road to the potential bloody disintegration of the fourth-largest nation on this planet, that is, in terms of population. This is occurring *precisely because of our toleration* of people like George Soros, no other reason, and the policies that go with him, and also the cowardly bungling, the loss of nerve by the U.S. government, including the President, in dealing with this past phase of the explosion of a systemic crisis in South Asia. He just lost his nerve, under—I don't know what pressure, but the point is, the result is manifest.

Now, we're up to the point that if Indonesia goes down—and they are fighting to stay alive, obviously, or at least some people there are, leaders like Habibie, who is the putative vice presidential candidate for the re-election of Suharto, that if Indonesia goes down, then all of Southeast Asia and all of East Asia, possibly excepting China, will go down, including Japan.

The effect of the collapse and disintegration of Indonesia, would mean that you would suddenly set off a $2-3 trillion or more immediate financial crisis in Eurasia. You collapse, in that area, the investments, the assets, and the trade of Western continental Europe with that part of the world. You thus set forth a shock wave into the European financial system, which results in the spread of the European crisis. You also hit, of course, heavily, particularly our West Coast business community, which depends very largely, directly or indirectly, on trade with East and Southeast Asia. We destroy some of the sources for the outsourcing of the U.S. electronics industry. Some of it could be replaced, some of it not.

So you can not pretend that the President's failure to realize the importance of Indonesia, in the way he dealt with the situation, may bring on a catastrophe. Of course, the President was simply capitulating to the sharks of the *Wall Street Journal,* and people like that, *under pressure of this crazy [special prosecutor Kenneth] Starr*. So, the pressures on the President from this bunch of goons, like this goon Starr, are partly responsible naturally for the President's *loss of will* in dealing with this problem in Asia. But, that's what we're facing with Indonesia.

Indonesia is so big, that its collapse, its disintegration, could blow up all of East and Southeast Asia, would send shock waves through Europe and into the United States, would probably trigger the collapse of the Russian financial system, would probably put enough pressure on the system to ensure the immediate collapse of Brazil. And, we could be in, say, by April or May of this year, we could be in something beyond belief as a result of our government's loss of nerve, in dealing adequately with the threat when it occurred last. The failure to take appropriate action, against the so-called floating exchange rate system, against the so-called free trade system, that failure of nerve, to reverse course on policies which have failed, by our own government, are responsible for the present situation. The next shoe to drop is going to be a big one.

South Korea

Strikes erupt against next phase of crisis

by Kathy Wolfe

The endgame of the International Monetary Fund's shock therapy program in South Korea began on May 27, when more than 300,000 workers of the Korean Confederation of Trade Unions (KCTU) went on strike against mass layoffs mandated by the IMF, calling for the renegotiation of Seoul's IMF agreement. President Kim Dae-jung, who led the opposition for 30 years until he was elected last December, with support from the unions, will now be forced to choose between supporting the workforce's right to exist, and the IMF's "reforms."

Phase two of South Korea's financial crisis also hit on May 25-26, as the Seoul stock market collapsed by 13% in two days to 311 on the KOSPI index, its lowest level since the crash of 1987. The stock market now stands 60% below where it was last year. The Korean currency, the won, continues to collapse, closing at 1,412 to the dollar on May 27, down over 7% in the last week of May, 40% since last year.

Foreign investors, such as speculator George Soros and his London-Wall Street bank controllers, were responding in part to a flood of frightening economic figures to "sell Korea," one Seoul source said. These included the announcement by the government of a useless $40 billion bank bailout, and a rise of official unemployment to 1.43 million (6.7%) in April. Private estimates are that unemployment will hit 10% soon.

The end of May crash also comes as the IMF and the London-New York creditors move to enforce "free-market capitalism in its most brutal form," as one Hong Kong stockbroker put it, including the IMF's new labor law, designed to break Korea's unions. IMF Managing Director Michel Camdessus expects President Kim, as an outsider to the Seoul "establishment," to use his influence on the workers to force through IMF austerity.

The IMF cites Korea as a model where they can achieve all their demands which, they claim, were only difficult in Indonesia, because President Suharto was unpopular. This insane strategy threatens to bring Korea, one of the world's last Cold War nuclear trigger points, to the same bloody chaos that occurred in Indonesia.

Mass unemployment, bankruptcies

The South Korean population, one of the world's most prosperous until late last year, is now facing 1930s Depression levels of mass unemployment.

