generals, leftists and Islamic parties, its strength in actual fact is quite accidental. In preparations for the March 7 elections, Peoples Party election organizers disregarded predictions that the party would be voted back to office handily for its record of restoring civilian rule and stable economic and political conditions after the devastating 1971 war. The PNA, despite the large crowds it drew in campaigns, had a program to decentralize and feudalize the country, and return to Islamic social practices. All predictions were that the PPP would win at least 125 out of the 200 seats contested for the national assembly and fare perhaps not as well in provincial assembly elections, mainly because of sectarian tendencies in each region. In final count, the PPP won all seats except 30, with reports circulating that several cabinet ministers had shown up at polling stations brandishing pistols and intimidating voters.

The PNA subsequently refused to take up the seats it did win, calling for a new election and taking to the streets in protest. Bhutto initially miscalculated, perceiving the PNA demands as unworthy of response. The deployment of federal police to put down demonstrators, particularly in the Karachi industrial region, has resulted up to now in over 200 deaths. With this death toll, every concession Bhutto has made has backfired. His reshuffling of the cabinet, removing all those involved in election irregularities, produced little except an outburst of infighting in his own party that gave the military leverage to dictate its terms for backing Bhutto. His offer to formulate an Islamic legal code and to ban whisky, and even his previous offer to hold provincial elections as a test for possible new elections at national assembly level was met with scorn with one PNA source saying it was "a little too little, too late."

Failing up to now to reach a political agreement with the PNA, Bhutto has moved strongly for administrative order. Major opposition leaders have been detained, martial law enforced in five major cities and press consorship imposed. Bhutto's own ability to break the deadlock and maintain his own political strength has been significantly undermined. His reliance on Gen. Tikka Khan to keep troops faithful to the government is great, but this loyalty remains to be tested in the event of any big confrontation in the Punjab region, the largest source of military recruitment. Significant confrontations here between PNA supporters and Punjabi soldiers have yet to occur. This could well take place if the PNA carries out its plans for a national march on Bhutto's residence April 30 to obtain his resignation, breaking both the martial law and the ban on demonstrations ordered by the government. However, the *London Times* April 28 reports that significant sections of the PNA, particularly its leftist component, would much prefer a political agreement with Bhutto to military law and order. The opposing faction of the PNA is led by right-wing retired air marshall Asghar Khan, who up to now has adhered to a position of non-negotiation.

Indonesia Aid Cut By $1 Billion; New York Banks Overexposed

INDONESIA

The April 5-7 meeting of the Inter-Governmental Group on Indonesia — the World Bank-sponsored aid consortium comprising the governments of North America, Western Europe and Japan — approved loans and aid nearly $1 billion less than last year's $3 billion. Of this amount, $600 million will be in hard export and commercial credits and the remainder in bilateral development assistance (see chart).

The dramatic downturn in aid commitments signals a realization that Indonesia lacks the ability the absorb additional substantial credits for expanded production and at the same time continue its heavy debt service payments.

For fiscal year 1976-77 Bank Indonesia, the central bank, made official debt service payments of $727 million and projected payments for fiscal year 1977-78 of approximately $1.1 billion. Although Indonesia's financial advisors from the investment house of Kuhn Loeb and Co. project this $1.1 billion in debt service as only 16.3 percent of combined net oil and non-oil exports, they apparently fail to take into account the severe financial crisis lying below the positive-looking balance of payments figures and outside of the official government debt figures.

The April 9 issue of the *New York Times* revealed that the financial collapse of the Indonesia state oil company, Pertamina, has shattered a large portion of the country's business community, particularly the state banking sector. As a result of the Pertamina collapse, as much as $1 billion in bad debts has been left standing over and above official government debt. The Times reports that the top New York banks — including Citicorp, Chase Manhattan and American Express International Banking Corporation — as well as the Hong Kong-based Overseas Union Bank and Hong Kong and Shanghai Bank, hold most of this credit.

