Conference Report

IMF pushes Indonesian government toward the economic precipice

by Dean Andromidas

The June 18-19 conference at the Hague, Netherlands of the Inter-Governmental Group on Indonesia (IGGI), the multinational aid-donors group supervised by the World Bank and the International Monetary Fund, only proved that those institutions are committed to forcing Indonesia to give up sovereign control over its economic institutions and resources. If allowed to reach its goal, this policy will mean the looting of this nation on the same scale as Mexico and other countries of Ibero-America.

Holding out the promise of $2.5 billion in development aid and soft loans, $100 million more than last year, the IMF and World Bank used the opportunity of the IGGI conference to apparently convince Indonesia to adopt a commodity-export strategy, by liberalizing its import regulations and fiscal policies. This was the same policy the IMF and World Bank had forced on Brazil, Mexico, and Argentina, with well-known disastrous results. Because Indonesia has made it clear that it is not prepared to fully accede to the World Bank and IMF demands, these same financial circles have initiated an international campaign directed at destabilizing the government of President Soeharto.

IGGI was formed in 1968 to "rescue" Indonesia from the financial disasters of the period of the late President Sukarno, who fell from power in 1966 following a bloody aborted coup led by the Indonesian Communist Party and an Indonesian default on its foreign debt of $5 billion. IGGI's stated purpose has been to extend development aid and credits, and to institutionalize IMF/World Bank annual reviews of the performance of the Indonesian economy. For the IMF and the World Bank, it has served as the chief leverage point for forcing the Indonesian government to accept to its destructive programs.

Although the government of President Soeharto has been committed to a policy of industrial development modeled upon that of Japan and South Korea, it has been forced periodically to accede to IMF demands for a labor-intensive, commodity-export policy with liberal and deregulated financial policies.

With $25 billion in public foreign debt and $3.8 billion in privately held foreign debt, Indonesia has not reached the kind of debt crisis that Ibero-American countries have experienced. But it has managed to forestall this only by canceling 48 significant development projects since 1983, cutting food subsidies, and pursuing an extremely conservative financial policy aimed at contracting as few high interest-bearing commercial and export loans as possible.

But the current collapse of the price of oil, a commodity accounting for 70% of foreign-exchange earnings, from $26 to $12 a barrel, could rapidly transform this situation. The Indonesian government has already announced that it will have to implement an austerity policy with a 7% cut in the national budget, which will include a 22% cut in the development budget. But worse, even this austere budget proposal was calculated on an oil price of $25 per barrel, not the current $12 per barrel. Therefore, despite the austerity measures, the balance-of-payments deficit reached $2 billion; foreign debt-service payments of $4 billion were made in 1985 (covering both interest and principal) and the debt-service ratio stands at 27.1%.

IMF asks for a pound of flesh

The IMF confidential report tabled at the IGGI conference reports that the Indonesian economy expanded by only 1.3% in 1985, down from the 7-9% growth rates of the late 1970s and early 1980s. The IMF recommended that Indonesia shift its development policy from one of building up a domestic industrial base to a commodity-export strategy whose purpose is to ensure the payment of debt.

To quote from the final press release of the IGGI conference: "Given that Indonesia's debt service ratio has risen primarily as a result of the fall of oil prices . . . growth of non-oil exports, which is this year's special topic, is particularly important."