As a result of IMF dictates, the giant Hyundai Motors on May 20 announced that it will lay off 8,000 workers, 20% of its labor force. Such actions by major *chaebol* conglomerates, which employ 40% of the country's workforce, were regulated by law until the IMF rewrote Korea's labor laws early this year. The IMF is also deliberately trying to "restructure," i.e., to bankrupt, Hyundai, Daewoo, Samsung, and Korea's other giant *chaebols,* by keeping interest rates above 18% and restricting credit, which has caused sales of autos and other consumer goods to fall 50% during 1998 so far.

As a result of their sales collapse, the debt of these companies is going through the ceiling. Hyundai's debt has reached 533% of its core capital, while Samsung's debt-to-capital ratio is 265%, that of the electronics conglomerate Lucky Goldstar, 343%, and for Daewoo, 414%.

On May 21, only a government emergency loan of $430 million prevented the bankruptcy of Dong Ah Construction, the tenth largest firm in the country.

Also May 21, the Korean Central Bank revealed a string of horrific economic statistics:

- GDP fell 3.8% in the first quarter alone, which would be over 15%, on an annual basis. The government-run Korea Finance Institute projected that second-quarter GDP drops would be at least as bad. The IMF's latest Korea program had projected "only" a 1% annual drop in GDP for 1998;
- Investment in machinery and equipment fell, for the third straight quarter, by 40.7% from a year earlier;
- Household consumption, which accounts for half of GDP, fell 10.5%, the worst decline since the Central Bank began compiling figures in 1953;
- Output in the construction industry fell 39% compared to the previous quarter;
- Output of manufacturing industries dropped to 19.55 trillion won, from 23.13 billion won, compared to the previous quarter.

On May 20, the Seoul Ministry of Finance and Economy was forced to announce a new bailout package for dealing with the bad loans of South Korean banks, requiring about $40 billion (50 trillion won) of taxpayers' money. Official figures for the bad loans in the financial sector at the end of March 1998 are $85 billion (118 trillion won). The financial institutions are supposed to deal with one-half of these bad loans, for example, by writing off loans and selling assets.

A new government-run Korea Asset Management Corp., apparently modelled on the U.S. Resolution Trust Corp., which executed the 1980s bailout of U.S. savings and loan institutions, will buy the remaining half of bad loans at the equivalent of 50¢ on the dollar. The Korea Deposit Insurance Corp. will also put about $18 billion into the banks to raise their capital and to shore up the deposit insurance fund.

A state of panic

In response to the Hyundai announcement and the economic crisis, the KCTU unions on May 21 announced the May 27 strike, in support of the Hyundai workers.

On May 25, "the markets," meaning the IMF and its London-New York financiers, retaliated. That day, South Korea's government, under IMF orders, was scheduled to lift restrictions on foreign ownership of Korean companies, and was expecting a flood of foreign cash. The foreign creditors, however, dumped Korean assets instead of buying them—to send the message that the Korean won and corporate stocks will have to fall much, much lower.

"The word went out to 'sell Korea,' " as one Korean source told *EIR,* with foreign investors saying that if the unions don't back down, "major companies will be destroyed." "The market is in a state of panic," said a banker at Seoul Investment Trust Co. "I cannot see where the bottom lies."

Foreigners sold a net 5.3 billion won worth of stocks on May 26.

The IMF is also forcing the government to announce in early June a list of companies which will be cut off from limited bank financing and allowed to die. "People don't know which companies are going to be off the creditworthy list, so they're selling everything," as one banker said. The KOSPI stock index, which was at 350 at the start of May, could fall to as low as 250 in June, he added.

The pro-IMF faction inside President Kim Dae-jung's government is threatening to break the strike, which would provoke violence. "The strikes are clearly illegal and we will guide employers to apply the 'no work, no pay' policy and discourage any pay negotiations," said a statement released by the Supreme Public Prosecutor's Office on May 25. It referred to the fact that the IMF has changed the nation's labor laws to rule out general strikes. "We will guide management to strongly counter strikes with lockouts if strikes continue too long," the statement said.

"We don't want violence or heavy-handed tactics, but we will deal with strikers if they break the law, and this is an illegal strike," said Dr. You Jong-keun, a key pro-IMF adviser to President Kim.

KCTU spokesman Chung Sung-hee announced the next day that the confederation, which represents more than 500,000 members organized in such key sectors as the automotive, shipbuilding, and steel industries, would proceed with the strike. If the government uses force against the strikers, the KCTU will extend the strikes, Chung said.

