EIR Economics

Asian financial meltdown puts LaRouche center stage

by Marcia Merry Baker

In the Dec. 9 issue of *China Daily,* the official English-language newspaper of China, an article headlined, "Asia Draws Lessons from Financial Crisis," covers the forecasting record of economist Lyndon LaRouche, right up front. The opinion column by Wei Jianing, the director of the Financial Research Office, with the Development Center of the State Council, begins, "The recent global financial turmoil that started to devastate Southeast Asia this July has greatly shocked the world. But actually many economists like Lyndon LaRouche already cautioned the world several years ago against the coming of a worldwide financial crisis in the 1990s."

Along with this kind of acknowledgment of LaRouche's forecasting track record, which appears in headlines regularly now, outside the United States, LaRouche is being looked to as the "ideas" man-of-the-hour, for how to deal with the world financial crash. In particular, LaRouche is warning against responding to the present financial system breakdown, by allowing the International Monetary Fund's drive for Weimar-style hyperinflation. Instead, what is required are emergency measures serving national interests—such as currency and capital flow controls, and freezing selected debts—and a multi-nation commitment to forging a new financial system.

December's breaking events in South Korea and Japan, as well as Russia, Brazil, Argentina, and eastern Europe, are glaring proof that the *entire world financial system* is blowing out, and there is no way to "rescue" any individual bank, country, stock exchange, or currency by any of the IMF-era maneuvers—which, by their nature, helped create the problem in the first place.

After the fall of 20-40% in values of currencies and shares in the Asian "paper tiger" economies (Thailand, Malaysia, Indonesia, Philippines), from July to October, crisis events broke out in Japan and South Korea in November; and as of December, in Russia, Brazil, and many other nations. Michel Camdessus, managing director of the IMF, has been shuttling from Seoul to Tokyo, to other capitals, demanding conditionalities and announcing "bailouts."

Where do we stand? The financial crisis is at the global meltdown stage.

On Dec. 3, the IMF announced a $57 billion bailout for South Korea; this followed on the $17 billion bailout announced for Thailand in August, and $12 billion announced for Indonesia in October. Moreover, IMF teams are deployed around the world, dictating conditionalities, even without official bailout packages. These IMF emergency operations (and *nota bene:* In most cases, IMF-promised funds aren't forthcoming, anyway), have had as much beneficial effect as hosing down a fire with cold gasoline.

Over Dec. 8-12, barely 10 days after the IMF's South Korea bailout package was announced, the South Korean currency, the won, was crashing by 10% *each day*—the daily trade limit. On Dec. 11, the won collapsed 10% in the first four minutes of trading, and did the same Dec. 12. A 50% collapse in five days!

From Sept. 30 to Dec. 10, the won collapsed 88% in value; and other currencies in the region also dropped steeply during this period, on top of earlier steep declines: Indonesian rupiah (–38.3%), Thai baht (–18.0%), Malaysian ringgit (–14.5%), Taiwan dollar (–13.4%), Indian rupee (–10.3%).

These declines indicate the general blow-out process, where debts, shares, and obligations connected to these countries' currencies are unpayable, and nation-protecting emergency economic measures need to be imposed. The chain-reaction effects of payments crises are now zinging around the globe. It will be very little time before the Big One—derivatives—begins to blow out full force (see p. 6 for details).

Related to the riccochet effect of the blow-out process, the U.S. Federal Reserve has been pouring money into the

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U.S. banking sector. *EIR* has confirmed that during one week, from Dec. 3 to Dec. 10, the Fed pumped *$9.8 billion* into the financial system through what it calls "Treasury bills and coupon passes," in which the Fed purchases and monetizes U.S. Treasury notes and bonds, permanently injecting that amount of funds into the U.S. financial system. This is equivalent to a 2.5% increase in America's currency in circulation in one week!

