Indonesia

Deadly consequences of taking IMF advice

by Gail G. Billington

Indonesian President B.J. Habibie can only succeed in rebuilding his devastated nation, if he rejects the monetarist dogmas of the International Monetary Fund.

May 1997: The World Bank issues a report, *Indonesia: Sustaining High Growth With Equity,* praising the country, and by implication, the Suharto government, as the best example of "sustainable growth" through "outward-oriented, private-sector driven, labor-absorbing growth."

May 1998: Indonesia is about to sit down with a team of International Monetary Fund (IMF) technocrats, to lay out the terms of its *fourth* bailout in less than seven months, as the economy faces 20% or greater contraction this year. President Suharto has been "resigned" from office, on the heels of the worst riots in the capital, Jakarta, in 30 years, in which 500 people were killed and a 75-block area of the city left in flames. The private sector was been in de facto default on $74 billion in debt for months. Unemployment could reach 20 million, more than 20% of the 90 million-person labor force. Trade has come to a halt. Inflation is running at 50%; interest rates are running at 60%, and the currency, the rupiah, has bottomed out, 74-80% lower than it was in July 1997.

IMF IV is likely to carry a higher price tag than the $43 billion of the previous three bailouts. But who will pay is anyone's guess—the U.S. Congress surely isn't ready to ante up.

Hit and run victims

In February 1997, *EIR* published two reports that forewarned of *the crisis that had to happen* in Southeast Asia, and that go to the heart of what urgent action is needed today. First, was the presentation and subsequent publication of a call for ending the International Monetary Fund's reign of terror over national economies, and replacing it with a New Bretton Woods system, committed to a return to periodically fixed exchange rates, an end to speculation, preferential credits for rebuilding physical economy at the expense of the almighty "markets," and a stated commitment to accomplishing the most ambitious reconstruction program in history: the rail-vectored Eurasian Land-Bridge.

In accordance with that perspective, *EIR*'s Feb. 7, 1997 issue featured a report, entitled "The Return to the Machine-Tool Principle," which not only outlined the method by which that global reconstruction could and must be accomplished, but also stressed that the directionality of the world economy—hell-bent on "globalization"—is diametrically opposite to realizing that objective.

The "tiger economies" of Southeast Asia emerged over 1997-98 as crucial, if painful, proof that it is this irreconcilable conflict in the global monetary system, between speculative looting and productive economy, that is the *cause* of the current, *systemic* crisis. Despite remarkable achievements over the two generations since World War II, coupled with a process of decolonization, still Southeast Asia, in the last decade and a half, was taken over by a new, more insidious colonization, based on the growth of the purely speculative role of capital in dictating national economic policies. "Hot money," real estate speculation, offshore banking, casinos, derivatives, and currency swaps competed with and edged out spectacularly ambitious infrastructure projects, including dams, bridges, nuclear power, and increasing self-sufficiency in capital goods production.

When sharks, like George Soros and the Tiger Fund, caught the scent of vulnerability, the feeding frenzy against the currencies and stock markets of the region began, first, in February 1997, when Soros staged a hit-and-run attack on Thailand, followed in May, by the concerted assault, first, on Thailand, then spreading to all of East Asia over the summer, and leading into the IMF bailouts of Thailand, South Korea, and Indonesia, with a price tag of more than $100 billion.

As *EIR* warned, when the IMF stepped in, the first things it moved to shut down were precisely those projects—the bridges, dams, roads, power plants—which were premised on building physical, productive capacity, as the cornerstone of securing the general welfare of the nation, and its future ability to build out of a crisis.

'Not a roaring success'

Indonesia enjoys the questionable distinction of having been put through three (going on four) IMF "bailouts" since October 1997. Rather than blaming a clear pattern of gross miscalculation on President Suharto, who oversaw the transformation of the economy over 30 years, it were better to ask whether the IMF, which loves to refer to its fiscal and monetary austerity reforms as "medicine," ever got the diagnosis right. Without question, the G-7 and the establishment press were gratefully relieved to a have a scapegoat, in the person of President Suharto (and his family), to blame for their own willful blindness in rooting out the source of the "Asian contagion": Failure is embedded in the underlying premises of *any* IMF program.

