation exemplifies the fight going on in most other developing sector nations as well.

The IMF is demanding that the Indonesian population be ground up in labor-intensive projects geared exclusively for export, to service the country's $8.5 billion foreign debt, 90 per cent of which has been run up since 1966. The pro-development opposition to the IMF in the Indonesian military is led by President Suharto and includes his closest aide General Ali Murtopo, and his Foreign Minister Adam Malik. It is centered in the military bureacracy and especially in Pertamina against which the IMF has mounted a years-long offensive which finally succeded in driving the company into bankruptcy in 1975.

But, the anti-IMF forces are stil in overall command of the military-industrial structure of the country. When Sukarno's pro-Communist regime was broken in 1965—66, it was replaced by the only institutional force available to the IMF to govern — the military. Unlike the puppet military regime installed by the CIA and IMF in Brazil at about the same time, however, the Indonesian military, whose roots were in the 1945-49 struggle for independence from the Dutch, is a fiercely nationalistic organization with substantial resistance to being looted and a strong commitment to capital-intensive economic development.

Moreover, the military itself and the military-controlled Pertamina owned or operated most of the nation's non-foreign owned industrial structure. Even today, despite the takeover of economic planning by U.S.-trained technocrats, the Indonesian economy is still operated by the nationalist military and the military-allied bureaucracy. It is this remaining potential for a breakaway from the IMF rule under conditions of an accelerating Third World drive toward debt moratorium and a new world economic order, which has impelled the IMF to escalate its campaign to discredit and eliminate the Suharto regime.

To this end, a destabilization has been launched against Suharto himself and his allies. Technocrat and Mines Minister Mohammed Sadli last month publicly exonerated the IMF of any interference in Indonesia's internal affairs, and attempted to pin the entire blame for Pertamina's bankruptcy on its former chief, Suharto confidant General Ibno Sutowo. On Cue, CIA-linked Jakarta students used Sadli's statement to call for Sutowo to testify before the parliament. The immediate predecessors of these students were instrumental in the CIA-organized mass murder of half a million communists in 1965, and some of the students with CIA backing, led an attempted destabilization of the Suharto regime in January, 1974, on the occasion of the visit of Japanese Prime Minister Tanaka. A "Lockheed"-type scandal operation has commenced on several fronts, to discredit the bureacracy on the phony issue of "corruption." Suharto has been attacked abroad on the issue of political prisoners and the fabricated East Timor question by circles linked to the Institute for Policy Studies. Experts are already circulating "timetables" for Suharto's overthrow.

In sharp contrast to this campaign of lies, the history of IMF operations in Indonesia, particularly against Pertamina, reveals that it is the IMF itself which is already responsible for the wrecking of the Indonesian economy.

The IMF's record of sabotage against Pertamina is well-documented in the public domain. In 1968, when the pro-IMF "Berkeley mafia" of U.S.-trained technocrats completed their takeover of the government economic and planning ministries under direct IMF, World Bank and Harvard University (Development Advisory Service) aegis, the IMF issued a fiat concerning international funding for the Pertamina oil and industrial complex designed to bring about its later ruin. Pertamina, under the leadership of General Sutowo, had direct responsibility for the major portion of the country's industrial development, and was completely outside the reach of the IMF agents in the government. To set up Pertamina's later crisis, the IMF ordered that no international lenders lend the company any funds with maturities of more than one year and less than 15 years. As very long-term loans are issued only rarely on the commercial markets, Pertamina was able to secure little long-term capital, and was forced into dependence on mammoth short-term loans, suppliers' credits and the like.

Under Sutowo's direction, Pertamina reactivated plans to construct a steel mill at Kraktao, begun with Soviet aid under Sukarno and shelved by the IMF in 1966, and upped initial plans for a capacity of .5 million to 2 million tons. Sutowo also initiated many other large-scale projects, including a floating fertilizer plant near a natural gas deposit, several huge rice estates, and petro-chemical plants. None of these could earn profits to repay incurred debts for several years. As a result of the IMF ban, Pertamina found itself in an increasingly short-term — long-term bind which demanded ever more feverish debt roll-over and acquisition of more and more short-term loans and credits.

To overcome this, Sutowo was forced into several speculative projects, most importantly a huge oil tanker scheme, which depended on the illusory boom in the world oil markets in 1973—74. In what was ostensibly just unconscionably incompetent banking practice, but almost certainly a deliberate setup for later looting, dozens of major western banks, led by such New York banks as Manufacturers Hanover, Morgan Guaranty and others lent Pertamina even more money to finance these speculative blunders. The guarantee the banks counted on to get their loans money back was not the productive use of their loans funds, but the looting of Indonesia's rich oil resources to take place after the inevitable collapse of Pertamina. The acquisition of these loans, and the collapse of the oil bubble after mid-1974, compounded Pertamina's problem still further.

