Foreign Consortium Institution and the Economic Dependency of Indonesia during the New Order: From IGGI to CGI

Noor Naelil Masruroh* and Haryono Rinardi

1Department of History, Faculty of Humanities, Universitas Diponegoro
JL. Prof. Soedarto, S. H. Tembalang, Semarang, Central Java - Indonesia

*Corresponding Author: naelil@live.undip.ac.id
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Abstract

The main purpose of this article is to analyze the economic dependency of Indonesia on sources of foreign loan funds. The problems were analyzed through the historical method based on the primary sources such as annual report from World Bank and the Indonesian Ministry of Finance. IGGI and CGI claimed to be able to support Indonesia to break away from the shackles of financial problems. Both institutions rescheduled the debt of Indonesia to the creditor countries and opened networking access of international donor from the government, private, or international donor institutions such as World Bank and IMF in two mechanisms long-term and short-term. Short term was provided to Indonesia to give space in funding import commodity, while the long-term was used to fund investment and infrastructure program. The high level of dependency made Indonesia’s debt difficult to break away and the amount piled up. Indonesia’s economic policy in the New Order was considered as a disaster that had an enormous effect until today.

Keywords: IGGI; CGI; Economic Dependency; Donor Institutions; Fiscal Policy.

Introduction

The Economic downturn of Indonesia since the mid-1960 caused fundamental economic changes of ideology. The newly come to power government at that time considered that it was necessary to change the philosophy of Indonesian economic leading to the development growth. The orientation changes of Indonesia economic from close and nationalist tendency or it is called revolutionary economic (Mallarangeng 2002), into open toward the coming foreign capital and the foreign loan (Triaswati 2005). Economic liberation by opening the capital and market flow was a starting point in understanding the economic orientation of Indonesia at that time. The economic growth should be moved quickly to be able to improve the downturn of a macroeconomy condition.

Historically Indonesia is a country that once became the economic laboratories of developed countries in the world. The main philosophy of Indonesia’s development since the 1980s was dominated by the thinking of technocrats and all policy enforcement always using repressive military power. Usually, the technocrats are experts of economic leaders who work on National Development Planning Agency (Bappenas) (Woo and Nasution 1989). The role of Indonesian economic technocrats was not only in the 1980s but also even after the fall of the Old Order and the rise of the New Order regime, they have designed the blueprint of national development policy. They tend to doubt the trading process and the workings of the market economy system. The policy of economic growth was introduced with funding of development sourced from donor institutions (Marut 2009). Foreign economic intervention has gathered speed in Indonesia since the establishment of IGGI. In later times, there was the impression that the government was finding it difficult to refuse the offer of foreign loans. This indicates that Indonesia has been in a fairly severe dependency condition. Multilateral institutions such as the International Monetary Fund (IMF), the World Bank, and a number of donor countries continue to press the government to realize loans...
The existence of the dominant IGGI in dictating the State’s economy caused the government to feel uncomfortable, so in 1992 the organization was dissolved. Nevertheless, although dissolved, it did not necessarily end the economic dependence to foreign countries. On the initiative of the government itself, in the same year, it was formed Consultative Group on Indonesia (CGI). Both the offer of assistance from IGGI and CGI, actually still harm Indonesia as the recipient of the loan. This foreign power sought to obtain maximum profitability from lending rates and control over economic resources. Since the move to end economic intervention from foreign creditor countries was one of the right ventures, Indonesia’s debt was not getting bigger.

This article examines the background of the formation, role, and types of IGGI and CGI assistance for development, and the macro impact on national economic stability. Using the historical approach, the facts are convincing and prove that the success of development by relying on foreign debt is a false one. This study also reviews Indonesia’s fiscal situation in the period in the New Order period.

To analyze the problems and Indonesia’s fiscal situation during the era, this study uses the historical method in which including heuristic (source collection), critics, interpretation, and historical writing. As historical study, it emphasizes on the sourcing. Some sources in which consider as primary sources have been collected under inventory of Indonesian Ministry of Finance, Bappenas, and World Bank. Those collections contain valuable data on the creditor countries, debt amount, as well as debt allocation for state development.

**Forming and Membership Background**

At the beginning of the New Order, when the new regime began to feel the inheritance of the economic regime of the previous regime (Old Order), the idea about the importance of obtaining loans from abroad emerged to lift the Indonesian economy (Abdulgani-Knaap 2007). At the same time, there was a new discourse to seek foreign loans. Therefore, in the early years of the new order in power, the government began to ask for debt to America and other developed countries incorporated in the IGGI.

