Indonesia Is Threatened Economically, Militarily

by Michael Billington

Indonesia was the most devastated among the several Southeast Asian countries hit by the 1997-98 speculative assault by George Soros and the hedge funds, and has been further crushed by the dictates of the International Monetary Fund (IMF) over the past four years. With over 40 million Indonesians unemployed (about 40% of the workforce), and the number rising, the country is now being hit from two sides simultaneously: demands by the IMF to give up all remaining sovereign defenses of the national economy; and threats that Indonesia is failing to act against the "international terrorist" networks supposedly operating freely within the country—a charge contested by the government.

U.S. Deputy Secretary of Defense Paul Wolfowitz, backed up by a press barrage led by the *Washington Post* and the *New York Times*, has named Indonesia as one of the preferred "Phase II" targets of the U.S. war on terrorism. They accuse the government of being weak and complacent in regard to terrorist networks, while areas of the country have supposedly fallen out of the control of the central government, becoming centers of operation for al-Qaeda-linked groups. Such threats were reinforced when President George Bush, in his Jan. 29 State of the Union Address, said that 12 states (the Philippines and Indonesia are on this list) have al-Qaeda networks operating on their territory. Bush added: "Some governments will be timid in the face of terror. And make no mistake about it: If they do not act, America will."

In the Philippines, U.S. military forces have commenced joint search and destroy missions with the Philippines Army, with no clear objectives or limits on the potential for expanding the engagement of U.S. troops in combat, and over strong objections by leading political forces in the Philippines, including some even within the government itself. U.S. intentions in Indonesia are therefore a matter of great concern.

The terrorist/military aspect of the crisis in Indonesia cannot be understood apart from the economic disaster now facing the nation. Indonesian economists are warning that Indonesia could become the "next Argentina," while the government has called for a moratorium on its foreign debt, in the form of a "restructuring" of both principal and interest for at least the current year.

And yet, the IMF is squeezing the country to the breaking point, as the following examples demonstrate:

- The last Letter of Intent with the IMF, signed in December, demanded a phased cut in fuel and power subsidies (i.e., a rise in rates), and increases in phone rates. The increases began in January and will continue throughout the year. One immediate effect was spikes in kerosine and other fuel prices, as well as near panic in some areas over the price and supply of rice and other staples. Although there have been relatively only mild protests thus far, the memory of 1998 is fresh in the nation's memory, when IMF Managing Director Michel Camdessus gloated over President Suharto as he signed away the country to similar IMF dictates, leading to horrific riots and the downfall of the regime.
- The IMF has responded harshly to the decision by the administration of President Megawati Sukarnoputri to permit companies which were supported by the government after the 1998 crash, to stretch out their debt repayment, from four years to ten years, at a reduced interest rate (9% rather than 17%). Since the companies have not recovered, demanding payment now would mean the closing of many of Indonesia's private-sector industries and financial institutions—or their sale to foreign interests at a nickel on the dollar. This is the IMF's preferred "solution," as demonstrated repeatedly throughout the world. David Nellor, the IMF representative in Indonesia, demanded an explanation of this breach of IMF conditionalities, and said that "the primary consideration must be given to the budgetary impact of such a move."
- Indonesia's hesitancy to sell off the crown jewels (the state-owned banks and industries) to foreigners is under fierce attack. The sale of a huge cement company, PT Semen Gresik, to the Mexican giant Cemex, has been held up by national legislators, provincial officials, and Gresik employees, who all reject the loss of this national industry. The other major sale on the table, that of the largest bank, and branch bank network in Indonesia, Bank Central Asia (BCA), is moving forward, but the IMF and Western financial press have warned Indonesia that if an Indonesian company is chosen as the buyer, rather than a foreign bidder, this would constitute *prima facie* evidence that the entire process is corrupt! One American Indonesia expert told *EIR*, "If the government won't sell BCA to [Britain's] Standard and Chartered Bank, then foreign investors will wash their hands of the country altogether." Foreign direct investment has already fallen 41.5% in the past year, reflecting the economic collapse now striking the Group of Seven (G-7) nations.

National Development Planning Minister Kwik Kian Gie caused a stir on Jan. 28 when he declared that BCA should not be sold to any of the foreign bidders, because the bank receives $480 million per year as interest on its government bond holdings, which should be kept within the country. This puts in perspective the IMF's "generous" loan to Indonesia in January of $341 million, an apparent carrot for raising fuel and energy prices and for moving forward on the prospective sale of BCA. But note that the country will lose more money each year in bond payments to a foreign-owned BCA than they take in from the IMF loan. Economist Rizal Ramli pointed out that in 2001, Indonesia received $400 million in loans from the IMF, but paid the IMF $2.3 billion in debt service in the same period.

