party payments, actions guaranteed to throw the global market into crisis.

Dynegy, a major trader in its own right, was counterparty to Enron on an undisclosed but significant number of deals, and many observers regard Dynegy's action as a form of self-bailout, an action to avert the damage that would occur to the company were Enron to collapse. Dynegy is controlled by ChevronTexaco, which owns 27% of the company's stock and holds three spots on its board. As part of the agreement between Dynegy and Enron, ChevronTexaco agreed to pump $1.5 billion in cash into Enron immediately, even though the merger agreement specifies that either company may cancel the merger under certain circumstances; ChevronTexaco also agreed to invest another $1 billion in the merged company, should the deal be completed.

Under the terms of the merger agreement, Enron has the right to entertain higher offers, should any be made, though it would have to pay Dynegy a hefty breakup fee in such an event. Dynegy, for its part, has the right to break the deal should Enron's financial condition turn out to be much worse than the company has admitted.

Rescuing The Market As A Whole

Heavy pressure was brought to bear on the major credit-rating companies to prevent them from lowering Enron's credit rating from investment grade to junk-bond levels, since a junk-level rating would trigger default clauses in a wide range on Enron's debt agreements, potentially forcing the company to immediately pay billions of dollars it did not have, to satisfy that debt. Moody's Investors Services, admitting that it had come under significant pressure by influential Wall Street players, finally agreed to cut Enron's rating to the very lowest investment-grade level, thereby allowing the Dynegy deal to go through.

Under such circumstances, ChevronTexaco's immediate $1.5 billion infusion into Enron would appear to be as much a rescue of the energy derivatives market as a whole, as an investment into Enron. To protect itself in the event that the merger is cancelled, ChevronTexaco/Dynegy has the right to buy Enron's Northern Natural Gas pipeline.

Showing what a small world it is, Dynegy was represented in the deal by the law firms Akin Gump (the firm of "Prince of Thieves" Robert Strauss) and Baker Botts, the latter being the firm of James A. Baker III, Secretary of State in the first Bush Administration and a one-time consultant to Enron. Dynegy was founded by Morgan Stanley and Akin Gump in 1984 as Natural Gas Clearinghouse. In March 1999, Dynegy was controlled by three companies, each of which owned 25% of the company; those owners were Chevron, BG plc (née British Gas), and NOVA Chemicals, a Canadian energy company. In February 2000, in a reorganization coincident with its acquisition of Illinois utility Illinova, BG and NOVA reduced their ownership positions in exchange for cash, leaving Chevron as the dominant owner.

Indonesia Has Paid Its Debts!

by Michael O. Billington

The International Monetary Fund (IMF) and the World Bank have just come to an "agreement" with Indonesia. Together with other creditor nations and financial institutions, they pledged to provide $3.14 billion in new loans, which is a full one-third less than the previous year. However, of the $4.8 billion pledged last year, only $2.6 billion was delivered, due to what were described by the World Bank as "reform and project failures"—meaning that Indonesia did not fully carry through on IMF conditionalities regarding the elimination of subsidies on basic necessities, privatizing state-sector industries, selling off government assets, and other free-trade, globalization shibboleths. In fact, nearly one-half of the new loan is conditional on "significant progress on policy performance," as World Bank Vice President for East Asia and the Pacific Jemmal-ud-din Kassum explained to the press.

The IMF's justification for the imposition of such draconian measures, imposed upon an already-impoverished nation, is the existence of huge foreign debts, public and private, totaling about $140 billion, which is strangling the Indonesian economy. To get debt relief or new loans, the country must live up to these colonial-style dictates, or be cut off from the "world community" as defined by the IMF.

But the fact is, *Indonesia, over the past three years, has already paid off its entire foreign debt.* As will be demonstrated here, since the 1997 speculative attack on the currencies of Southeast Asia, the combination of the hedge fund speculators and the IMF have carried out a sleight-of-hand which has extracted $188 billion from the Indonesian economy in debt service, while only crediting them with payment of $54 billion! The difference between these two figures—over $134 billion—is (coincidentally) approximately equal to the current outstanding foreign debt held by the Indonesian government and private sector combined.

This trick, which has come to be known across Ibero-America as "bankers' arithmetic," a term coined by *EIR* investigators who uncovered similar shenanigans in that part of the world, is not difficult to expose. The missing ingredient is the *will to say the truth about what is, in fact, going on in plain sight.*

Loss Of Sovereignty

Those who insist that this crime is just "the way things work," are acting on the premise that we must forever accept the loss of sovereignty imposed on the entire world on Aug.

