Has Korea learned nothing from the IMF's destruction of Russia?

by Kathy Wolfe

As 40,000 South Koreans crowded in front of the Seoul National Assembly on Feb. 25 to greet the inauguration of their new President, Kim Dae-jung, with hope for a new era, rational foreign observers were more sober. Has Korea learned nothing from the cruel experiences of so many nations under the "shock therapy" programs of the International Monetary Fund (IMF), to which Dr. Kim has had to agree, they ask? Has Korea learned nothing from Russia, where the IMF has collapsed industrial output to less than 42% of that in 1990, where machinery output is less than 29% of what it was, and the currency has fallen 600%? Has Dr. Kim, a religious Christian, learned nothing from the destruction of families, the 12% drop in life expectancy, or the rise by 2 million people in the number of drug users?

Yet, Dr. Kim's inaugural address stressed the same premises adopted so blindly by Russian, Polish, and other eastern European leaders before him: that "freedom" equals the IMF's "free market" shock therapy. "A government is, at last, being born that embraces both democracy and the economy as the nation's goals," Dr. Kim said. "Democracy and the market economy are two sides of a coin."

"All of us are being asked to shed sweat and tears," Kim said. "Consumer prices and unemployment will rise this year. Incomes will drop, and an increasing number of companies will go bankrupt." Indeed, the Seoul Ministry of Finance and the IMF issued a joint statement on Feb. 23 which announced, as intended policy, that over 1 million Koreans will lose their jobs this year, and over 50,000 industrial companies will close their doors.

This will not only decimate South Korea, but will make it a good candidate to become the fuse that will blow up the global financial system in the few next months. The emergency rollover of $24 billion in short-term Korean debt due last Dec. 31, was only finally signed on March 1-6, during an international road show of Korean officials and global bankers, who presented the December papers to banks in New York, London, Paris, Tokyo, and so on. Now, a new round of this quarter's $25 billion in short-term debt will fall due by March 31. While J.P. Morgan, Citibank, and London's Hongkong and Shanghai Bank officials waxed eloquent about South Korea's "recovery" during the tour, the Korean won could collapse again any instant—and South Korea's $153 billion foreign debt will blow sky high.

EIR Contributing Editor Lyndon LaRouche, who has been calling for a New Bretton Woods Conference to replace the bankrupt IMF global system, warned Russian leaders against adopting IMF shock therapy policies in 1990. Given the pungency of his forecasts, LaRouche was invited to Russia on several occasions, to address economists, academicians, and intellectuals.

LaRouche, not Soros

There is a certain lesson here for South Korea. LaRouche, as the leading international opponent of the IMF system, would be the best choice to become an international adviser to the new South Korean government right now.

Instead, Kim Dae-jung has been advised by circles close to George Bush and the U.S. National Endowment for Democracy, to bring in the pro-IMF crowd, such as George Soros, the London-run speculator who sparked runs against Asian currencies last year. Soros's dumping of the Korean won was pivotal in the collapse of that currency from 700 per dollar last year to 1,600 per dollar now—a 95% drop. Yet, Soros arrived in Seoul on Jan. 5, met with Kim and his economists, and announced that he would be advising Kim Dae-jung to "open Korea" up to all IMF reforms. Soros returned to Seoul for the inauguration, and announced plans on Feb. 26 to set up his Soros Consulting and his Quantum Fund currency speculation unit in Seoul.

Also involved in inviting Soros to Korea was Dr. You Jong-keun, governor of North Cholla province and President Kim's longtime economic adviser. Like Soros, Dr. You is urging Kim to tighten the IMF's hold. "Our aim is to front-load our toughest economic policies early on, while the President enjoys his highest popularity," Dr. You told the *International Herald Tribune* on Feb. 24. "By the time the pain of reform starts to bite, we hope the [IMF] reform process will have progressed to the extent it cannot be reversed."

"Sometimes it's nice to have big brother watching over your shoulder," You said, praising the IMF for "mandating the reform from the outside. . . . We are using the market, which is far more potent" than the government. "Korean people are not feeling the pain of reform yet," he said. "The real pain has yet to begin."

Physical economy being shut down

The 30% interest rates mandated by the IMF since late last year, supposedly to entice foreigners to refrain from dumping the won, have already begun to shut down South Korea's physical economic production. The National Statistical Office announced on Feb. 27 that industrial output in January fell 10.3%, to the lowest level since records began to be kept in 1954. Output of vehicles was down by 19.1%, and the output of machinery by 29.1%. The central bank announced a record 3,323 corporate bankruptcies in South Korea during January, a rate of 151 per day.