A leading Indonesian economist, Sri Mulyani Indrawati, told *EIR* that she is convinced that the current huge debt burden, both foreign and domestic, is unsustainable. The 1998 devaluation of the rupiah by more than 300% more than tripled the debt burden on the Indonesian economy (without Indonesia having borrowing a cent!). Nonetheless, the Indonesian economy was far stronger at that time than it is today. Over these four years, not only has the industrial infrastructure of the country been decimated, but the oil price has collapsed (Indonesia is a major oil producer), and Indonesia's primary export markets in the G-7 have collapsed. The potential for a national default within the next two years, unless drastic changes are implemented, she warned, is very great. She is also pessimistic that the Paris Club of creditors will grant the government's request for a total restructuring of the approximately $3 billion in debt service due this year—and next year, the figure will be more than $10 billion.

The dire nature of the crisis points to the fact that the only measures that can succeed in preventing the disintegration of the nation, are of the type presented to Argentina by U.S. Presidential pre-candidate Lyndon LaRouche following the Argentine default and the collapse of the government in December: immediate implementation of currency and capital controls of the sort in existence in the 1950s; adoption of the proven, dirigist measures to expand productive investment in industry and farming; a freeze on all foreign debt obligations. And, as LaRouche wrote in regard to Argentina, but which is equally true for Indonesia: "In dealing with foreign creditors and foreign powers, Argentina must recognize that its weakness is its strength. Argentina is merely a symptom of the current state of the global financial system. Therefore, whoever is pushing Argentina should realize that Argentina has the means to set in motion a process which will accelerate the true state of the bankruptcy of its foreign creditors—Spain, Italy, Germany, France, the United States, and Japan. Argentina can reveal what is the true financial conditions of those countries and the global system."

Wolfowitz Threatens War

On Jan. 8, the *New York Times* published an interview with Deputy Secretary of Defense Wolfowitz, the leading spokesman within the administration for the "clash of civilizations" policy for global religious wars, beginning with Iraq, disregarding the coalition forged among President Bush and Russia, China, and others, which has thus far prevented just such a disaster from unfolding. In the interview, Wolfowitz, who once served as U.S. Ambassador to Indonesia, essentially admitted that he had been defeated in his effort to convince President Bush to go to war with Iraq, at least at this time, but that he expects to find some weaker nations, such as Somalia, Yemen, the Philippines, and Indonesia, where the United States could expand the war begun in Afghanistan. He described Indonesia's government as "extremely weak," and said that the government has virtually lost control over vast areas of the country, allowing al-Qaeda and other terrorists free access. The *Times* called Indonesia an "anarchistic state," and quoted unnamed Pentagon officials saying that the United States is "looking for bad guys to chase" in Southeast Asia, and that Indonesia is the "most worrisome" for Washington.

As the U.S. military operation in the Philippines was rushed into place (see "U.S. 'Phase II' Escalation Pushes the Philippines Closer to Chaos," *EIR,* Feb. 1, 2002), the Western media escalated coverage of Indonesia as virtually a "failed state." *Newsweek,* for example, in its Feb. 4 issue, said that Indonesia had a "cavalier attitude" toward the war on terrorism, that it was the "weakest link in the war on terrorism in Southeast Asia," with porous borders, vast corruption, leaders "leery of offending the country's 200 million Muslims," and a weak Army with elements which supported Islamic extremist groups. The *Washington Post,* in a Feb. 27 editorial, wrote: "Al-Qaeda and its allies seem to retain breathing space [in Indonesia] that no longer exists in Afghanistan or Pakistan." The editorial admonishes President Bush that he has not "found the means to adequately answer the threat. . . . These networks are aggressively plotting to kill Americans; no less than in Afghanistan, the United States must act urgently in its own defense." Then, in the State of the Union Address, Bush said the United States will act where governments prove to be too "timid."

While it is true that there are violent organizations in Indonesia, both religious and ethnic in nature, it is also true that these tendencies were largely subdued before the collapse of the economy in 1997-98. But with two-fifths of the workforce now unemployed, the country has become a spawning ground for violence of all sorts. The war-promoters point to the arrests in both Malaysia and Singapore of terrorist cells, with ties to Afghanistan, some of whom were planning attacks on U.S. facilities. But the fact that these countries escaped the worst of the economic collapse of the "Asia crisis" (in Malaysia's case, because it rejected the IMF policies and protected the currency and the general welfare), provided the environment in which to isolate and arrest such criminals. Most important, these countries, while welcoming shared intelligence and cooperation with the United States and others, acted through their own sovereign institutions.

Indonesia deserves U.S. military aid to build up its weakened capacities—aid which has been foolishly denied because of human rights complaints related to the conduct of the 1999 referendum in East Timor. The Bush Administration has offered $10 million in anti-terrorist assistance, and is trying to convince the Congress to lift the existing ban on further support. However, Indonesia has not decided whether to accept the offer—perhaps because it doesn't know "which America" it is dealing with, and what the conditions will be.

What must be made clear to all, is that the terrorist problem can only be dealt with in a purely sovereign manner, and that until sovereign economic measures are implemented to stop the bleeding of the nation by foreign economic terrorists, the violence will only get worse.