

IMF sets economic agenda for next Indonesian government

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The final count in the Indonesian national election is not due until July 8. And the wheeling and dealing between the major parties to determine who will be the next president and form the next government will only be concluded when the vote in the Peoples Consultative Assembly (MPR) is taken in November. But the basic economic policies of the government, whatever its final makeup, have already been determined by the International Monetary Fund (IMF) as part of its \$45 billion financial aid package to Indonesia.

Two senior IMF officials—First Deputy Managing Director Stanley Fischer and Asia Director Hubert Neiss—flew into Jakarta late last week for a round of talks with the Indonesian government of President B.J. Habibie and with each of the five major parties to emerge from the election. Although all of the parties have agreed to implement the IMF package, the visit was designed to ensure that the next government complies with its strictures. Fischer warned that any major departure from the IMF program could slow the release of money from the multi-billion dollar bailout.

Fischer and Neiss held discussions with opposition leader Megawati Sukarnoputri and one of her chief economic advisers, Kwik Kian Gie, over the policies of her Indonesian Democratic Party-Struggle (PDI-P). During the campaign, Megawati, a daughter of the former Indonesian president Sukarno, sought to appeal to the electorate by posing as a defender of the poor and promising to lift their living standards. Having won the highest proportion of the vote, Megawati is now one of the leading contenders for the presidential post.

Following the talks, Neiss noted that Megawati had “agreed with the basic (IMF) strategy” and therefore he had “no doubt she will continue” the program. Moreover, Kwik's proposal to establish a fixed exchange rate between the rupiah and the US dollar in

order to stabilise prices and rein in inflation had been withdrawn in the course of the discussions. “Under the present conditions, the present scenario of the floating rate works well,” Neiss said, “So there's no need for change now.”

The IMF program is incompatible with the basic needs of the majority of Indonesians. Already an estimated 100 million people are living below the official poverty line, as unemployment levels and prices have soared. Since mid-1997, Indonesia's annual per capita income has plunged from \$1,200 to \$400. The IMF's detailed economic prescriptions will result in more cutbacks to government spending, the removal of price controls on basic food items such as rice, and further restructuring, bankruptcies and job losses. The Indonesian banking system is weighed down by an estimated \$US90 billion in bad loans.

In an interview with the *Business Week* magazine, another of Megawati's economic advisers, Laksamana Sukardi, said: “We have to call on the Indonesian people to understand the problems and be prepared for more sacrifice.” Sukardi, a former Citibank vice-president and former managing director of Lippo Bank, denied that Megawati would adopt “populist economic policies,” adding: “We will not depart from the IMF program because we don't have a choice.”

Whether Megawati will become the next president is still highly uncertain. With 57 million votes officially counted by Monday morning or about half the total, the PDI-P held 36.5 percent of the vote as compared to 17.8 percent for the ruling Golkar Party and 18.4 percent for the National Awakening Party (PKB) of Abdurrahman Wahid. The United Development Party (PPP) held 9.7 percent of the vote and the National Mandate Party (PAN) of Amien Rais had won 6.7 percent.

As votes from rural areas and outlying islands are counted, Golkar is likely to improve its position and will also benefit from the greater number of seats per population in the outer provinces. In any case, only 462 of the seats in the 700-member MPR are elected; the military, provincial governments and various social organisations appoint the remainder. As a result, no party will hold a clear majority.

The five major parties are jockeying for position in the lead-up to the November MPR session that will choose the next president and vice-president. Although Megawati and Habibie are, for the moment, the two main presidential contenders, none of the other party leaders have ruled themselves out. Furthermore within Golkar, Habibie is under continuing fire over his close connections to former military strongman Suharto, who was forced to step down as president in May 1998. Defence Minister and Armed Forces chief General Wiranto has been proposed as a possible Golkar presidential candidate.

A number of conservative Islamic parties and organisations have opposed Megawati as president on the grounds that a man should hold the post. Others have pointed to the large number of Christian candidates fielded by her PDI-P. The United Development Party (PPP), one of the three officially recognised parties under the Suharto regime, has backed calls by other Islamic groups against Megawati. At the same time, however, PPP chairman Hamzah Haz is seeking to distance the PPP from Golkar, claiming it will not join with the party, nor back Habibie.

Opposition figure Amien Rais, who until recently headed Muhammadiyah, Indonesia's second largest Islamic organisation, has backed away from his party's informal electoral alliance with the PDI-P. His party is reportedly split down the middle, with different sections pushing to support Megawati and others backing Habibie. Rais has said he will support neither Habibie nor Megawati.

Rais has warned his supporters that support for Golkar would mean the end to PAN's claims to be a party of reform. "We know the danger if we form a coalition with Mr Habibie is that the students would take to the streets to protest against us. We will be forgotten by Indonesia as a reformist party if we make a deal with Habibie," he said.

Abdurrahman Wahid, Megawati's closest ally, has

said he cannot guarantee that all his party's parliamentary members will support her. The PKB is based on the Nahdlatul Ulama (NU), Indonesia's largest Islamic organisation, which draws its support mainly from conservative social layers in rural areas, particularly of East Java. Wahid is already sounding out other political possibilities—last week he held separate private talks both with Habibie and with Golkar Party Chairman Akbar Tandjung.

In the international media, the Indonesian elections have been hailed as a genuine democratic vote. American election observers released a statement last week saying that they had witnessed no major irregularities. But allegations of vote buying and miscounting have led to calls for recounts in the capital of Jakarta and in North Sulawesi province. In parts of Aceh in northern Sumatra, the vote is yet to take place as bitter fighting continues between the army and separatist guerrillas.

Of those who have voted, a majority cast their vote for parties such as the PDI-P, PKB and PAN in the belief that these political formations would implement democratic reforms and improve living conditions. Only two weeks after the election day, with half the vote counted, it is already clear that whatever government emerges out of the present political scheming, it will be a feeble coalition beholden to the military and state bureaucracy, with its economic agenda laid out by the IMF.



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