In addition to inheriting the debt of the Old Order, the change of regime brought changes to Indonesia’s political orientation from revolutionary politics to the rebuilding of the domestic economy and the restoration of relations with outsiders. The formation of IGGI was the result of Indonesia’s first development diplomacy in the meeting forum in Tokyo and Paris (Posthusmus 1971). For more than 30 years, Indonesia has been relying heavily on the consortium’s assistance to cover its current budget deficits (Ariadi 2001). The foreign aid received from the IGGI brings Indonesia to a state of dependence on foreign affairs and the lack of self-sufficiency in the determination of domestic policies. Nevertheless, the establishment of this IGGI can still be seen as the first success of development diplomacy in achieving the goal of obtaining foreign aid for the financing of economic development in Indonesia (Abdulgani-Knaap 2007).

As a recipient of thought aid and of course a loan, Indonesia at that time was accustomed to receiving inputs from other countries. Indonesia became a complete laboratory for the foreign economists who were members of the creditor institution. Each year Indonesia outlined development plans in the IGGI forum to then get analysis, feedback, and direction from creditor institutions.

One indicator of Indonesia’s dependency on foreign aid is the participation of foreign debt in the list of sources of funds of the Indonesian State Revenue and Expenditure Budget (APBN). This dependence on foreign funding sources enables foreign intervention on various government policies. Thus, through this foreign aid, the western state can control the political and economic life of the country. It is seen in the foreign control of Indonesia’s natural resources, the ease of imported goods imported from the western countries, and various government policies that always favor the foreign companies in the event of conflict between local and foreign workers (Adininigsih 2007). Indonesia in this case is in a position as the state is...
always dependent on the world’s central countries. Indonesia is positioned as a supplier of cheap labor and raw materials in the global division of labor.

The macro-economic policy carried by the economic technocrats at the time was the control of the inflation rate through tight fiscal and monetary policies and the liberalization of the financial sector. In the 1980s, the two policies came to be known as deregulation and debureaucratization. Liberalization of industrial and trade sectors, privatization (in other words) was the sale of state-owned assets (Setiawan 2007). In the first meeting it was agreed that Indonesia requested a US $200 million loan to the international in accordance with the amount of external financing required by the Indonesian government (Salim 2000). One-third of this loan amount was given by the United States, another third was given by Japan, the last third was given by other donor countries. At first IGGI’s biggest aid was given in the form of a program (aid program) to strengthen Indonesia’s balance of payments. The assistance of this program can be in the form of loans provided in donor country currencies or through food aid. The rest is given in a project form (project aid). As Indonesia’s balance sheet improved during the 1970s, the bulk of IGGI was provided in the form of mega projects.

In further developments, although under the New Order regime, Indonesia put the economy as its commander. The existence of IGGI is not necessarily ‘fun’ for the authorities. Since there were excuses about the incompatibility with political requirements, as mandated in the GBHN, the government dissolved the organization and replaced it with the Consultative Group for Indonesia (CGI). This decision was made because the Indonesian government felt exploited and even threatened excessively by the Dutch (Ariadi 2001), at which time the Netherlands always led the IGGI consortium. Thus the composition of the CGI membership remains as IGGI, except for the Netherlands and it is chaired by the World Bank (Marut 2009).

Meanwhile, in both IGGI and CGI membership, the IMF was not included as an official member but at every session of IGGI and CGI there was a representation of this world organization. The strongest creditor of IGGI and CGI were, among others, the United States, Japan, the World Bank, and the Asian Development Bank. The US played an important role in supporting Indonesia to get out of the economic crisis that hit in 1965-1966. The country was known as a staunch supporter of the New Order government, which had also been incessantly influencing other donor countries to pledge its capital to help Indonesia at that time. Evident at the April 1968 meeting, the United States contributed one-third of the total security of US $325 million as an aid promised by IGGI to Indonesia and influenced Japan to donate the same amount (Anwar 1997). Figure 1 is the portion of assistance from the top five creditor countries in IGGI and CGI.

Based on Figure 1, it can be analyzed that the Netherlands still had a share in the provision of Indonesian debt. In the first three years since the formation of IGGI, Dutch donations reached US $67 million or 6% of the total commitment (Siber 2010). The percentage was then decreased until 2010. In addition, the Netherlands was a creditor country with the lowest amount of commitment followed by France and Germany.