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President Megawati Sukarnoputri has issued stark warnings to her nation on the impact of the foreign debt and the global economic crisis.

15, 1971, when America's "Southern Strategy" President, Richard Nixon, pulled the dollar off of gold, ending the post-World War II Bretton Woods policies, and sending the world financial system into an orgy of speculation. Nations, especially those of the developing sector, were suddenly left with few, if any, means to protect their currencies, or their economies, from the huge capital flows at the disposal of Western banking conglomerates and their political institutions. By 1997, most of the nations of Ibero-America and Asia had been bribed or coerced into opening up their economies to virtually unlimited flows of hot money, created out of the fictitious "New Economy" bubble in London and New York. The bubble burst in July 1997, partially due to the laws of nature, but helped along by George Soros and his fellow speculators, who looted what they could in the chaos of the panic they had instigated.

One result of the collapse of the Asian currencies, was that both the governments and the private banks and industries were faced with an overnight increase in their foreign debt by multiples of 200-300%, when measured in terms of their local currencies. In Indonesia, for example, the rupiah, while still representing the same amount of work performed by its citizens, the same amount of agricultural, mining, or industrial output, was suddenly worth only a small fraction of its former value in regard to its purchasing power internationally—including, of course, payments on its foreign debts.

It is often argued that the cause of this dilemma must be found in the corrupt practices of the former regime of President Suharto. It is true that during the heady days of the early 1990s, while the hot money flowed freely into the so-called Asian Tiger economies, nearly every contract in Indonesia was channeled through a member of Suharto's family or one of his close friends, and were often padded in various ways to their benefit. But it is also true that these sweetheart contracts were equally corrupt on the foreign investor side, and were designed to place the entire risk upon the Indonesian parties—and usually upon the government itself—in respect to currency fluctuations, as well as other types of risk.

FIGURE 1

Indonesia, Percent Change In Total Debt

(Dollar Valuation vs. Rupiah Valuation, Measured Against Previous Two-Year Interval)

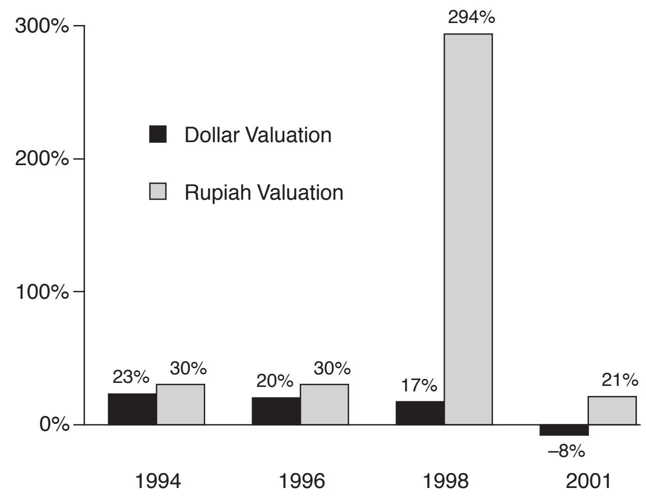

Figure 1 shows how this worked. The change in total debt, as measured in dollars, is compared to the same debt as measured in rupiah, over four periods. In the early 1990s, the rupiah was devaluing at a rate of about 4% per year. This is reflected in the figures for the periods preceeding 1994 and 1996, whereby the increase in the debt in dollar terms is somewhat less than the same debt measured in rupiah. This was a problem, but it was manageable. However, between 1996 and 1998, with the assault on the rupiah, the debt increased by only 17% in dollar terms, but by an astonishing 294% when measured in rupiah. From the Indonesian perspective, their debt had tripled with hardly a penny being borrowed!

Over the next three years, Indonesia continued paying its debts, despite the extreme internal economic and social crisis tearing at the fabric of their society. As a result, despite the much-heralded "bailout" by the IMF and others, the total debt in Indonesia *declined* between 1998 and 2001, from $151 billion to $139 billion, a fall of nearly 8%. However, in Indonesian eyes, despite the painful extraction of huge debt payments to bring about this debt reduction, *the resulting debt continued to rise when measured in rupiah,* by 21%. Bankers' arithmetic.