LaRouche vs. IMF Dark Age

With the economic situation at a breaking point, voices inside South Korea are beginning to say openly that "Lyndon LaRouche was right," when he predicted in February and March that the IMF's "Korea success story" would blow to pieces. In Kwangju City, President Kim's home base far south of Seoul, a major attack against the IMF, featuring LaRouche's March 18 speech "Towards a New Bretton Woods" and the LaRouche program for a new monetary system, will appear on June 1 in the *Honam Current News,* a new political journal.

It would appear that a serious faction-fight is brewing in President Kim's inner circles over the life-or-death IMF issue. "Playing the LaRouche card" is rapidly becoming the only option left to the anti-IMF group. Kwangju, where the magazine is published, is as far away from the Seoul establishment as one can get in South Korea.

"The program which the IMF has applied to the Korean financial situation is not the remedy; such a harsh shock therapy can't be a remedy," the editor's introduction states. "The American magazine *Executive Intelligence Review* (*EIR*) is strongly criticizing the IMF. *EIR* said in its latest edition that unless strong measures are taken, this entire financial disturbance will not end before reaching Japan and ultimately China, and may result in a New Global Dark Age such as the 14th Century. . . .

"*EIR* is emphasizing the necessity of a new international monetary and financial order. *EIR* Editor Lyndon LaRouche, Jr. is appealing to the leaders of all nations of the world to join in this effort." The feature, which is several pages long, then presents two pages of quotes in Korean from LaRouche's March 18 speech (see *EIR,* March 27, for the full text), and a history of the LaRouche movement.

In particular, it quotes LaRouche spelling out the details of his program to shut down the International Monetary Fund, stabilize currencies with fixed exchange rates, and establish a new world financial system to create cheap credit for industrial growth. It notes that LaRouche had predicted well beforehand the 1971 removal of the dollar from the gold standard, and that therefore his warnings that the current IMF programs will lead to global financial collapse should be heeded. This section features LaRouche's underlining of the British role, since the Opium Wars, in destroying both Asia and the United States.

The article concludes saying that "readers of *EIR* include political leaders such as heads of state, congressmen from the U.S., Latin America, Europe, and Asia; trade unionists, think-tanks, business leaders, and small businessmen interested in the truth about world affairs and historical principles. . . .

"*EIR* distributes about 15,000 copies a week in the U.S., Europe, Russia, the Mideast and Africa and has Spanish- and Chinese-language editions. EIR News Services also publishes the mass-circulation *New Federalist* newspaper, which distributes 110,000 copies a week. . . .

"Lyndon H. LaRouche, Jr., who will be 76 this year, has been fighting to replace the IMF with a new world financial system for more than three decades." The article reports some further details about LaRouche, noting his authorship of the program which became known as the Strategic Defense Initiative.

Commenting on this article's appearing in a Korean magazine, one scholar close to the Kim government underlined the importance of the fight against the IMF. "This attitude against the IMF is becoming quite prevalent and growing in Korea," he said. "Unfortunately, until now the government has felt there was no real alternative to the IMF program."

IMF looting wrecks the physical economy

by Richard Freeman

The extension of global financial disintegration, combined with draconian International Monetary Fund conditionalities, into Asia, has aggravated the contraction of the physical economy. In recent years, Asian nations had registered economic growth in sectors of their economies; this year, they are headed toward predicted rates of downturn varying from 5 to 8% in South Korea, to as great as 20 to 25% in Indonesia.

But it is the real physical economy, upon which our future existence depends, that has been destroyed around the world by the financial bubble, whose rupturing is causing global havoc. In most parts of the world, the physical economy is collapsing; but because some financial markets have been booming, the economies have been portrayed as undergoing "unprecedented expansion." Three critical examples indicate what a truly bad condition most of the world's economy is in.

First, in the period of 1989-91, the Communist regime came down in the Soviet Union, and the IMF moved in with its "shock therapy" conditionalities. As **Table 1** shows, the industrial output levels at the end of 1996, for Russia and 8 of the 11 other nations of the Commonwealth of Independent States, were below 50% of their industrial output levels of 1989 (the 1989 production level was set equal to an index number of 100). Industrial output fell for most of these countries during 1997 and the trend has continued through 1998.

TABLE 1
Industrial production of Commonwealth of Independent States, 1996
(1989 level=100)

Uzbekistan	107.7
Turkmenistan	79.5
Belarus	62.4
Ukraine	49.7
Kazakstan	47.8
Russia	47.0
Moldova	43.6
Armenia	43.3
Azerbaijan	41.6
Tajikistan	35.2
Kyrgyzstan	35.1
Georgia	17.1

Source: U.N. Economic Commission for Europe