To accomplish this, the IMF demanded the same monetary and protectionist striptease it has demanded of Mexico, Argentina, and other countries of Ibero-America. This policy, while increasing exports of primary commodities, has in fact led to massive capital flight and collapse of these countries' internal economies, accompanied by a further ballooning of foreign debt. At the conference, the world agencies of usury demanded complete removal of all regulatory practices and monetary controls, including:

- Elimination of price supports for agriculture. This criminal policy will reverse the great success Indonesia experienced in becoming self-sufficient in rice production; the country is now a rice exporter. The success was the result of defying World Bank policy and establishing a domestic fertilizer industry, while maintaining a stable price-support system on the rice market to protect Indonesian farmers. While refusing to dismantle the price-support policy as the IMF demanded, Prof. Ali Wardhana, coordinating minister for economy, finance, industry, and development supervision, did announce that price-supports for fertilizer will be dropped.
- Adoption of a commodity-export strategy. This is aimed at dismantling regulations that the Indonesian government has maintained as a means of encouraging and protecting industries crucial to the industrial and economic development of the nation. Although the Indonesian government announced a package of deregulatory actions May 6, this was not deemed adequate by the IGGI conference and, according to the final press release, the group "suggested the need for further steps to remove restrictive and regulatory practices which adversely affect efficiency and reduce the competitiveness of Indonesia's non-oil exports." Who is to buy these exports was left ambiguous.
- Deregulation of the internal banking structure and lower interest rates for domestic credit. Though certain limited concessions were made on this issue, Dr. Arifin M. Siregar, governor of the Bank of Indonesia, was quick to point out that the government "does not dare" to lower interest rates too much, because this would encourage capital flight. Moreover, he pointed out, Indonesia's domestic banking sector, which is dominated by state-controlled banks, is structured to channel the country's limited financial resources to priorities outlined in its five-year economic development plans.

Political destabilization

Concurrent with the IMF and World Bank financial and economic demands has been an expanding effort to politically destabilize the Soeharto regime. The destabilization is being managed by political circles representing these same financial interests.

During the week of the IGGI conference, the leading Dutch weekly *Elseviers Magazine* published an article entitled, "Prologue to a Crisis," attacking Soeharto as a corrupt leader whose military-backed government is losing the support of the people. *Elseviers'* chief editor, André Spoor, lives in New York City and happens to be vice-president of the Alerdink Foundation, an institution dedicated to Western press collaboration with the KGB. Spoor's colleagues in the foundation include Larry Grossman, president of NBC News, which played a leading role in the downfall of President Marcos of the Philippines. It also includes Anatolii Gromyko, son of Soviet President Andrei Gromyko, and Vladimir Lomeiko, chief spokesman of the Soviet foreign ministry.

Another initiative aimed at undermining the government is the Inter Non-Governmental Organization Conference on IGGI Matters (INGI) which lobbied with Dutch Development Minister Schoo, who chaired the IGGI conference, to reduce aid to the Soeharto government. INGI comprises 13 Indonesian non-governmental organizations and 19 organizations of countries represented in IGGI, including the Environmental Defense Fund of the United States; the Friedrich Naumann Foundation, the think-tank of the German Free Democratic Party; and several Dutch organizations implicated in subversive activities in Ibero-America and Asia.

It is interesting to note that INGI's chairman W. J. L. Spit, is former vice-president of the Dutch Trade Union Federation and a close associate of Dutch Trilateral Commission member André Kloss.

Who backs the IGGI?

Japan. 80 billion yen, an increase over last year's 75 billion.
Canada. 54 million Canadian dollars.
United States. 86 million U.S. dollars, Down from last year's $100 million because of the Gramm-Rudman budget cuts.
United Kingdom. £45 million, down from last year's £50 million.
Australia. 47 million Australian dollars.
Belgium. 350 million Belgian francs.
New Zealand. 3.8 million New Zealand dollars.
Netherlands. 179 million Dutch guilder, up from last years 160 million.
Austria. 100 million Austrian schillings, first ever pledge.
Spain. 12 million U.S. dollars, first ever pledge.
Switzerland. 15.5 million Swiss francs.
Finland. 12 million Finn marks.
World Bank. 1.1 billion U.S. dollars.
Asian Development Bank. 500 million U.S. dollars.
U.N. Development Program. 44 million U.S. dollars.
European Community. 40 million U.S. dollars.
International Bank for Reconstruction and Development. 10 million U.S. dollars.