Pase Two: The Knockout Punch

The IMF attack on Pertamina was paralleled on the "inside" by the guerilla war waged on the company by the "technocrats" of the Berkeley mafia. Frequent attempts were made by the Finance Ministry to bring Pertamina under technocrat control. Rumor campaigns to discredit the company on framed-up charges of corruption were launched periodically. Fierce behind-the-scenes factional battles over Pertamina have gone on within the ruling group wince 1968. But until 1975, Sutowo and Suharto had succeeded in maintaining Pertamina's independence from technocrat-IMF control.

In mid-1974, Sutowo finally lined up a more than $1 billion long-term loan from German sources with which to retire its short-term paper. But the IMF intervened to force a cancellation of the loan. This act forced the cash-flow shortage to become so great relative to the burden of short-term refinancing requirements that Pertamina finally missed payments on several small loans in early 1975, placing it in technical default. At that point, according to charges later aired in the Japanese press emanating from Indonesian circles, the U.S. Embassy refused to lift a finger to help tide the company and the creditors over the bind, and the IMF gloated over the predicament. As a result, the technical default became public. A panic of the other bank creditors, so recently willing to make "soft loans" ensued. By late Spring, Pertamina found itself bankrupted.

The IMF immediately stepped in behind the scenes to pressure the government to intervene to guarantee the loans. No legal obligation whatsoever for the Indonesian Central Bank to bail out Pertamina existed, and a unilateral moratorium on all its debts was seriously considered. IMF and technocrat pressure, however, finally forced government capitulation, and the Central Bank agreed to make good on Pertamina's obligations as soon as they could be sorted out, subject to certain stipulations.

The dismembering of Pertamina, now put under the technocrat-controlled Finance Ministry, commenced immediately. By the beginning of 1976, the huge refinery and industrial project for Batam Island had been scrapped, the floating fertilizer plant cancelled, the rice estates gutted, the Krakatao steel mill scaled down 75 per cent to .5 million tons, and most other projects shelved.

Simultaneously, the central feature of the IMF plan, guaranteeing the payment of the debts, was implemented by the Central Bank, which assumed responsibility for $1.49 billion in short-term debts due by March 31, 1976. Within a few weeks of the assumption of Pertamina's debts, Bank Indonesia drew the country's reserves down by $550 million, 35 per cent, and drew $500 million more by September. A total drawdown of over 72 per cent, from $1.49 billion to $437 million, was made in order to cover the short-term debts. Based on this willing subservience, Morgan Guaranty, the leading Wall Street firm involved in Indonesia, obligingly syndicated two medium-term $450 million loans, and Japanese banks lent an additional $100 million.

After Pertamina: The Next Rounds

The victory over Pertamina's independence was only round one for the IMF. In late 1975 and early 1976, the IMF threatened Suharto with a total cutoff of foreign aid for Indonesia if Suharto continued to block IMF-technocrat demands for the dumping of Sutowo, to which pressure Suharto finally gave in in March of this year. Sutowo was fired and new, technocrat-allied leadership was installed.

The March 1976 IMF report opened round three. The report explicitly attacked the country's remaining development projects, and called for their curtailment. It blamed "excessive demand pressures" (inflation) on large expansion in public sector investment" during fiscal 1976 and demanded that public sector investments be "reconsidered" in fiscal 1977. "Priority should be given to implementation of appropriate foreign debt management and policies." This stricture was already being observed during fiscal 1976 when debt service payments accounted for $1.08 billion of the total net capital outflow of the $1.4 billion, according to the report. Specifically, the report demanded the "curbing (of) Bank Indonesia credit to the public sector" in order to effect a "substantial reduction" in the rate of domestic credit expansion.

Instead of development, the IMF report demanded austerity and labor-intensive projects to pay debt. It called for financing development through "domestic savings" — a cruel joke for a country with the abysmal poverty levels of Indonesia and near-total absence of an industrial sector. Any funds raised in that fashion could only come, through reduction of services, raising of prices and raising taxes. The price of domestic oil, necessary for fuel and industry, was raised on April 1, 1976. The report explicitly opposed any attempt by the government last August to make the Central Bank use oil revenues to finance development as these were reserved to guarantee the debts. The report called instead for measures to "improve the competitive position and employment creating capacity of non-oil exports," implementable only by reducing wages, augmenting speedup, expanding labor-intensive low-wage export-oriented industries, and concentrating on developing only extractive industries — pure looting.

In the face of this onslaught, Suharto, Murtopo et al. have made every effort to salvage what they could. They convinced the Japanese last year to unilaterally construct a huge power and aluminum project at Asahan after the U.S. pulled out. They have sought Japanese funding for several other projects. They have secured a Soviet aid promise to build an alumina plant the IMF had hoped to cancel. Even more importantly, they have strongly pursued a foreign policy in full defense of the new world economic order and vigorously backed the implicitly anti-IMF thrust of the Group of 77 developing countries in their demands for a greater transfer of resources to the Third World.