What Was Actually Paid

Let us now examine how much debt was actually paid over the years since the 1997-98 currency crisis. **Table 1** shows debt service payments for the three years of 1998,

TABLE 1
Indonesia's Debt Service Payments
(Billions)

Year	In Dollars	In Rupiah	Dollar Value Paid If Calculated In 1996 Rupiahs
1998	$17.5	140,125	$58.8
1999	$17.9	126,821	$53.2
2000	$18.8	180,482	$75.7
Total	$54.2	447,428	$187.7
Subtract total dollars paid			–$54.2
Unaccounted debt paid			$133.5

1999, and 2000, measured first in dollars and then in rupiah. The third column shows the dollar valuation of the rupiah payments for each year, calculated as if the exchange rate had remained at the 1996 level of 2,383 rupiah to the dollar. Over the three years, Indonesia paid a total of $54.2 billion in debt service, but in terms of the actual cost to the Indonesian economy, as measured in column three, the total payments were the equivalent of $187.7 billion! Subtracting the two figures gives us $133.5 billion—the amount of debt service paid by Indonesia for which the "international community" gives absolutely no account. By chance, this $133.5 billion is approximately equal to the $140 billion total outstanding debt currently held by Indonesia, public and private.

The process has continued in an even more punishing manner over the current year—in the past three months alone, the currency has been devalued on the "free market" from about 8,500 to the dollar to nearly 11,000, meaning that the total debt has increased by yet another 30%. It can thus be safely assumed that Indonesia has not only paid off its entire debt, but has overpaid by a considerable amount, taking into consideration the exchange rate alone. If other aspects were to be considered, such as the manipulation of the terms of trade, the overpayment would be even more extreme.

The Way Forward

As with the government debt, so also the major corporations of Indonesia have generally been paying huge amounts in debt service, but in highly devalued rupiah, such that only a fraction of their payments are accounted against their outstanding debts. One hears with sickening regularity among IMF and U.S. Treasury circles that this or that Indonesian firm is "unviable," and must therefore be sold to foreign interests at any price offered. But these are not unviable from a physical production perspective, but only because of the artificial "bankers' arithmetic" accounting of their debt.

Coordinating Minister for the Economy Dorodjatun Kuntjoro-Jakti, speaking on Nov. 11 to the creditor nations and institutions, known as the Consultative Group on Indonesia (CGI), bluntly explained that the demand for the fire-sale of two of the "crown jewels" of the Indonesian economy—Bank Central Asia and the cement company Semen Gresik—simply won't happen this year, primarily because of the extremely depressed market. The minister said: "Looking ahead to 2002, it is obvious that the world recession, which has clearly begun, will depress commodity prices and export volumes into next year and make it difficult to reach our targets."

Similarly, President Megawati Sukarnoputri has been making stark forecasts of the social and economic consequences of continued economic decay. Speaking on Oct. 30, on a national holiday commemorating the beginning of Indonesia's nationalist struggle against colonialism in the 1920s, she said: "In all honesty and with a sense of gratefulness, we have to admit that until four years ago, we had reached a standard of living that was far better than when we first obtained independence. It was also far better than our condition today. We achieved that level through struggle and hard work. . . . With deep concern, we have to acknowledge that today we are in a very complex and difficult situation. . . . If this situation continues, and if we don't put a stop to it, it is almost certain that we as a nation will perish in the not too distant future. We will be fragmented into tiny nations and tiny states, all vulnerable to pressure from outside forces. We will become the Balkans of the Eastern Hemisphere. When this happens, it will not only be us who never enjoys peace, but other countries in the region will also become prone to the danger."

Speaking to the People's Consultative Assembly on Nov. 1, she went further: "This crisis is both a part of and a continuation of the monetary, economic, confidence, political, and security crises that have burdened us since 1997. A crisis that we fundamentally failed to address. . . . We have recently become a poor nation with a low per-capita income and with huge unemployment, while the production potentials are now largely dormant. This condition could worsen if food insufficiency increases. . . . International and domestic investments have nearly come to a halt. . . . A large part of the budget has to be set aside to pay the main debts and their interest. We have to go through all these to honor the commitments made by the government when securing loans. . . . Experience has demonstrated that addressing the very issue of privatization has often led to other issues that need to be carefully dealt with first. The privatization policy will, therefore, be conducted cautiously."

Speaking truthfully is not acceptable in certain centers of world finance, however. Within a week of these statements, Standard & Poor's lowered Indonesia's ratings on several debt and credit categories from CCC+ to CCC, claiming that this was based on a statement by Minister Dorodjatun that Indonesia may have to ask for debt forgiveness. In fact, all eyes are on Argentina, which has announced the largest sovereign default in recent history. Will the Anglo-American financial institutions shoot themselves in the foot again in Indonesia?