The IMF's 30% rates are also shutting down the banking system, Dr. Choi Gong-pil of the Korea Institute of Finance said on Jan. 26. Korean banks, already struggling under portfolios of bad debts, could not lend to normal industrial customers because of "ultra-tight money supply conditions demanded" by the IMF. The Basel, Switzerland-based Bank for International Settlements is also demanding that South Korean banks slash lending until the ratio of their capital to their loans meets the European standard of 8%. The Seoul central bank announced on Feb. 26 that 14 of Korea's top 26 banks do not meet the minimum standard.

This is forcing banks to call in existing loans—which bankrupts industrial borrowers, which need the loans to function normally—which is worse even than making no new ones, Dr. Choi said. This then creates more bad debt on the books of the banks. "It leads to a huge amount of bankruptcies and worsens the overall situation. This is a very vicious cycle and could lead to the total collapse of the economy," he said.

One hopeful sign that South Korea's elders will fight to keep Korean industry open, was the surprise appointment on March 3 of former Finance Minister Lee Kyu-sung to the Finance Minister post. "Dr. Lee has the potential to go against the IMF if nationalist sentiment should come on the rise again in Korea," one Korean official told *EIR*.

Lee, 59, who was in the Finance Ministry from 1963 to 1991, served as Finance Minister under former military President Roh Tae-woo from 1988 to 1990, and is now professor of economics at the Korea Advanced Institute of Science and Technology. Lee was recommended by advisers to former KCIA strongman Kim Jong-pil. President Kim Dae-jung last year allied with Kim Jong-pil to produce a narrow, 1% margin of victory at the polls, despite the fact that the KCIA chief tried to have opposition leader Kim Dae-jung assassinated several times during the 1970s.

Evidently, however, Kim Jong-pil, who will now become Prime Minister, represents nationalist circles as well as KCIA hit-men. The 1961-79 military regime of President Park Chung-hee, in which Kim Jong-pil served, was also avidly dirigist, and turned South Korea from a patch of rice paddies into an industrial power. Park created from scratch the nuclear industry; nuclear power now produces 40% of the nation's electricity, and power is exported.

British commentators immediately protested Lee's appointment. "It is very disappointing that President Kim picked an old bureaucrat as a top economic planner," said a brokerage official of Hongkong and Shanghai Bank in Seoul.

Time runs out for North Korea

It is the famine hitting North Korea, however, which South Korea may fear is its own future—and the true extent of the human disaster which will result if Seoul continues on the IMF track. Pyongyang announced on March 2 that its grain stocks would run out in the next two weeks, a striking admission. Rations were cut severely in January and February, the official North Korean Flood Damage Rehabilitation Committee told a government radio broadcast, "but the grain stocks will run out in mid-March, giving rise to grave after-effects."

The United Nations World Food Program (WFP) later that day confirmed the urgent need. "The fact that the government issued a warning confirms our assessment that the food situation in the country is critical," WFP coordinator Rolf Huss said at the WFP's Rome headquarters. "We have to act now—before the widespread hunger worsens and the country faces a humanitarian catastrophe."

The North Korean famine has disappeared from world headlines, in part because the October harvest provided some 3 million tons of food. The official statement said that at the start of the year, North Korea's total stock of grain was 167,000 metric tons, for its 22 million people. "With this stock, 300 grams (10.5 ounces) of grain were distributed to each person on a daily average in January and 200 grams (7 ounces) in February. But even if only 100 grams (3.5 ounces) are distributed in March, the stock will run out in mid-March," the government statement said.

In January, the WFP launched a new appeal for 658,000 tons of food, targetted for the poorest 7.5 million North Koreans, and the United States responded quickly. The United States will donate 200,000 tons of food aid, the State Department announced on Feb. 5, with delivery slated for April, "when the shortage is expected to become acute."

No other nation has made a major response since then, however, and after the Pyongyang broadcast on March 2, the State Department said the United States can do no more. "North Korea regrettably remains an opaque society and precise figures are difficult to confirm," State Department spokesman James Rubin told reporters. "We have no plans for further assistance."

Kim Dae-jung, at his inauguration, held out some hope, calling for a summit with North Korean leader Kim Jong-il and an exchange of special envoys. In fact, however, the current IMF diktats in South Korea are destroying its industrial base and any possibility to relaunch the devastated North Korean economy. Worse, the IMF program could bring famine again to South Korea, as occurred in the 1950s. The rest of the world is threatened by a New Dark Age by today's financial system, and it's already there as reality, right on South Korea's doorstep.