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EDITORIALS/OPINION

A Crisis of Political Transition Hobbles Indonesia

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MANILA — The depth of Indonesia's problems continues to surprise international monetary officials, and worry investors and markets.

The currency has not rebounded despite a recent agreement with the IMF that cuts government spending, tightens monetary policy, restructures the banking sector and reduces opportunities for nepotism.

The agreement was expected to restore confidence and signal the commitment of President Suharto to reform. But the medicine is not working because there is a missing ingredient.

The IMF's agreement was established by decree with an autocratic ruler whose mandate derives from an electoral college that he largely appoints. It was the product of behind-the-scenes negotiations; the parties whose cooperation is needed did not participate.

The details are so confidential that even the IMF's counterpart multilateral organizations are left in the dark. How can this process inspire confidence?

The closed Indonesian accord stands in sharp contrast to the agreements reached in South Korea, where support was enlisted through electoral competition, and the possible costs of the reforms were publicly debated.

The Indonesian reforms are contestable on the grounds that they were imposed from the outside without demonstrated domestic consensus or at least broad public support.

Aware that the reform program lacks social and political backing, investors hesitate. In an unstable political environment, what was enacted by administrative fiat can easily be overturned.

Austerity measures are likely to intensify perceived income inequality. Many Indonesians question why they should shoulder debts incurred to enrich a handful of regime cronies.

As the effects of crisis spread, groups that stand to lose most are tempted to take their dissatisfaction to the streets, increasing the probability that force has to be used.

The reform package may also be denounced by the ruling clique as the externally imposed source of Indonesia's hardships, and by opposition groups as a sign of international collusion with the regime.

Concerns about the president's level of commitment to the IMF-mandated reforms have surfaced. In previous times of trouble, Mr. Suharto gained international confidence by supporting the policies of a team of technocrats in his government despite often fierce opposition. He no longer has a team that inspires such confidence, and his response in applying the painful reforms, including those affecting the extensive business interests of his family and friends, has wavered.

His actions reveal that his understanding of the crisis is radically different from that of the international community.

The threat of retribution by a successor government is another reason investors despair. The shares of Suharto family-owned businesses in Indonesia have fallen faster than others on the Jakarta Stock Exchange.

With public anger growing at the greed and excesses of the first family and its business associates, any new government might want to settle scores. This heightens the risk, as Mr. Suharto sees it, that his family's wealth might not survive a succession crisis and that his regime may end violently.

The retired army general, who has been president of Indonesia for more than 30 years, is 76 and in suspect health. The security that came from enduring leadership now appears to have been an illusion.

The economy is collapsing because the country has not developed politically. Its institutions, including the legislature and the judiciary, have not matured. Mr. Suharto recently put himself in charge of an Economic Resilience Council formed to monitor compliance with the IMF reforms because existing institutions could not be trusted.

This highlights a deeper problem: Nothing happens in Indonesia unless the president takes a direct interest.

Persistent suppression of political rivals means that investors cannot assess the range of alternatives to Mr. Suharto's rule. While they are shunning an Indonesia held together by military force, they are returning to Thailand and South Korea, where elected governments are clearly committed to reform.

The IMF succeeded in getting its wish list of reforms formally accepted by Indonesia. But the package has failed to restore confidence because what was diagnosed as an economic crisis has mutated into a crisis of political transition. This creates risks that the market cannot evaluate.

Indonesia no longer has a functioning financial system because it does not have a functioning political system.

The writer, a senior research fellow at Stanford University's Hoover Institution and author of "Small Countries, Big Lessons: Governance and the Rise of East Asia," contributed this comment to the International Herald Tribune.