Soekarnoputri was president and under Minister of Manpower Jacob Nuwa Wea, another PDI-P stalwart. As the main opposition to President Yudhoyono, PDI-P needs as many issues as possible to maintain its stand against him. Blocking revisions to the labour law offers them the perfect opportunity; they see it as favourable to their constituents and detrimental to SBY's re-election bid.

The debt game

Eight years after the US$15 billion injection of government funds to domestic banks at the height of the 1998 economic crisis, President Yudhoyono has become the latest post-Soeharto president to deal with the ongoing problem of recalcitrant debtors.

Known by its Indonesian acronym BLBI (*Bantuan Likuiditas Bank Indonesia*), the funds were disbursed to several banks ostensibly to protect depositors after the IMF advised the government to close 16 banks, inadvertently instigating a rush by Indonesian depositors fearful of losing their savings if their own bank was closed down. BLBI first became controversial as news emerged that 70 percent of the funds were disbursed to just 10 well-connected banks. Then it became clear that the bank owners had siphoned the funds out of the banks to support their own failing business empires. Since then successive governments have grappled with the process of repayment, balancing political interests against recouping the funds.

Following in the footsteps of former Presidents Wahid and Megawati who both prioritised BLBI repayments over prosecutions, President Yudhoyono has recently announced that the legal process against eight uncooperative debtors will be suspended if they pay back BLBI funds before the end of 2006.

Anti-corruption campaigners say that giving BLBI abusers such special privileges to evade prosecution devalues any sense of equality before the law. Arif Hidayat from the Indonesian anti-corruption NGO, *Masyarakat Transparansi Indonesia*, also questions why these eight debtors were singled out when there are still other debtors with much greater outstanding debts.

"The names of the eight debtors which have recently been announced by the government are considered uncooperative, but there still remains the issue of the other debtors who the government classes as 'cooperative,' but who are still far from a full repayment of their debt," Arif told the *Report*.

The agency established in 1998 to deal with the repayment of domestic debt to the government following the economic crisis closed in 2004, with less than a 30 percent recovery rate. Since then the majority of debtors have been allowed to continue debt repayments over the long term.

Given that each successive government administration has issued different regulations concerning the repayment of debt, there is a lack of clarity over exactly how much should be paid back including interest and even how much has already been repaid. This has led some analysts to conclude that it is in the interests of the political elite to keep the repayments obscure since it allows for unaccountable funds to enter the political arena for "untransparent purposes."

In the meantime, since a sharp increase in new bank lending first became apparent at the beginning of 2003, the IMF has been warning that "the robust credit growth is a concern in light of lingering weaknesses in banks' corporate governance, internal controls and risk management," pointing in particular to a concern over the easing of prudential regulations at the beginning of 2005, ostensibly designed to facilitate infrastructure lending.

Indonesia's banks have come a long way since the economic crisis regarding prudential regulations and risk management and a new deposit insurance scheme has been introduced to ensure that a repeat of BLBI does not happen. It is also instructive to note that the biggest growth area in new bank lending is now consumer credit rather than lending to large corporations.

Nevertheless, with weaker internal controls and government encouragement to lend for projects aimed at increasing economic growth, state banks in particular are still vulnerable to ending up with a portfolio packed full of non-performing loans—the biggest state bank, Bank Mandiri, has bad loans accounting for 26 percent of its total lending. Given that the domestic debt ratio still accounts for close to 30 percent of GDP, sapping health and welfare expenditures, if Indonesia's future generations are to escape the dire situation of the present, much more oversight needs to be institutionalised right now.

Indonesia speaks out against Middle East conflict

In step with much of the Muslim world, both the Indonesian government and political organisations here have condemned Israel for its ongoing military offensive against Hizbollah in Lebanon, while also preparing to aid in the resolution of the conflict.

The government dispatched former Minister of Foreign Affairs Ali Alatas to the United Nations to help discuss what types of steps can be taken to halt the conflict. On the home front, security forces say that they are ready to guard Western interests in Indonesia that might be targeted by local opposition groups; at the same time the government is organising a peacekeeping unit to send to the region if needed.

An Indonesian intelligence officer told the *Report* that measures are being taken to protect foreign assets here for fear of a "possible retaliation by groups that claim to be the enemy of the US and its allies." Adding that, "We are sure that the fresh conflict in the Middle East will affect the political, economic, and mostly security conditions here."

TNI Spokesperson Rear Adm. Mohammad Sunarto also told the *Report* that nearly 700 army and marine personnel, including paramedics, are ready to go to the Middle East. The army personnel comprises one company each from West Java's Siliwangi Command, Central Java's Diponegoro Command, and East Java's Brawijaya Military Command as well as Jakarta's 7th Cavalry