According to the Times as well as other sources, the Indonesian state banking sector, which accounts for 90 percent of the internal credit, is in serious trouble because of several hundred millions in bad loans. Bank Indonesia sources indicate that over 150 companies have gone bankrupt. Bank Bumi Daya, a state commercial bank, has over $400 million in bad loans, nearly a third of its loan portfolio. The bank's board of directors has recently been purged by the Bank Indonesia. Bank

Chart 1

The Inter-Governmental Group on Indonesia Aid Program *

(in millions of dollars)

Total Commitments for Fiscal Year 1977-78	**2,100.0**
Non-concessionary export and commercial credit	600.0
World Bank	550.0
Asian Development Bank	150 0
Japan	189.6
United States	147.6
West Germany	58.6
France	38.3
Netherlands	54.0
Australia	35.5
Canada	33.1
Belgium	14.7
Britain	9.8
New Zealand	5.0
Eastern Europe and Middle East **	230.0

*Members include Australia, Austria, Belgium, Canada, France, the Federal Republic of Germany, Indonesia, Italy, Japan, the Netherlands, New Zealand, the International Monetary Fund, the World Bank, the Asian Development Bank. Observers at the April 5-6, 1977 meeting included the Organization for Economic Cooperation and Development, the European Economic Community, the United Nations Children's Fund and Denmark.

**Neither countries of Eastern Europe nor the Middle East are members of the IGGI nor are the aid commitments given under formal auspices of the IGGI.

Negara-Indonesia 1946, the countries oldest state bank, is said to be in worse shape, with nearly a $100 million in bad loans.

The situation leaves Bank Indonesia, the central bank with regulatory control over the state banking system, little choice except to cut credit to Indonesian businessmen for fear that any expansion of liquidity will spur a new round of inflation. The 1975 bailout of Pertamina's short-term debts expanded liquidity by 40 percent and drove inflation to over 20 percent.

Large corporations, like the giant P.T. Astra Corporation, which were heavily involved in Pertamina-related projects, particularly in the speculative real estate market, are in very serious trouble. P.T. Astra, a company with assets of over $200 million, is the sole distributor of Toyota, Peugeot, Renault, and Alfa Romeo automobiles and said to be close to government circles. It is also close to foreign banks who have lent substantial funds to stave off bankruptcy. Credit lines were recently extended from top banks including $26 million from Hong Kong and Shanghai Banking Corporation and two lines of $2 million and $11 million from Citibank. American Express International Banking Corporation and Overseas Union Bank have already sunk in substantial funds. An article in *Business Week* April 18 reported foreign investors were being "frightened away from Indonesia" because of the general economic crisis, rising nationalism and alleged corruption.

Foreign investment was said to have dropped from $2 billion in 1975 to $423 million in 1976. Only one new U.S. joint venture was approved last year. In addition $145 million in approved U.S. investments were being abandoned.

Who Pays Whose Debts

The timing of the *New York Times* and *Business Week* articles is significant. They coincide with a push by the New York banking community to seek IMF and Federal Reserve help in preventing them from losing their shirts on, among other things, their Indonesian portfolios.

The New York banks say they are not worried about their loans to the state banking sector, which are said to be substantial because they are classified as "sovereign risk" loans. This means they are guaranteed by the central bank and will be paid back as long as the Indonesian government sees fit to honor their payment. But loans to the private sector have no such guarantee, since businessmen may simply file for bankruptcy. Foreign banks operating from branch offices or representative offices in Jakarta are said to have from $3 to $4 billion booked out of Singapore.

It is difficult to make an accurate assessment of how much the debt situation has retarded development efforts, but most observers say by about five years. This perception is shared by bankers and investors outside the New York financial community. These bankers are growing more and more leery of syndicated lending arrangements. The consensus among Japanese banks is to steer clear of syndicated loans for pure debt rollover and lend only to specific infrastructural and industrial projects. A recent syndicated loan proposal for Cilicap oil refinery expansion by Citicorp, Bank of Montreal and Bankers Trust found no subscribers; it was later revealed that the loan was merely for debt rollover. Others of the more conservative banking community, such as Mellon Bank or European-American Bank, remain highly cautious; some have even liquidated their Indonesian portfolios.

Mad Export Drive

In an effort to honor its debts the Indonesian government has moved to rapidly expand exports in order to generate foreign exchange. They have cut export taxes and increased check prices for exports up to 25 percent. Check prices are normally pegged at market prices and exporters can not sell below them. Exports have expanded substantially, particularly in the non-oil sector

Rubber increased by 46 percent to $534.3 million; coffee by 99.7 percent to $141 million; pepper by 102.8 percent to $46.2 million; and animal products by 55.5 percent to $141.1 million. Oil production at 1.7 million barrels a day for March is at a record high. Total exports increased from $5.01 billion in 1976-77 to a preliminary estimate of $6.2 billion for fiscal year 1976-77. But none of this is going to the development budget. Ironically, the increase in exports, $1.19 billion, equals almost exactly the debt service payments of $1.1 billion.