

**The Role of IMF to Influence Indonesian Economic Policy  
(Between Economic Crisis 1997 to 2007)**

**UNDERGRADUATE THESIS**



**Written by:**

**Rifki Ramadhan**

**20040510223**

**INTERNATIONAL RELATIONS DEPARTMENT  
FACULTY OF SOCIAL AND POLITICAL SCIENCES  
UNIVERSITY OF MUHAMMADIYAH YOGYAKARTA**

**THE ROLE OF IMF TO INFLUENCE INDONESIAN ECONOMIC  
POLICY (BETWEEN ECONOMIC CRISIS 1997 TO 2007)**

**UNDERGRADUATE THESIS**



**Written By:**

**RIFKI RAMADHAN**

**20040510223**

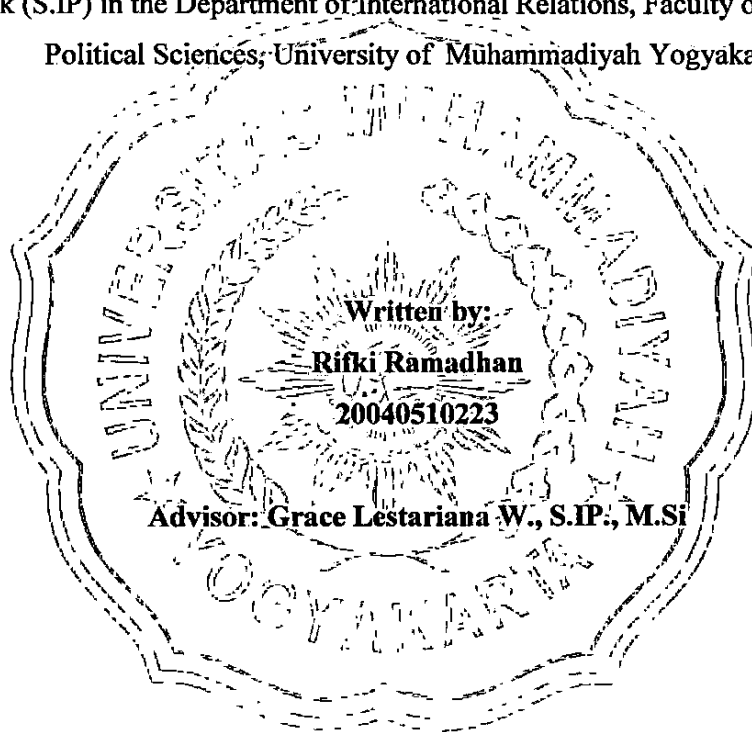
**Advisor: Grace Lestariana W., S.IP., M.Si**

In partial fulfillment of the requirements for the degree of Sarjana Ilmu Politik  
(S.IP) in the Dept. of International Relations, Faculty of Social and Political  
Sciences, University of Muhammadiyah Yogyakarta

**INTERNATIONAL RELATIONS DEPARTMENT  
SOCIAL AND POLITICAL SCIENCES FACULTY  
UNIVERSITY OF MUHAMMADIYAH YOGYAKARTA**

**UNDERGRADUATE THESIS**  
**THE ROLE OF IMF TO INFLUENCE INDONESIAN ECONOMIC POLICY**  
**(BETWEEN ECONOMIC CRISIS 1997 TO 2007)**

Presented as partial fulfillment of the requirement for the degree of Sarjana Ilmu Politik (S.IP) in the Department of International Relations, Faculty of Social and Political Sciences, University of Muhammadiyah Yogyakarta



**Written by:**

**Rifki Ramadhan**

**20040510223**

**Advisor: Grace Lestariana W., S.IP., M.Si**

**INTERNATIONAL CLASS**  
**DEPARTMENT OF INTERNATIONAL RELATIONS**  
**FACULTY OF SOCIAL AND POLITICAL SCIENCES**  
**UNIVERSITY OF MUHAMMADIYAH YOGYAKARTA**

**2008**

**ENDORSEMENT PAGE**

**The Role of IMF to Influence Indonesian Economic Policy  
(Between Economic Crisis 1997 to 2007)**



**Written by:  
RIFKI RAMADHAN  
20040510223**

This undergraduate thesis has been examined and endorsed by the Board of Examiners from the Dept. of International Relations, Faculty of Social and Political Sciences, University of Muhammadiyah Yogyakarta

On  
Day/Date: Wednesday, April 30<sup>th</sup>, 2008  
Time: 09.30 a.m.  
Place: Examination Room B

**Acknowledged by,  
Adviser/Chief of Examiner**

**Grace Lestariana W., S.IP., M.Si**

**Examiner I**

A handwritten signature in black ink, appearing to be 'Mutiara'.