### Aid and Dependency Form

The condition of the welfare of the Indonesian people at that time was confronted with the abundance of food. The government was trying to encourage rice production as an Indonesian food commodity. Indeed, at the beginning of the New Order, it can be seen that the government was busy to build the agricultural sector. Experts and agricultural scholars were deployed to the field to assist farmers in increasing agricultural production. Various programs ranging from Mass Guidance (Bimas), Mass Intensification (Inmas), Logistic Affairs Agency (Bulog), Village Unit Cooperative (KUD) is a state-deliberate economic institution to guide economic development. At that time, the economic system run by the state was more determined by government spending. After the production of the food sector could be encouraged and the society’s economy appeared to be improved, new affairs of clothing and boards were gradually being met.
The Development Fund is sourced from donor countries that are members of the IGGI and CGI consortium. This enormous amount of debt will continue so that it is difficult to answer the question of when the debt can be settled, and when Indonesia can afford efficient and independent development with domestic support. These two things are very difficult to find answers, even today. The huge debt burden is partly due to less effective management. If calculated since the existence of IGGI before being dissolved, the amount of loan pledge given by IGGI tends to increase from year to year. In 1967-1969 the state budget was already 26% financed by foreign debt (Tarmidi 1999).

However, despite the negative effects caused by foreign aid coming into Indonesia, the establishment of IGGI and CGI can still be seen as the success of Indonesia’s first development diplomacy, as it is an institutionalized form of institutional trust, especially through IGGI. The establishment of this organization is the result of Indonesia’s first development diplomacy. One of the impacts of debt institutionalization is the capital climate in Indonesia.

A flow of capital or financing from abroad is called foreign aid if it has two main characteristics that is not driven by the purpose to seek profit and the funds are lent to the State concerned with the lighter conditions and applicable in the international market (Suprayitno and Sampurna 1999). Foreign aid is one of the natural things that have been used for centuries. Overseas aid programs are essentially grant and loan. Assistance from donor countries to recipient countries is not required to make any repayments or other remuneration in an effort to redeem the good services that the donor State has provided (Sukrino 1998).

Motivated by the foreign aid, industrialized countries then become donor countries by providing assistance to developing countries. One of the important things is that there should be a distribution of the State's wealth to natural resources so that cooperation is needed to achieve that balance. Since the beginning of the New Order regime, the Indonesian nation has become more open with foreign investment. In addition, international cooperative relations are also further enhanced and intensified. Along with that, the overseas aid that came and received by the Indonesian government took the form of a package planned in observation, recognition. There is recognition that the Indonesian government is unable to mobilize substantial funds to tackle the crisis and meet more sustainable economic needs (Sastromiharjo 1985). In conducting the financing, usually the receipt or financing of a country comes from abroad. Similarly, in Indonesia, the sources of financing and opinion are differentiated in two ways, namely, financing and incomes from home and abroad. Funding from abroad comes from the withdrawal of offshore loans that have been reduced by repayment of main foreign debt.

The logic of foreign debt is not a form of charity to help countries that are unable to finance its development. Historically, the provision of aid or loans was full of various interests. Debt is a means for creditor countries to play the excess capital owned so as not to cause problems if stored in the country. Therefore, creditor countries need land abroad to invest the excess capital. Just as, the loans provided by the IMF are for countries whose economic problems will potentially disrupt international economic stability.

The cost of development through debt sometimes often not taken into account can burden the state budget. If at the beginning of only the New Order government dared to take on debt, in the years leading up to the monetary crisis the debts of private companies became larger than
government debt. Private debt in 1989 was only US $12.4 billion which accounted for 24% of the total foreign debt, but in 1997 it became US $80.9 billion or 60% of the total.

For a developing country like Indonesia, whose income is derived from foreign aid, the existence of a donor country is essential to ensure the sustainability of development. Meanwhile, for developed countries, especially donor countries, the provision of foreign aid can not be separated from the motivations such as; political, ie to prevent the ideological influence of other blocks; economy, in this case to expand trade; and the desire to help developing countries and accelerate the pace of their economic growth, as well as catch up on developed countries.

Assistance received by the government is only a complementary element to economic development. While economic development should be funded by domestic funds, it should be that debt and financing originating from abroad are used as a complement to economic development (Prapti 1996). Correspondingly, donor countries provide assistance through IGGI and CGI cooperation forums. But in its development that the Indonesian economy emerged as an independent economy, always dependent on foreign aid. Therefore, such conditions are considered to be contrary to what should be. Debt is no longer considered a complement to financing economic development, but rather as a source of financing economic development of Indonesia at that time. Funding sourced from foreign debt during the New Order period appears in Figure 2.

