Creditors’ meeting highlights Indonesia’s economic and political fragility

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A meeting of Indonesia’s creditors in Jakarta last week underscored just how precarious is the political and economic situation in the country.

Senior Indonesian economics ministers met on November 7-8 with the Consultative Group on Indonesia (CGI), which includes 20 member countries and 13 institutions led by the World Bank. The main focus of the meeting was to determine the conditions for further loans to cover an estimated deficit of $US3-4 billion in next year’s state budget.

The gathering was held for the most part behind closed doors amid massive security. Outside, hundreds of protestors including trade unionists, anti-globalisation groups and Muslim students waved banners denouncing the International Monetary Fund (IMF) and World Bank and calling for the elimination of bank debt.

The tensions inside the gathering were sharp as well, with creditors and institutions highly critical of the Indonesian government’s failure to implement its privatisation program or end systematic corruption. Concerns were also raised about political instability, particularly caused by separatist movements in outlying provinces such as Aceh and West Papua.

World Bank vice-president Jemal-ud-din Kassum warned in opening the meeting: “We at the World Bank believe that Indonesia now has a narrow window of opportunity over the coming six months” to restore investor confidence. “For the first time since the onset of the crisis (in 1997), the huge domestic risks Indonesia faces are now covered by a new layer of equally dangerous external risk, with a more prolonged and deeper downturn in the external economy on the cards.”

The two-day CGI session agreed to loans of $3.14 billion for next year’s budget and a further $586 million in technical assistance and grants. By all accounts, however, the representatives of international finance capital have effectively put the government of President Megawati Sukarnoputri on notice.

An editorial in the *Jakarta Post* on November 9 commented: “There is no reason for the government to rejoice [over the loans] because their disbursements are not yet guaranteed, being contingent upon policy performance. In fact, according to some sources who attended the closed-door meeting, there was already an air of aid fatigue among the creditors because of the government’s disappointing track record in reform implementation.”

In fact, only $2.6 billion of the $4.8 billion promised at the last CGI meeting held in Tokyo has been disbursed because of the government’s failure to start agreed projects and free market reforms. Since 1998, $9 billion or 60 percent of promised CGI loans have been withheld for similar reasons.

In August, Indonesia’s foreign debt stood at $137.6 billion—equivalent to one year’s GDP—of which 54 percent was government debt. Already, foreign debt servicing amounts to 40 percent of annual export earnings and foreign and domestic debt servicing uses up 42 percent of the state budget.

The Indonesian government desperately needs the CGI loans, as it has virtually no other source of external finance. In the week prior to the CGI meeting, the international rating agency Standard and Poor’s downgraded the country’s sovereign credit rating from CCC+ to CCC. The rupiah fell to 11,000 to the US dollar before regaining slightly, as compared to around 8,200 after Megawati came to power in July.

Three months after parliament ousted Abdurrahman Wahid as president and inserted Megawati, any optimism about the new administration in financial circles in Jakarta and internationally has evaporated. Speaking after her first 100 days in office, Megawati pessimistically warned that Indonesia was in danger of “breaking up” and that progress in addressing economic problems had been limited. Vice President Hamzah Haz commented even more bluntly: “We can only be grateful that the ship has not sunk in the first 100 days of government.”

None of the political or economic problems that provoked the downfall of military strongman Suharto in 1998 have been resolved. Megawati sits astride a fractious coalition that is dominated by rightwing Islamic parties, the military and the ruling party of the Suharto regime—Golkar. The economic posts are held by supporters of the IMF’s economic restructuring agenda, but any move to implement such measures runs into opposition from vested interests with connections to the former junta.

The November 1 issue of the *Far Eastern Economic Review* commented: “Megawati began her term in office with great promise by appointing well-regarded economic ministers. But the so-called ‘dream team’ is already showing signs of paralysis—thanks in part to a lack of political will on the part of the president.” Lamenting the continuing corruption, non-payment of debt by business and the lack of economic and legal reform, it quotes former Suharto minister Sarwono Kusumaadmadja who describes the government as “New Order (Suharto period) without the leadership and without the vision.”

A World Bank report entitled “Indonesia: Imperative For Reform” published prior to the CGI meeting gives voice to the frustrations of international capital. “Indonesia’s recovery was already slowing several months before the events of September 11. Political instability had raised social tensions and slowed reforms—fueling capital flight, alarming investors, and delaying official external finance for development,” it stated.

The report berated Megawati’s administration for making “little progress on structural and governance reforms” and stated: “The bank therefore places Indonesia squarely in the ‘muddle through’ scenario.” The government’s method was to implement reforms “in fits and starts with some policy reversal”.

One of the major concerns of investors is the government’s failure to proceed vigorously enough with its privatisation plans. Around 80 percent of the proceeds were due to come from the sale of the state cement monopoly Semen Gresik. As a Mexican transnational Cemex was about to buy the Indonesian company, however, the Western Sumatra provincial government blocked the sale, saying it was not in the interests of local people.

World Bank officials have demanded the national government step in. Senior economist Vikram Nehru commented: “Clearly, if this decision is allowed to stand then it will be a big blow to the privatisation program of the government... It will lead to tremendous investor wariness and uncertainty.”

The case of Semen Gresik underscores the tensions being generated by the entire IMF program. Privatisation, an end to monopolies, budget cutbacks and other forms of restructuring impact on sections of business in Indonesia and will open up rifts in the fragile ruling coalition. Moreover, these measures are also having a devastating effect on the living standards of ordinary working people, fueling discontent and opposition.

The Indonesian economy staged a limited recovery in the aftermath of the 1997-98 financial crisis in the main because of strong demand for exports, particularly in the US. With growing signs of a global recession, the economic prospects in Indonesia are gloomy. Last week Benny Sutrisno, chairman of the Indonesian Textile Association, predicted that textile exports would fall by 25 percent in 2001 and warned that up to 100,000 jobs in the industry could be destroyed if the situation worsens.