**Dra. Mutiara Hariati H., M.Si**



**Examiner II**

A handwritten signature in black ink, appearing to be 'Reni'.

## ***ACKNOWLEDGEMENT***

*My deepest appreciation goes to my parents  
Bapak Supriyanto "Pak Bos" and Ibu Diana Emilia  
Thanks for your love, support, and financial assistance. Those really help me  
to finish this job. I dedicate my thesis for you both.  
I Love You.*

**MOTTO**

**You may say I'm a dreamer but I'm not the only one...  
(John Lennon-Imagine)**

**We are the champion my friend...  
And we'll keep on fighting till the end.  
(Freddy Mercury and Brian May, Queen-We are The Champion)**

**"...Orang boleh pandai setinggi langit, tapi selama ia tidak  
menulis, ia akan hilang di dalam masyarakat dan dari  
sejarah"  
(Pramoedya Ananta Toer)**

**"A life without a wish is a life without a dream"**

## *PREFACE*

The Indonesian economic crisis 1997 brought increased prominence to the activities of the main international economic organization, named International Monetary Fund (IMF) in Indonesia. The decision of Indonesian government to engaged IMF in handling economic crisis has raised its influence in Indonesian economic policy-making process. The government as if lost its sovereignty to manage its own economy. This thesis examines the way or media which chosen by IMF to intervene Indonesian decision-making process. I also analyze the economic policies of Indonesia that got influence from IMF, between economic crisis 1997 to 2007.

The need of the Third World for financial assistance from IMF to overcome the crisis, took IMF as the crucial actor to maintain the stability of international economy. It is the duty of IMF to prevent the crisis and help to cure the crisis countries. Indonesia as IMF's patient required medicine to get back its health. In return of IMF's help, Indonesia must obey what IMF order.

I hope this thesis will contribute to a better understanding of the way to handle the economic crisis if it comes. This thesis absolutely is not perfect yet, so that I want the suggestions and critics from you. Those will be beneficial for me to improve my writing skill. And hopefully in coming days, I am able to write a writing which will be much better than this

First of all, I would like to thank Allah SWT, thanks for His mercy and guidance. All the pleasures and obstacles that He gave to me are absolutely signs that He loves me so much. Also thank to my great Prophet, Muhammad SAW, thanks for every single message that He gives to His followers, thanks for His struggling to spread out Islam, the one and only religion blessed by Allah SWT. It is the most beautiful gift for me can embrace Islam

This thesis would not have been possible without the help of individuals. I would like to thank Ibu Grace Lestariana as my advisor and also the Head of International Relations Department of University of Muhammadiyah Yogyakarta who read and give advices. And other beneficial inputs for my thesis. It was great experience to be guided by her. Pak Jati Suryanto as the language supervisor, Ibu Mutia Hariati as the first examiner and Pak Harwanto Dahlan as the second examiner, thanks for their questions and suggestions, I really appreciate that. And thank to the Mr. Nice Guy, Pak Jumari, for his smile and patience to serve me.

For their incredible friendship, the International Class '04 students. Here they are who gave me 4 years of sadness-happiness, laughing-crying and Love: Sugito, Raja Badal Muda, Rozzie Syafitrah, Freddy Fernandez, Rizky Ferdian, Fikri Pido, Patria Nurhari, Ardhi Tyas Nugraha, Anwar Kholid, Wahyu Nurcahyo, Muhammad Rivai, Septian Listya, Dewi Kencana Putri, Herliati Rahmi, Luthfi Rahmawati, Triana Nurdianti, Erriza Fitriana, Witri Elvianti, Diana Fatmawati, Yana Puspitasari, Galuh Chyntia Dewi, D.N. Kusumaningrum, Dita Nury Vanessa, Yustika Noor Arrifa, Rangga Permana, Achmad Sulfiadi, Ahmad Sahide, Firman, Wibowo, Dadan, Rudi, and Farida. Mbak Atik, Mbak Atin Prabandari and Ibu Dian Azmawati who serve me well in IC's Management. IC's '05, '06 and '07 students.