Based on the Figure 2, the portion of development financing is sourced from the external debt of the IGGI and CGI consortia occupying a central position. If it is made on average, in Pelita I-VI almost 40.81% of aid comes from abroad to finance the development of Indonesia in the form of projects and programs, even though half is charged to the government’s savings. Such situations cause Indonesia to be in a persistent weakness that causes the country to be known as net debtors (Prapti 1996).

In the meantime, the establishment of CGI in 1992 until its annual meeting in January 2003, had committed a new pledge of US $58,824.89 million. Pledge CGI (Figure 3) shows an increasing trend from year to year since 1992, but tends to decline since the 2000s. Donor countries that provide funding commitments to CGI were 29 countries and or CGI participating institutions such as, World Bank, Asian Development Bank (ADB).

Figure 2. Allocation of Foreign Debt in Financing 5 Years Development (Pelita) I - IV (in percent)
Source: Indonesian Ministry of Finance.
Figure 3 shows that in the New Order the increasing values of in which has helped under the multilateral cooperation. The commitment or pledge of the donor country is based on disbursement forecasts within a given fiscal year, or based on the commitments on which the disbursement is realized depends on the readiness of project implementation or agreed activities. In addition, some pledges are managed directly by donors and allocated to non-governmental organizations. Thus, the pledge given at the meeting of the creditor countries, whether incorporated in the IGGI or CGI, is not necessarily related to the current state budget deficit or the state budget in the following year (Management of Foreign Development Financing in Order to Reduce Dependence on Foreign Loans, 2010).

**Balance of Payments Support**

Indonesia’s economic situation actually can be seen internally and externally. Internal situation includes the development of the real sector, production activities, consumption, investment, inflation, and money circulation. While the external sector includes a balance of payments that are closely related to the rate of investment, fiscal, and monetary. Therefore, support for the balance of payments can have an effect when the economic conditions are highly dependent on overseas sources.

The balance of payments can be interpreted as a systematic record of economic transactions conducted by a resident of a country with other residents of the country for a period of time. Economic transactions recorded therein are transactions that lead to the transfer of ownership of assets and liabilities between residents and non-residents (Sugiyono 2017). The form of the transaction is in the form of transactions of goods, services, income, provision of goods and services, and grants.

Assistance from the IGGI consortium granted to Indonesia from 1967 to 1973 was the currency of the donor country. Such forms of assistance can be detrimental to Indonesia’s balance of payments because IGGI donor country currencies are not easy to sell because they are not sold for sale because of expensive products or the use of those currencies depending on conditions that cost a lot (Arndt 1994). Donor countries generally object if aid is used to buy imported goods on the grounds that the aid should be devoted to development, not for consumption let alone the consumption of luxury goods. Therefore, the donor country’s assistance is commonly called loan foreign exchange (DK). This assistance still provides a gap of imported goods, but only items
listed in the priority list. In the early years of IGGI, Indonesia used to make large-scale imports of rice and textile commodities. The reason for this import approval was given for participating in maintaining market price stability.

Foreign aid gained in the first years of a loan program that can be quickly disbursed to launch stabilization and rehabilitation efforts. Subsequent disbursements were made during the three-year period of stabilization and rehabilitation (1967-1969) funded by 35% of Indonesia’s total exports with the full support of balance of payments. This foreign assistance covered all government development budgets for more than two years, mainly through paid epiderme by recipients sourced from the sale of aid program receipts.

After the 1997 economic crisis, capital inflows are expected to be able to restructure both government and private debt (Sadli 2000). In addition, several attempts are needed to regenerate the creditor’s trust to the debtor. Nevertheless, the current account in Indonesia’s balance of payments is still considered positive, in the net capital inflow (Inayati 2005).

The Urgency of Debt Scheduling

IGGI’s assistance becomes very important because of the New Order government’s commitment to sticking to a balanced budget to ensure fiscal discipline. The necessity to cling to a balanced budget in 1967 was set forth in the Act (Booth and McCawley 1986). The New Order’s budget deficit was closed with the help of IGGI which included commercial loans that were considered as a source of government revenue. Infrastructure development of IGGI and loan lending institutions are derived as receipts for development (Booth and McCawley 1998).

In critical discussion, IGGI’s position is not only as a cashier for the Indonesian government, but also as a provider of suggestions for the implementation of development. Nevertheless, the application of assistance submitted by Indonesia to donor agencies has never been rejected. But sometimes, donor countries provide a very critical attitude to the economic policies taken. Especially by the repressive policies of the government, such as the question of Timor-Leste.

