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Southeast Asians agree: The IMF is the problem!

by Gail Billington

Temperatures are rising and patience is running out in Southeast Asia, but El Niño is not to blame. Not in decades has the volume and intensity of criticism of the International Monetary Fund (IMF) and its structural reforms been heard from as many heads of state and senior ministers as in recent weeks. Led by those closest to the "Asian contagion" that began in May 1997 with George Soros's and other hedge fund attacks on the Thai baht, a polyphonic chorus of voices is sounding the refrain that not only have the IMF bailouts in Asia not halted the economic collapse, but the worst is yet to come, especially through the end of 1998, *because* of conditions imposed by the IMF.

Included in these criticisms is *EIR* Contributing Editor Lyndon LaRouche's presentation to a packed, March 18 seminar in Washington, D.C., detailing what must be addressed at the April 16 meeting in Washington (the Willard Group) of 22 nations on the world financial system. In a radio interview with "EIR Talks" on March 17, LaRouche summed up the situation as follows: "The best thing the IMF could do, is to disappear, in its present form. Somehow, if we can get [IMF Managing Director] Michel Camdessus and his crew of pirates on some abandoned spaceship or something and send them off—maybe we've got an old Mir floating around there, that the Russians want to get rid of . . . and give them enough equipment to send signals back once in a while, but not to send back any advice—and *get rid of these guys!* Because anything they say, just makes it worse."

Governments, LaRouche said, are going to have to say what they don't wish to say, that radically new things, embodied in his proposal for a New Bretton Woods system, "are going to have to be adopted, or else."

In Asia today, governments are increasingly ready to say what *doesn't* work. Malaysia's Prime Minister Dr. Mahathir bin Mohamad was the first to speak out against the IMF's covering up for foreign hedge funds, which precipitated the 10-75% collapse of regional currencies, and then, under cover of its "structural reforms," forcibly imposed conditions that could only lead to further looting of national economies through forced privatization, liberalization, and sell-offs to foreigners.

Where Dr. Mahathir was a relative lone voice in July 1997, warning that the methods used by the IMF would lead to a new colonization of these economies, since early February, leaders of the principal nations in Southeast Asia have joined in. In the Philippines, Senate President Neptali Gonzalez, at the National Economic Summit in mid-February, sharply rebuked the IMF and World Bank for blaming the crisis on domestic policy mistakes, and demanded that if these institutions cannot solve the Asian crisis, then they should be replaced or reorganized. He zeroed in on the continuing volatility of currency markets, concluding that if "massive and sudden" capital flight continued to be tolerated, then globalization "will always become a threat" to nations. In mid-March, Dr. Jesus Estanilao, Finance Minister in the Corazon Aquino administration, called for re-pegging the peso to a basket of currencies, including the dollar, yen, and euro.

The IMF's fatal blunder in Indonesia

The IMF's decision in early March to delay release of the next $3 billion tranche of funding to Indonesia, only three days after approving additional funds for Thailand, has done more to shatter the IMF's credibility, and to precipitate a regional consensus that the problem lies with the IMF, than any event since the onset of the crisis. The move was in direct response to President Suharto's March 1 inaugural address to the People's Consultative Assembly, in which he declared the

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terms of the IMF $43 billion bailout to be "fatally flawed" because it was "too small, too slow, and fails to constructively address the whole problem of stabilizing the rupiah," which, at that point, had collapsed 75% from its value in July 1997.

President Suharto's subsequent raising of a conflict between the IMF's prescribed "reforms" and Article 33 of the 1945 Constitution, on the responsibility of government to protect the general welfare, triggered a closing of ranks among the major factions in the Assembly behind President Suharto, his new Vice President, well-known pro-industrialization nationalist Dr. B.J. Habibie, and a new cabinet dominated by leading economic nationalists. Chief among these is Ginandjar Kartasasmita, Coordinating Minister on Economics, Finance, and Industry, who is now leading the Indonesian team in new negotiations with the IMF, but who has made clear to all concerned that, while Indonesia acknowledges the need for domestic economic reform, it will proceed on Indonesia's terms, "with or without the IMF."

The IMF's slap to Indonesia sent shocks throughout the region. Singapore Prime Minister Goh Chok Tong told a group of visiting Mexican journalists during the first week of March that the IMF must draw up new rules to prevent large and destabilizing transfers of currency. He warned that failure to end the currency turmoil, and a perception of inadequate help from the West, could lead countries forced to "swallow bitter medicine" prescribed by the IMF to make a "reassessment." Singapore's leading daily, the *Straits Times* on March 10, quoted Philippines President Fidel Ramos's warning to the IMF "to restrain from pushing already battered economies to the depths of depression."