So much for South Korea's 'bailout'

What does the IMF plan do for South Korea? Kill its economy. Camdessus stated that the three-year "stabilization" program "comprises strengthened fiscal and monetary policies, far-reaching financial sector reforms, and further liberalization of trade and capital flows, as well as improvement in the structure and governance of Korean corporations." The IMF conditionalities for the $57 billion bailout include:

- Foreign ownership of stocks in South Korean companies are to be immediately allowed to rise to 50%, up from the current 7% for individuals, and 26% for combined foreign interests. By 1998, foreigners will be allowed to take a controlling 55% stake, and will be allowed to "link up" with South Korean banks through mergers and acquisitions.
- Inflation is to be held to 5%.
- The current account deficit, which was about $28 billion in 1996, and expected to be $13 billion this year, is to be reduced to $5 billion in 1998.
- The financial sector will be "consolidated," which means shutting down a large number of domestic banks and finance companies.
- Unemployment will rise. The polite name for this is that "economic growth" will be slowed down to 3% a year, from the 8.6% average growth in Gross Domestic Product of the past two decades.
- The domestic market will be opened up for more Japanese and other imports.

Furthermore, the IMF is demanding a hike in interest rates in South Korea, which were already very high. While these measures are intended to draw foreign speculative capital into the country, they are guaranteed to intensify the wave of corporate bankruptcies. The yield on three-year corporate bonds reached 18.85% on Dec. 5, the highest level in five years.

Shutdowns of economic activity are being announced continuously. Already on Dec. 3, Korea's fourth-largest conglomerate, the Daewoo Group, unveiled a cut-back plan, including massive wage cuts. A few days earlier, the second-largest conglomerate, Samsung Group, announced the reduction of investments by 30% for next year. The Korean Employers Federation estimates that unemployment will rise in 1998 to between 5-6%, from the current 2.4%, adding 1 million to the unemployment rolls.

On Dec. 11, Bank of Korea Governor Lee Kung-shick offered to tender his resignation; Finance Minister Lim Chang-yuel did not acknowledge the offer. On Dec. 11, President Kim Young-sam once again apologized in a nationwide address, saying, "I feel bitterly responsible."

At an emergency meeting Dec. 11, the Bank of Korea reportedly decided to issue $5.2 billion (9 trillion won) in special loans to banks, merchant banks, investment trust companies, and securities houses to prevent defaults. As of Dec. 10, Seoul authorities had suspended operations at 14 banks and finance companies, after investors withdrew more than $1 billion in a week, leaving the banks unable to make good on deposits. Sixteen other banks are under severe liquidity strain.

The shutdowns and IMF conditionalities are causing a storm of protest throughout South Korea. Lee Hoi-chang, of the Grand National Party, described the IMF as acting like "an economic conqueror." Kim Dae-jung of the National Congress for New Politics Party said that Dec. 3 should be remembered in Korea's history as "national economic humiliation day." The daily *Joongang Ilbo* noted that "South Korea has virtually lost its economic sovereignty for the next three years." Another daily, *Kyung Hyang Shinmum,* compared the conditionalities with the "trusteeship" imposed on Korea by the United States, the Soviet Union, Britain, and China after World War II.

Hyperinflation, more conditionalities

This snapshot of South Korea shows how insane the IMF approach is, of saying that $57 billion of IMF-conduited money, plus economic shutdown, is good for South Korea—or for the world community of nations. In simple financial arithmetic, $57 billion is nothing compared to the actual total of foreign debts of some $120 billion due in South Korea over the coming months.

The latest indication from the IMF, is that the liquidity hoses are to be trained full-force onto financial crisis spots, and hyperinflation be damned. The *Wall Street Journal* reported on Dec. 11, on seeing an advance copy of a draft IMF plan for not only South Korea, but for all those "countries that have lost foreign investors' confidence." The idea of the plan is simply to lend money at shorter terms, at higher interest rates, and to exact fiercer austerity conditions. "The plan, details of which were obtained by the *Wall Street Journal* . . . would formalize what has been until now an ad hoc international response to emerging-market financial meltdowns. . . . The mechanism, called the Supplemental Reserve Facility, wouldn't entail new funds for the IMF. But it would allow the IMF to pour enormous amounts of existing money into countries that would then have to begin repayment in two to three years, and complete repayment in four quarterly installments. Recipient countries would have to pay interest rates between two and four percentage points above the usual IMF rate that now stands at 4.7%. Borrowers would have to adhere to the same austere economic reforms that attach to longer loans." The IMF board is reportedly planning to decide on this emergency lending mechanism as early as Dec. 12.