The important meetings by IGGI took place on March 1976 where the main problem facing the Indonesian government was the problem of the huge impact of Pertamina’s debt crisis. Pertamina in February 1976 was unable to make payments on debt installments totaling US $40 million earned from the Republic Nation of Dallas (Prawiro 1998). Prior to Pertamina emerging crisis, the Indonesian government had thought that the amount of foreign debt payments would peak in 1976 for US $348 million. With the debt of Pertamina, the overseas loan to swell to US $813 million this year. According to estimates, this number will increase annually until it reaches its peak in 1985 of US $3.1 billion (Glassburner 1976).

Indonesia’s request to apply for additional financing to tackle the crisis Pertamina responded well by donors. US $1.4 billion in soft assistance is fulfilled, as well as obtaining US $1 billion of US $1 billion export credit. Even IGGI members pledged to add US $1 billion in emergency financing to cover additional costs to continue the major unfinished and unimportant project of Pertamina for Indonesia, namely Krakatau Steel and Liquid Natural Gas (LNG) projects.

The volume of assistance nominally through IGGI has increased by 13-fold. In real terms taking into account inflation in the United States, the increase in the value of the aid dollar is actually only about 4.5 times. When compared to the real value of the aid, the increase between the first year of Pelita I and the last year Pelita III only 1.5 times. This development is evident from a shift in foreign aid stocks in the government’s 98% development expenditure in the 1969/1970 budget year to 42% in the 1983/1984 budget year. The long-term trend is also evident from the declining of these shares over the past 15 years, 75% during Pelita I, 56% during Pelita II and 36% during Pelita III. These similar developments have obviously enhanced Indonesia’s bargaining power in the international economy. The nominal summaries of Indonesia’s foreign debt in Indonesia from 1969 and 1994 are as follows (Figure 4).
The Figure 4 shows that the support of the foreign consortium on Indonesia's development finance tends to increase, both multilaterally and bilaterally. Multilateral assistance is known to amount to approximately US $ 59,682.27 while total bilateral aid is US $ 44,559.81 (Kementerian Keuangan RI 2010). In general, multilateral loans are largely borrowed by the World Bank and the Asian Development Bank, this option is taken in view of the fact that the loan application requirements are more expensive than bilateral loan requirements whose requirements are the same or less than the soft loan requirements under Presidential Instruction No. 8/1984 (Ariadi 2001).

In line with the above, the debt rescheduling application submitted by the Indonesian government is always discussed at several international conferences familiar to the Paris Club. One by one the creditor countries provide debt reduction that allows Indonesia to overcome the economic crisis that hit. However, the settlement of Indonesia's foreign debt sometimes needs to wait several years to be approved. As in April 1970, the government of the creditor country finally agreed to make a debt rescheduling agreement for Indonesia on soft terms. Since then, the Indonesian government has never asked for debt rescheduling under any circumstances for the next three decades.

With the increasing amount of debt and interest, the state budget was becoming increasingly critical. Therefore, the debt rescheduling scheme (debt rescheduling) that had been applied when Indonesia was still highly dependent with the donor agency should be immediately changed and removed. Basically, the debt rescheduling done by them benefits one party and disadvantages Indonesia. In contrast if the government is able to avoid the mechanism of debt scheduling by the creditor, it means there are partiality to the people. The proposed debt equity swaps scheme could help Indonesia to propose debt cuts (Blackwell and Nocera 1989).

Conclusions

Since its formation in 1968, the various forms of loans and foreign aid provided by developed countries, particularly the United States, were considered to have political and economic interests for the creditors. When the Marshal Plan became a new idea in 'foreign aid' it was judged to have many American economic interests as well as geopolitical interests in cold war situations.

Without the great and soft aid from donor countries, Indonesia had been stigmatized as a poor capital and technological state cannot go forward that grows an average of 7% per year for more than 30 years. It is a positive contribution of debt to Indonesia's economic development. While the recipient country will face new problems related to the exchange rate management of the Rupiah. On the other hand, large amounts of debt to foreign countries cause countries become
vulnerable to the interest and exchange rate movements and to speculative currency attacks.

**Availability of Data and Material**

Selected data which has been used in the Figure 1 and Figure 4 has been obtained from the Indonesian Ministry of Finance, Bappenas, and World Bank. The data has been performed in an analitic graph according to the actual report.

**References**


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