Blunt IMF warning to Suharto

Peter Symonds
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In what appears to be a closely coordinated operation, the US administration and the International Monetary Fund have warned the Suharto regime in Indonesia to drop plans to peg the rupiah to the American dollar.

First, US Treasury Secretary Robert Rubin publicly condemned Suharto's plan to establish a "currency board" to administer a fixed exchange rate. Then the IMF threatened to destabilize what remains of the Indonesian economy by withdrawing its $US38 billion rescue package.

In a deliberately leaked letter, IMF director Michel Camdessus wrote to Suharto on Friday, February 13: "In the present circumstances ... if a currency board proposal were adopted, we would not be able to recommend to the IMF Board the continuation of the current program because of the risks to the Indonesian economy."

On the same day, US President Clinton personally telephoned Suharto to endorse the ultimatum. The German, Japanese and Australian governments also urged Suharto to heed the IMF warning.

On Friday too, the international money markets began punishing Suharto's regime, sending the rupiah plummeting by 25 percent. Over the past six months, the currency's collapse — it has lost up to 80 percent of its value amid wild gyrations — has already crippled the capacity of Indonesian banks and corporations to repay massive foreign debts denominated in US dollars.

Suharto sought to justify his scheme as a means of halting speculators, whom he has accused of undermining the national economy. Under his proposal, neither the government nor the central bank would regulate the exchange rate. Instead, the rupiah would be convertible to US dollars at a fixed rate, while interest rates would float freely.

The IMF and private bankers declared that the proposal could lead to soaring interest rates, a flight of capital out of the country, a deepening of the banking crisis and further economic collapse. A currency board was an "incredibly austere mechanism," commented Walter Molano, research director at SBC Warburg Dillon Read. "It's akin to going on a diet by wiring your mouth shut."

The Financial Times of London more abruptly voiced the concerns of international financiers. It said the currency board was simply a device to assist Suharto and his cronies. "For many international bankers, the purpose seemed to be to provide the president with a quick fix that would help him and his family salvage their business interests, despite imposing acute pain on the rest of the economy."

The international bankers have supported the Suharto dictatorship ever since it was installed by the US in a bloody coup in 1965. Now, however, they increasingly regard the regime as an obstacle to the free flow of global investment and the ability of international finance to exploit the Indonesian workers and peasants. Through the IMF, they are insisting on the dismantling of state economic regulation, including the monopolies and tax deals through which the Suharto family and its associates have amassed huge fortunes.

There are growing doubts in ruling circles, both in Indonesia and internationally, about the Suharto regime's capacity to control the social unrest being fueled by worsening poverty and unemployment. Sydney Morning Herald correspondent Louise Williams described social conditions in the Indonesian capital of Jakarta last week as follows: "Right across the capital thousands now walk the streets at night, or sleep under highway overpasses on neat squares of cardboard. The city authorities say 500,000 more people have flooded into Jakarta since the end of the Muslim fasting month holiday, the traditional time of the year for rural villagers to seek their fortune in the city.

"This year, after the worst drought in 50 years, the people on the land are even more willing to take a risk and leave as harvests fail. But in the cities the economic crisis is just starting to bite hard as prices soar and businesses go bankrupt. At bus stations giant posters tell new arrivals: `If you do not have a job, or relatives to support you, please do not come to Jakarta.'"

Riots sparked by soaring prices have spread to towns and cities across Indonesia. Last Friday at least eight separate incidents were reported, including one in which 1,000 high school and university students marched on the city hall in Kenari, on the island of Sulawesi. Over the weekend, the Western media expressed concerned that the unrest was moving closer to the capital.

Police and troops were reported to have killed at least five people. Two were killed and six injured when troops opened fire on crowds in Brebas in central Java, after allegedly being threatened with machetes. Another was shot by police in the city of Cirebon and two were reported killed on the island of Lombok. According to police, 246 people were arrested over the weekend in Java.

Thus far, the main target of the rioting has been ethnic Chinese shopkeepers. A number of reports indicate that the Suharto regime is actively seeking to divert outrage over job losses and price increases into anti-Chinese pogroms. In many cases, police and troops supposedly arrived too late to prevent anti-Chinese looting, or simply stood by as it took place.

Outgoing armed forces commander Feisal Tanjung recently held a meeting with journalists and editors, urging them to write stories critical of the ethnic Chinese. Since then articles have appeared accusing Chinese traders of hoarding food supplies to force up prices. At the same time, the military has blamed wealthy Chinese businessmen for precipitating the economic crisis by sending an estimated $US80 billion offshore. By making ethnic Chinese the scapegoats for the crisis of Indonesian capitalism, Suharto is trying to deflect attention from his own role and shore up his tottering government.