Indonesian finance minister appointed as World Bank director

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World Bank president Robert B. Zoellick earlier this month announced the appointment of Indonesian Finance Minister Sri Mulyani Indrawati to a leading position. Zoellick indicated that Sri Mulyani will have a key role in the bank's intensified pro-market reform program to meet "future challenges"—that is, to impose on workers and the impoverished masses the burden of the deepening global financial crisis and the assault on living conditions.

Mulyani will take up her post on June 1 as one of the Washington-based bank's three managing directors. She replaces Juan Jose Daboub, a former El Salvador finance minister, whose term is about to expire. Mulyani will oversee economic policy in 74 nations in Latin America, the Caribbean, East Asia and the Pacific, the Middle East and North Africa.

Mulyani's elevation to the World Bank is not just a career change, but is bound up with deepening conflicts within the Indonesian ruling elite. The Indonesian media has suggested that the position was negotiated by President Susilo Bambang Yudhoyono without consulting Mulyani. According to the *Jakarta Post*, the minister never applied for the job and had plans to resign, but was ordered to take it by the president.

While Mulyani denied the claims, her sudden departure has fuelled speculation that Yudhoyono replaced Mulyani under pressure from Golkar Party chairman Aburizal Bakrie. Golkar, the former ruling party under the Suharto regime, is part of Yudhoyono's coalition. Aburizal is patron of the influential Bakrie Group of business leaders who have suffered under Mulyani's aggressive pro-market agenda.

For the past eight months, Mulyani and Vice President Boediono have both been under pressure, spearheaded by Golkar, over the bailout of Bank Century in 2008. A parliamentary inquiry singled out the two for acting illegally in the course of approving the provision of 6.76 trillion rupiah ($US716 million) for the bank. Mulyani and Boediono, then Bank Indonesia governor, claimed the bailout was necessary to prevent a banking collapse. Critics point out that Bank Century was a mid-level private bank and posed no threat to financial system.

When the bailout costs were revealed as much higher than agreed by parliament, popular resentment turned the case into a major issue. An investigation by the Supreme Audit Agency (BPK) uncovered a number of procedural violations in the bailout process. With one parliamentary probe now concluded and further enquiries under way, the Bank Century debacle has become a protracted political sore for Yudhoyono.

It has long been rumoured that Mulyani would be made a scapegoat. As finance minister, she carried out the demands of international financial institutions for a "level playing field" for foreign investors by cracking down on the cronyism and corrupt practices that protected less competitive sections of Indonesian business. As a result she came into conflict with layers of the country's business and political elite.

Mulyani's economic measures faced strong opposition, including from businessmen and politicians and public servants close to Yudhoyono. In late 2008, she refused to shut the stock market at a time when shares in Bakrie-related companies were plunging in value. When Yudhoyono overruled her decision, she tendered her resignation. While Yudhoyono did not accept the resignation, it is clear that Mulyani had some powerful enemies.

Her move to the World Bank has solved a few problems for Yudhoyono. Political analyst Arbi Sanit noted in the *Jakarta Post*: “It’s an exit strategy that makes everyone happy. Mulyani will not lose face as she will get a prestigious job, Yudhoyono can now fix the battered coalition, and investors can do business peacefully without being confronted by political bickering”.

International fears that Mulyani’s departure will see the government’s pro-market agenda stall was a factor behind sharp falls in the markets. Following the announcement, the rupiah lost 1 percent despite an intervention by Indonesia’s central bank. At the same time, the Jakarta Composite index dropped 95.58 points, or 3.2 percent. As a recent article in the *Economist* magazine noted, global business still regards Indonesia as hostile to foreign investment, beset by corruption and over-burdened with subsidies and other “distortions”.

As well as provoking business opposition, Mulyani’s economic measures have deepened the gulf between rich and poor, and raised social tensions. For the majority of the country’s 231 million people, the reality of life is one of stark poverty and a lack of basic services. One person in seven lives below the poverty line, with millions more just marginally above it. On key social measures, such as life expectancy, health care and sanitation, the country scores poorly.

For its part, the World Bank has recruited a new director in the midst of a major reorganisation designed to strengthen its hand in the midst of the global economic crisis. Sri Mulyani will undoubtedly play in central role in the international drive for governments to reduce expenditure and load the debt crisis onto the backs of the working class.

A former International Monetary Fund executive director, Mulyani’s tenure as Indonesian finance minister was marked by the reining in of budget deficits to less than 2 percent of GDP—a very low figure by current international standards. According to an opinion piece by economist Winarno Zain in the *Jakarta Post*—entitled “Why the World Bank needs Sri Mulyani?”—she will be expected to use her authority “to pressure countries under her supervision to implement more vigorously the same approach of macro-economic policy as she implemented in Indonesia”.