In Malaysia, Deputy Prime Minister and Finance Minister Anwar Ibrahim dispatched an urgent message to the IMF and the finance ministers of the Group of Seven (G-7) countries, stressing the complexities of the Indonesian situation and the potential for "contagion," and urging accelerated disbursement of funding. The response from the G-7, he reported, was "a standard argument—continue to liberalize, open up our economy . . . implement the IMF program." A senior economic adviser to the Malaysian government, Daim Zainuddin, challenged the IMF on the issue of "moral hazard." "Why is it that everybody does not criticize when there is a bailout of a foreign bank? The lenders were reckless and careless, the borrowers were reckless and careless. At the end of the day, they know the IMF is going to bail them out, so they continue to lend, knowing . . . these are going to be bad loans. . . . This is moral hazard, isn't it? When it comes to local banks, the foreigners tell us, 'Don't bail out.' "

In Australia, the IMF's treatment of Indonesia has triggered the most unprecedented crisis, pitting the Treasury against the Reserve Bank, and provoking extraordinarily strong statements in support of Indonesia and against the IMF from the Prime Minister and Foreign Minister, leading to the latter's emergency trip to Washington on March 19 (see p. 8).

No sign of recovery

The more than week-long stalemate between Indonesia and the IMF only began to be resolved with Japanese Prime Minister Ryutaro Hashimoto's two-day trip to Jakarta on March 14-15. The seriousness of the IMF's blunder in dealing with Indonesia is evidenced by the number of senior officials present in Jakarta through the weekend, including U.S. Treasury official David Lipton; Japan's Deputy Finance Minister for International Affairs Eisuke Sakakibara, who called for a New Bretton Woods on March 2; and Director General of the German Finance Ministry Klaus Regling. The watchword coming out of the weekend sessions was the need for "flexibility," especially related to IMF demands for dismantling monopolies affecting pricing and distribution of essential foodstuffs and medicines.

Asia-Pacific Director Hubert Neiss arrived for meetings in Jakarta on March 18, to be led from the Indonesian side by Ginandjar Kartasasmita and Radius Prawiro, who chairs the committee tasked to settle the prickly problem of the $73 billion in private sector foreign debt, which has been under de facto moratorium since January. A series of five reviews were agreed to, covering monetary policy aimed at stabilizing the rupiah; the banking sector; fiscal policy related to the budget, which has twice been blown out by the combined effect of the collapse of the currency and the collapse in revenues due to the fall of the world price of oil; structural reform; and, to be addressed for the first time with IMF involvement, the private sector foreign debt.

Vice President Habibie flew to Japan to meet with Prime Minister Hashimoto and a number of other ministers, political leaders, and Indonesia's largest foreign creditors on March 18-20. Early reports quoted Habibie reiterating that Indonesia wanted to carry out the IMF reforms, as long as they do not conflict with Indonesia's Constitution. He indicated there had been some discussion on re-pegging the rupiah to a basket of currencies, including the dollar, yen, and euro. From Jakarta, Bank Indonesia (the central bank) Governor Sjahril Sabirin told the Hong Kong daily the *South China Morning Post* on March 19, that Jakarta is still looking for alternatives to a currency board scheme, including a return to setting trading bands on the rupiah.

Indonesia is not alone in this crisis. Singapore's big four banks were downgraded from "stable" to "negative" by Moody's Investors Service on March 5, due to the decline in the Singapore dollar and loan exposure in Indonesia, Malaysia, and Thailand. On March 19, Singapore Deputy Prime Minister Lee Hsien Loong informed Parliament that the six major banks recorded a 30% decline in profits for 1997, and is making provisions for $1.21 billion in nonperforming loans to Indonesia, South Korea, Malaysia, Thailand, and the Philippines. Singapore has also announced a downward revision in the expected growth rate to 2.5-4.5%, from 7% in 1997.

The downgrade of Singapore's banks was, according to Moody's, keyed to "increasing difficulties in the Malaysian

domestic economy," reflected in reports on March 6 of some 1.8 billion ringgit ($454 million) in losses by the banking arm of Malaysia's largest private sector firm, Sime Darby, and the urgent need for a 750 million ringgit ($189 million) capital injection into the second-largest banking group, Bank Bumiputra. The following week, Deputy Prime Minister and Finance Minister Anwar Ibrahim hinted that the government was prepared to allow weak banks to close, after an eleventh-hour bailout of Sime Bank was negotiated with the second-largest bank, Rashid Hussain Berhad, which saved the state pension fund from losing its 30% stake in Sime Bank, valued at 750 million ringgit ($190 million), a loss that would have bankrupted the fund. On March 15, Anwar Ibrahim told a conference of 800 builders and developers that the country's growth projections would have to be revised downward for the second time from the current 4-5% to what analysts think will be in the range of 2% due to falling revenues. He warned that more projects would be postponed, while priority is given to poverty eradication and public health.