For their cool dedication in Student English Activity, my partner in crime and partner in goodness, they are: Aris Wicaksono, Muhammad Iqbal, Muhammad Rizal, Irvan "hashimoto" Zulni, Verdian Leo Perdana, Mas Bagus Armansyah, Mas Abdul, Miftahul Ullum, Shellin Farina, Ristiea Meidianti, Isna Safri, Nabilla, Sharrifah Detty, Endar Aminata, Assad Lennon, Dimas Rezki, Abdul Hay, Taufik Azz, Idham, Anam, Rizki Korea, Nia, Iis, Ita, Sabbadar, Dewi, Enggar, Yadi and Sandy. SEA's 06 and SEA's 07 members.

For my friends in Kos Putra Riyon, Reza, Shalju, Anam, Andri, Handri, Iman, Wastam, Ibnu, and Arief, Big thanks to my brothers in Kos Famili



Riko, Eko, Ikhwan, Rizki, Hendra, Surya, Aji '06, Haris, Tetra, Ajay, Harnoy, Aji '07, Catur, Ilham, Ibay, Zain, Ucok, Fadhil, Arman, Wawan, Ichal, Anto, Pak Sabar and also Bu Sabar.

I would like to thank my family for the support and love they give to me in my work. Bapak Supriyanto and Ibu Diana Emilia. My brothers Liry Iqbal, Sandy Ariatama, Anshori Aditya, and Aulia Putri Salsabila. Nenek Hj. Rusdiana, om Ifam, om Arief, Tante Rosa, Tante Lia, Tante Ocha, Om Tommy, om Hamka, Om Donny. My famiy in Kediri Mbah Putri, Bude 'Ti, mbak Yuyun, Mbak Ita, Pakde 'No, Indah, etc. Finally, great thank to a girl who completes my life *My-Everything* Hilda Dermatasari

## ***TABLE OF CONTENTS***

<b>COVER</b>	<b>i</b>
<b>ENDORSEMENT</b>	<b>ii</b>
<b>ACKNOWLEDGEMENT</b>	<b>iii</b>
<b>MOTTO</b>	<b>iv</b>
<b>PREFACE</b>	<b>v</b>
<b>TABLE OF CONTENTS</b>	<b>viii</b>
<b>LIST OF APPENDIXES</b>	<b>x</b>
<b>CHAPTER I: Introduction</b>	<b>1</b>
A. Problem Background	1
B. Research Question	8
C. Theoretical Framework	8
D. Hypothesis	16
E. Purpose and Benefit of Research	16
F. Research Method	17
G. Range of Research	17
H. System of Writing	18
<b>CHAPTER II: INTERNATIONAL MONETARY FUND (IMF)</b>	<b>19</b>
A. International Monetary Fund	19
A.1 the Origins of the IMF	20
A.2 the Profile of International Monetary Fund (IMF)	27

A.2.1	IMF's Membership and Resources	28
A.2.2	Organizational Structure in the IMF and its Decision-making Process	29
A.2.3	The Functions of IMF	32
A.2.4	Conditionality	33
 <b>CHAPTER III: THE INDONESIAN CRISIS AND THE RISE                   OF IMF'S ROLE</b>		 <b>35</b>
A.	Indonesian Economy	35
A.1	Indonesian Economic History (Old Order and New Order)	36
A.1.1	Old Order (1945-1966)	36
A.1.2	New Order (1966-1998)	38
B.	The Origins of the Crisis	42
C.	The Rise of IMF's Role in Indonesia	44
 <b>CHAPTER IV: IMF INFLUENCES INDONESIAN ECONOMIC                   POLICY</b>		 <b>54</b>
A.	Structural Adjustment Programs (SAPs) as the Tool to Influence The Indonesian Economic Policy	56
B.	IMF's Influence in the Indonesian Economic Policy-Making Process	61
B.1	Macroeconomics Policies	61
B.2	Financial Restructuring Reform (Banking System Reform)	63

## *LIST OF APPENDIXES*

- |  |     |
|--|-----|
| 1. Indonesia Letter of Intent October 31, 1997   | 81  |
| 2. Indonesia Letter of Intent-Memorandum of Economic<br>and Financial Policies, January 15, 1998 | 95  |
| 3. Transactions with the Fund from May 01,<br>1984 to January 31, 2008                           | 108 |