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.

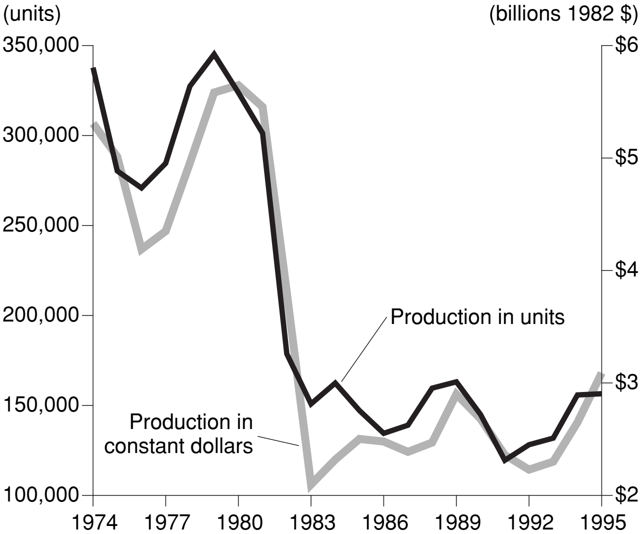
TABLE 1
Industrial production of Commonwealth of Independent States, 1996
(1989 level=100)

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

FIGURE 1

U.S. machine tool production, in units and 1982 constant dollars



Source: "Economic Handbook of Machine Tool Builders," various years.

Similarly, neo-liberal IMF "reforms" collapsed output for Poland, Hungary, and other former Communist nations.

Second, the actual functioning of the economies of western Europe—though the financial media would say it is robust—is revealed by the rates of unemployment. Officially, unemployment in western Europe is above 10%. Spain has an unemployment rate above 15%; France's rate is above 11%; Italy and Belgium have double-digit unemployment, and Germany is nearly there, at 9.8%. But Germany's true unemployment is paradigmatic for all of Europe. While the government reports that there are 4.4 million unemployed, the Institute for Labor Market and Professional Research reports that 6.3 million Germans are without regular work and regular income: Added to the 4.4 million officially registered jobless, there are another 1.9 million who are not registered as seeking a job, because they fail to meet the statistical criteria for being listed under any of the standard categories of "jobless." This brings Germany's actual jobless level above 14%.

Third, the United States is supposed to be experiencing the greatest economic growth of the major industrial nations. Certainly, any nation whose economy is growing would have an expanding machine-tool sector. Machine tools are the machines that make other machines. **Figure 1** shows the level of machine-tool production, as measured by close tracking of the number of units produced, and the value of shipments in constant 1982 dollars, for the period 1982 through 1996 (the last year for which figures are available). For 1996, compared to the high point of 1979, units produced and the value of shipments are down 48% and 45%, respectively. Other sections of U.S. manufacturing and industry follow a similar trend.

Deteriorating conditions in the physical economy extend from eastern Europe to western Europe to the United States, and to large sections of Ibero-America and Africa, as well. The next phase of financial disintegration will overwhelm a physical economy that is barely standing.

Derivatives bubble is set to explode

by Richard Freeman

The revelation by the May 26 *Wall Street Journal* that the now-defunct Peregrine Fixed Income Ltd. of Hong Kong had $9 billion in off-balance-sheet derivatives exposure to Indonesia—as much as its balance-sheet exposure to Indonesia—should not come as a shock to anyone who has been reading *EIR,* and who is familiar with Lyndon LaRouche's warnings about the derivatives bubble, dating back to 1993 (see article, p. 8).

Derivatives trading growth in Asia had been in the forefront of world derivatives market growth. Even a peek into the Asian derivatives holdings of leading banks is frightening. Derivatives are bets, gambles on underlying financial instruments and commodities. The size of the world derivatives' market is estimated at $130 to $140 trillion.

The May 4 *Swap Monitor* reported that four U.S. banks—Bankers Trust, Chase, Citicorp (soon to be Citigroup), and J.P. Morgan—had more than $1 billion in non-performing Asian derivatives (excluding Japan) as of March 31 this year, and had written off more than $150 million on them at the end of the first quarter. This figure of non-performing derivatives is a vast understatement, likely by at least one order of magnitude. Late last year, J.P. Morgan was still trying to collect on $489 million of the derivatives losses that the Korean company SK Securities had suffered in trades with J.P. Morgan, which SK Securities said it would not pay on, leaving Morgan holding the bag. According to the same issue of *Swap Monitor,* these four U.S. banks had $5 billion in total, non-Japan, Asian derivatives exposure. However, that figure, too, is a huge understatement.

The growth of derivatives leaves little doubt that U.S. as well as European banks have racked up sizeable derivatives holdings all around the globe. For example, in 1997, the seven largest U.S. derivatives holding banks (now six, since NationsBank and BankAmerica have merged) held $23.79 trillion in derivatives—led by Chase Manhattan's $7.7 tril-