IMF's imperial tactics

As the conflict between the IMF and Indonesia was coming to a head in early March, there was a clear and dangerous ploy by the IMF to play Indonesia against its neighbor, Thailand. On March 4, the IMF released the next tranche of funds for Thailand, which was followed by pledges valued at $2 billion in export credits and loans from Japan and a further $1 billion in export credits from the Asian Development Bank, while U.S. Treasury Secretary Rubin indicated the United States would support additional funds for Thailand, if needed.

The day before, March 3, the National Economic and Social Development Board (NESDB) issued its latest growth projections, warning that the Thai economy would experience negative growth of 6-6.5% through the third quarter 1998, with a slight chance of an uptick at the end of the year. The same day, data were released showing a 50% collapse in Thai imports, year on year, from January 1997 to 1998, and the possibility that non-performing loans held by Thai banks would rise to 40% this year.

During his high-profile, and successful, trip to Washington on March 11-17, Prime Minister Chuan Leekpai put the lie to any idea of a "quick recovery" in Southeast Asia. In an interview with the *Washington Post*'s Bangkok correspondent, reported on March 12, Chuan said of the crisis, "Quite frankly, no, it has not passed yet. We can compare it to a bomb. . . . But now we have the task of cleaning up the debris. . . . That task will take a bit more time."

As special guest at a dinner hosted by the New York Council on Foreign Relations on March 11, Chuan told an audience of 300: "We need all members of the international community and especially members of the G-7/8, who represent most of the world economic might, to look long and hard at the existing global system so that it can be reformed and rejuvenated where necessary to ensure that the new growth cycle will be equitable and sustained."

At that dinner, Prime Minster Chuan shook the hand of Soros, who, for political and financial reasons, led the most vicious and sustained attacks on the baht in 1997. On March 13, a deal was announced that Soros would participate in a spectacular $650 million contract to bail out and impose foreign directors on the bankrupt Nakornthai Strip Mill, a cold-rolled steel mini-mill, one of the five most technologically advanced of its kind in the world, and the only one of its kind in Southeast Asia.

Chuan's trip to the United States gave the Clinton administration an opportunity to renew strong relations with this long-standing ally, and to convey clearly and concretely a U.S. commitment to being part of the solution of the Asian crisis, by arranging a total of $1.7 billion in assistance, the bulk of it trade-related financing. But the trip was cut short by a no-confidence measure introduced by Chuan's opposition in Bangkok.

Spelled out by former Prime Minister Chavalit Yongchaiyudh, the censure motion featured two elements: blaming the 1993 government of Chuan Leekpai and his Finance Minister, then and now, Tarrin Nimmanahaeminda, for creating the "bubble economy" in Thailand through creation of the Bangkok International Banking Facility, the offshore banking facility, and, second, for associating with Soros. Chuan rebutted the charges, accusing the Chavalit government of wasting foreign reserves trying to bail out the bankrupt finance sector and in a futile effort to defend the baht against Soros's predatory speculation.

Chuan Leekpai is expected to survive the censure motion handily, but the reputation of Soros and the IMF is suffering badly in the popular Thai press.

More alarming are signs that Soros is taking the first steps to do to Southeast Asia what he has done to Ibero-America in the wake of the currency and debt crises there since 1992, that is, to buy up lock, stock, and barrel productive capacity, precious raw materials, and land. The same week that Soros bought his way into a piece of the Nakornthai Strip Mill, reports surfaced that his Next Century Partners has been authorized to invest $45 million in the Philippines. He also purchased another 75,000 hectares in Argentina, making him far and away the biggest landowner in the country, and expanding his wheat and beef empire. On March 18, the *Wall Street Journal* carried a news brief, reporting that South Korea is scrapping most restrictions on property ownership by foreigners. It will now be possible to buy land as an investment only, not necessarily for business. Thailand is also under tremendous pressure by the IMF to abandon restrictions against foreign land ownership.

Should those be lifted, it would not take any stretch of the imagination to find drug legalizer Soros matching his holdings in Bolivian coca production to real estate in the "growth" areas of Southeast Asia's Golden Triangle.