Indonesia struggles in IMF-infested waters

by Gail G. Billington

Indonesia, the fourth most populous country in the world, is less than a month away from its most important Presidential elections in 30 years. Those elections will take place in the midst of the worst economic and financial crisis since independence in 1949. As recently as May 1997, the World Bank wrote a report in praise of Indonesia's success story. In October 1997, President Suharto was awarded the UN's award for poverty eradication, having led a 30-year national effort to reduce the percentage living in poverty from 60% to 11%.

In February 1998, Indonesia's currency, the rupiah, has collapsed over 70% since July; nearly the entire private corporate sector is bankrupt; trade has nearly ground to a halt, because foreign creditors will not accept letters of credit; crucial imports, such as medicines, cost 500% more; and the country has been subjected to two rounds of International Monetary Fund conditions. The one-two punch of continuing speculative attacks against the currency, and the IMF's tightening tourniquet, including lifting government subsidies for nine essential commodities, is fueling the recurrence of nightmarish memories of the last great crisis in the mid-1960s, when, after then President Sukarno's government was overthrown, and Indonesia underwent horrific "ethnic cleansing," the IMF stepped in to "stabilize" the situation.

'An intentional plot'

On Feb. 11, President Suharto called the collapse of the rupiah "insane," and warned of "an intentional plot to destroy our economic foundation. . . . There are signs that this monetary crisis has been engineered to smash our economic development of the past 30 years." He called on the Armed Forces to ward off actions "that could lead to national disintegration," as "the political temperature is rising" ahead of the March 1-11 meeting of the People's Consultative Assembly (MPR), which will decide on the President and Vice President.

Nothing the IMF has done to date has "stabilized" Indonesia; instead, the situation continues to deteriorate to the point that the country's leadership have been driven to think that a new brand of poison, called the British colonial "currency board," might bring relief from the IMF's arsenic. In this situation, rumors are rife, keeping government officials busy fending off fears of shortages of rice, cooking oil, kerosene, and other essential commodities, warning against rumors of bomb scares, and otherwise trying to maintain calm.

On Jan. 27, Bank Indonesia, the country's central bank, declared a freeze on non-performing private-sector debt. On Feb. 1, the bank ordered a thorough accounting of private-sector debts, and imposed ceilings on foreign exchange deposits, foreign exchange non-trade-related liabilities, and foreign exchange trade-related liabilities, while giving full guarantees to depositors and creditors. Reports on the foreign debt, released Feb. 6, put the total at $137.4 billion, of which $63.5 billion is government, and $73.9 billion is private-sector debt owed to some 200 foreign banks and companies.

In the week that followed, Radius Prawiro, Presidential adviser on the debt, met with Indonesia's principal creditors in Japan, setting up a creditors' committee to include Japanese, European, and American banks and firms, and a debtors' committee of Indonesian businessmen and banks to get to work on the debt. Singapore Prime Minister Goh Chok Tong, after meeting Indonesian President Suharto on Feb. 4, proposed a plan to end the deadlock on financing trade. His proposal recommended that eight trading partners of Indonesia each provide $1 billion in trade guarantees, with an ultimate target of $20 billion in trade financing.

But IMF conditions are hobbling the government's ability to address the potential for political, social explosion. The IMF has ordered Indonesia to lift subsidies on food and fuel, while the government on Feb. 6 assured the population that rice and other essentials, including fuel, are in more than adequate supply, but that price-gouging, profiteering, and hoarding will be treated as crimes. The military has cautioned repeatedly against rumor-mongering, aimed at fanning inter-ethnic and inter-religious conflicts, while taking extreme care to avoid injury, with some success in containing riots against rising prices.

The halt in trade has sent unemployment and import costs soaring. On Feb. 5, Manpower Minister Abdul Latief raised earlier projections of 6 million unemployed to 8 million, or roughly 10% of the 90-million labor force. The *Straits Times* of Singapore puts unemployment closer to 13.5 million, with an additional 50 million "underemployed."

During his visit to Jakarta Feb. 3-5, World Bank Chairman James Wolfensohn called the medical crisis "critical," and announced the release of $1 billion in Bank funds, $400 million for emergency staple foods and medicines, and $600 million for labor-intensive employment projects. Indonesia is 90% dependent on imports of raw materials and medicines to meet its medical needs, which, thanks to the rupiah devaluation, now cost 500% more. Health Minister Suyudi said on Feb. 9 that Indonesia has enough medicine in stock to last only four months, and enough raw materials for two months' production. Jakarta has also announced a $2.14 billion fund for work projects and a special $140 million subsidy for pharmaceutical imports, but exactly how the funds will be made available, under IMF constraints, was not spelled out.