Now, the world is being told that commitment to "political reform" goes hand in hand with "economic reform." Often cited as examples are the elections of "democratic" governments in Thailand and South Korea, while under the tutelage of the IMF in 1997. However, judging by the imminent threat of widespread demonstrations, if not riots, against IMF austerity in those countries, it's a fair wager that Prime Minister Chuan Leekpai of Thailand and President Kim Dae-jung of South Korea would second the message President Suharto delivered to President Clinton in February: "The current IMF program has not been a roaring success. . . . Where is the alternative?"

Documentation

LaRouche on Indonesia

Lyndon LaRouche has repeatedly warned of the likely collapse and disintegration of Indonesia, the world's fourth most populous country, with catastrophic worldwide effects. Here are excerpts from some of his statements:

"Return to the Machine-Tool Principle," *EIR,* Feb. 7, 1997:

The term "Asian Tigers" is often applied carelessly to three axiomatically distinct species of economies in east Asia: a) The post-1949 agro-industrial economies of Japan, South Korea, and Taiwan, which are models for what could, and must be done throughout Asia generally; b) Hongkong and Singapore, those Venice-like parasites of the Orient, whose prosperity is, in large degree, a by-product of the flow of opium from the high mountain ("Golden Triangle") regions on Thailand's and China's borders; c) The presently imperilled, superficial, mayfly exuberance of Southeast Asia's Thailand, Malaysia, and Indonesia. . . .

Do not classify Asia's blowfish among its tigers: Put to one side, the dangerously silly Mont Pelerin Society's choice of monetarist paradise, the non-comparable cases of the Venice-style, "hot-money" *entrepôts* of Asia, Hongkong and Singapore. Stick to the relevant cases; contrast the vast superiority of the real "Asian Tigers," of North Asia, with the "Potemkin Village" facade of prosperity, as featured in the Southeast Asia region: the Philippines, Vietnam, Kampuchea, Laos, Malaysia, Thailand, Indonesia, et al. . . .

There is a way in which the patriotic aims of Indonesia's Dr. Habibie could be realized, and the other states of Southeast Asia rescued, similarly, from their recently apparent slide toward looming catastrophe; but, that success depends absolutely upon choosing a different route than the blending of "Asia hot-money" trafficking and the lunatic sort of monetarist dogmas which have been fostered by the doomed, presently reigning international monetary and financial institutions.

From "EIR Talks" radio interview, Aug. 12, 1997:

The Southeast Asian Tigers are really no more. We call them the Southeast Asian Cheshire cats, because all that's left is the smile, and that's turning into a frown. And the next moment, the smile is going to pop away, and never come back again, at least not in its present form. . . .

We are not dealing with a cyclical crisis. We are not dealing with a pure stock market, or financial market crisis. We are dealing with a systemic crisis of the entire system. As I speak, unless something happened in the last several hours that I don't know about, I can say that no government, no central banking system, no International Monetary Fund, or any combination of institutions on this planet presently has *any plan which would be adequate for what is hitting the world now.*

From "EIR Talks" radio interview, Feb. 18, 1998:

EIR: Indonesia is clearly in a terrible crisis. What's happening there?

LaRouche: First of all, if you look at it, and you look at it with some knowledge of history, particularly those of you who were conscious adults, say, back in 1965, you will see a pattern there which reminds you of the crisis involved in the coups, the two coups, actually, or three, if you want to count it—fine-tune counting—which resulted in the overthrow of former President Sukarno, who was one [of the founders], together with Tito and also our friend Nasser from Egypt, and so forth, of what was known as the Non-Aligned Movement. This produced a new phase of history, in which the scars of that coup continued.

Now, the outstanding characteristic of those coups was a mass slaughter of persons of Chinese extraction, who were largely the small business merchant class in Indonesia, the dominant feature of it, the most aggressive and dominant feature. The same thing is happening now. So, we're on the 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