Suharto agrees to IMF dictates

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14 April 1998

Following three weeks of tense negotiations with International Monetary Fund officials, the Suharto regime in Indonesia agreed last week to sign a revised package of economic measures, in return for the resumption of US $43 billion in emergency funding.

A previous deal signed in January collapsed when the IMF suspended a US $3 billion payment to Indonesia due on March 15, accusing Jakarta of failing to meet deadlines and prescriptions for the restructuring of the economy.

The IMF, backed by the US, has seized upon the Asian economic crisis to advance long-held plans for prying open the Indonesian economy to foreign investors and dismantling the monopolies, tax concessions and trade barriers enjoyed by the Suharto family and its close business cronies.

During the ensuing standoff between the IMF and Indonesia, the US press reported that top level meetings were taking place regularly in the White House to weigh up various options, including Suharto's removal. But the prospect of a complete economic and political breakdown in Indonesia provoked alarm and divisions in ruling circles, particularly in Australia. Canberra warned that the IMF plan could trigger a social explosion, under conditions where no viable ruling class political alternative to Suharto existed. Backed by the World Bank and other IMF critics, Australia urged the IMF to modify its stance to slow the rapid rise of unemployment and poverty.

Talks recommenced and a new agreement was eventually reached, but sharp differences remain. Even as the deal was being signed, IMF deputy managing director Stanley Fischer publicly cast doubts on Suharto's willingness to cooperate. Speaking in Tokyo after visiting Indonesia, Fischer said: "We will simply have to see if the system as a whole is capable of implementing reform.... It is clear that there is a question about the commitment of the Indonesian government."

He warned that the IMF would again cut off funds if the plan were not fully carried out. "The program has specific actions and deadlines with other safeguards to monitor that actions are taken. We could not continue disbursements if conditions were not met."

Fischer's comments undermined the assurances made by chief economic minister Ginandjar Kartasasmita that Indonesia would carry out the IMF agreement "to the letter." "We're following through on all of the commitments. I can confirm there will be no more monopolies," he said.

International markets have pronounced their verdict. The rupiah rose only marginally to 8,000 to the US dollar—still less than a third of its value six months ago. At this exchange rate, most Indonesian companies cannot pay back huge debts owed to overseas banks and financial institutions.

Suharto criticised previous IMF deals for their failure to restore confidence in the rupiah or reschedule the country's massive US$71 billion private debt. Without that relief, many of Indonesia's major corporations, those of the Suharto family included, are technically insolvent.

The renegotiation of private debt remains unresolved. Talks are due to take place in New York this week under the chairmanship of three major banks, including the Deutsche Bank of Germany. The bulk of the debt is owed to financial institutions in Japan, followed by Germany, France and the US.

In all its essentials, the latest agreement is identical to the one signed on January 15, effectively placing the Indonesian economy under IMF control. It consists of a comprehensive plan for restructuring the finance and banking sectors, the removal of trade, taxation and other barriers facing international investors, and stringent budget guidelines.

The IMF's minor concessions will do nothing to halt the destruction of living standards. The removal of government price subsidies on food, medicine, fertiliser, animal feed, fuel and other basic items has been delayed, but just until October. Subsidies then will remain only for rice and soybeans.

The IMF predicts that the inflation rate will hit 45 percent for 1998. Prices for a number of basic commodities have doubled or trebled in the last six months, creating enormous hardship.

Millions more workers will be thrown out of work as state-owned enterprises are privatised and banks, finance houses and corporations are merged, sold off or shut down completely. One of the key IMF measures is for a revamping of Indonesia's bankruptcy laws to permit the closure of indebted firms.

Already in early April the newly established Indonesian Banking Restructuring Agency froze the licences of seven banks, including three with close links to the Suharto family, and took over the management of seven more.

The IMF forecasts a devastating 5 percent contraction in economic activity during 1998, as companies cut production or shut their doors altogether. Other commentators predict an even worse result—a decline of up to 10 percent. Official unemployment has doubled to 8.7 million in recent months and is expected to reach 13 million by the end of the year.