Indonesia and the 'second wave' of the Asian meltdown

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Many international business commentators are referring to the Indonesian crisis as only the first eruption of the turmoil to be unleashed by the “second and third waves” of a financial meltdown.

The “second wave” refers to the disintegration of entire sectors of the economy, particularly manufacturing, in the wake of the financial collapse since the middle of last year. This “wave” is being accelerated by the events in Indonesia, causing a further withdrawal of investment funds across the region.

According to the International Monetary Fund’s Asia-Pacific deputy director David Nellor, the “second wave” will produce a “third wave” in which the reverberations of the economic reversal are felt back in the banking sector.

This entire scenario is now being played out at the cost of millions of people across Indonesia and East Asia, pointing to the underlying incapacity of the capitalist market to provide for their basic needs.

Even before last week’s events, much of Indonesian industry was paralysed, shattered by the collapse of the rupiah, the evaporation of foreign investment and the withdrawal of credit. Moreover many companies could not sell their products. Japanese companies in Indonesia, for example, had reported a 70 percent drop in sales of motor vehicles and electrical home appliances in the first four months of the year. Nissan had already stopped its Indonesian production lines.

This breakdown has led to mass unemployment and widespread poverty among the Indonesian workers and the urban masses, whose living standards were already extremely low. By one recent estimate, 45 million workers are now jobless and the number of poor has risen from 20 million to 51 million.

With the closure of many factories, banks, stores and offices in the wake of last week’s unrest, this social crisis will deepen enormously. Indonesian-based companies will be further hit by the rupiah’s plunge to less than one-seventh of last year’s value, and the refusal of international banks to provide loans.

Over the weekend, the credit ratings agency Standard and Poors, downgraded the Republic of Indonesia’s bonds from B-minus to CCC-plus, with a continuing negative credit watch. Bonds issued by the Suharto regime’s telecommunications company PT Satelit Palapa Indonesia went to CCC-minus. CCC status indicates a high risk of default. One Singapore banker noted that Indonesian bonds are now “as good as junk,” making it impossible for Indonesian companies to carry on their businesses.

Even before these events, Indonesian companies could not repay the $US80 billion they owe to world banks, including major Japanese, German and American banks. This debt crisis will intensify the protracted slump in Japan, because 40 percent of the debt is held by key Japanese banks, such as the Bank of Tokyo-Mitsubishi, which has $3.2 billion outstanding.

The Indonesia breakdown has been exacerbated by the IMF’s demands for a total restructuring of the economy, including the dismantling of the all-pervasive monopolies enjoyed by the Suharto family and its associates. But the IMF’s agenda in Indonesia is little different to that demanded in every other Asian country. It amounts to the removal of all restrictions to the global profit-making of the transnational corporations, financial and industrial.

In South Korea and Thailand, IMF- and US-backed governments, headed by President Kim Dae Jung and Prime Minister Chuan Leekpai respectively, have thus far imposed the IMF’s measures without provoking the same level of mass opposition. They have traded off certain democratic pretensions to do so, assisted by the capitulation of trade union leaders.

However business figures are warning that the spread of mass unemployment and poverty to not only South Korea and Thailand, but also Malaysia, China and even Japan, could provoke unrest just as intense as that seen in Indonesia. These fears have been amplified by the emergence of recession and deflation in Japan and signs of a debt crisis and declining growth in China.

Frank Conroy, the head of the St George Bank in Australia, stated: “We really don’t know where the bottom of Asia is going to end. I don’t have a firm view except to say that it is a very dangerous situation that is up there at the moment, notwithstanding the issues that are going on in Indonesia.

“And the two big countries — Japan and China — there’s still a big question mark. Are they going to take another 10 years to address the issues in their economy?”

Deutsche Morgan Grenfell international economist Mark Jolley said rioting in Indonesia was symptomatic of the next wave of the Asian shake-out.

“Indonesia’s growing political and economic crisis is part of a second wave of Asian instability,” commented the Sydney Morning Herald. “Japan is tottering on the edge of a recession and Hong Kong and China are suffering from the region’s economic woes.”

In many ways, Indonesia has become world capitalism’s weakest link following the collapse of the “Asian Tigers”. “The social unrest sweeping Indonesia is clearly threatening to unravel the IMF’s painfully constructed bailout plan for the country,” a Reuters report noted. “Impoverished workers in Thailand and South Korea ... could rebel against the idea of enduring new hardships to bail out the world’s bankers.”