Southeast Asia Leaving IMF Restraints

by Michael Billington

Over the past weeks, several prominent Southeast Asian economists, business leaders, and government officials have expressed to *EIR* a new sense of optimism throughout the region. The Philippines, facing a severe social and economic crisis, is an exception. But even Indonesia—a country devastated by the 1997-98 speculative assault known as the "Asian crisis," and wracked by separatist movements and nascent terrorist movements energized by economic crisis—even this troubled nation is beginning to show a new hope and much feistier international relations. One major cause for this is the impact of the emergence of China as an economic engine for the region, with massive domestic infrastructure projects transforming the internal map and social structure, while Chinese engineers are increasingly engaging in development projects across Southeast Asia.

There is some denial amongst these Southeast Asian leaders of the scope of the ongoing collapse of dollar-based financial structures. But at the center of their new orientation is the recognition that if Southeast Asia is to recover, and defend against more attacks on its currencies, it must wean itself both from dependence on the declining U.S. import markets, and the "conditionalities" of the International Monetary Fund (IMF).

Thailand To 'Escape IMF Framework'

This new paradigm is increasingly making the IMF *persona non grata* in the region. Nowhere is this more apparent than in Thailand, where the government of Prime Minister Thaksin Shinawatra has decided to pay off the remaining debt owed to the IMF from the 1998 bailout package—18 months earlier than scheduled—and to revise the 11 "slavery laws" implemented as conditionalities in exchange for IMF loans in 1997-98. It has become clear in Thailand, as elsewhere, that Malaysian Prime Minister Dr. Mahathir bin Mohamad was absolutely right in 1998, not only in condemning the speculative looting by the hedge funds of George Soros and others, but also in rejecting the IMF medicine as worse than the disease.

Thaksin announced on his last weekly radio show of the year, on Dec. 31, 2002, that Thailand would pay off the remaining $4.8 billion in IMF debt using funds from the nation's $38 billion reserve. He told the nation that the payoff was a "symbolic liberation" from the IMF, which would "raise the dignity of Thailand and the Thai people in the international community." A week later, a commission set up by the Prime Minister last year to examine the IMF-dictated laws, announced: "We all agreed that all 11 economic laws should be revised in order to escape from the IMF framework." Prof. Kitti Limsakul, a member of the commission, said that the laws restricting bankruptcy protection, and liberalizing the foreign takeover of Thai industries and banks, were the most urgently in need of revision.

Weng Tochirakarn, the chairman of Thailand's Democratic Movement Group, said in his capacity as a member of the commission: "At the time, the Thai government had to comply with the IMF's requirements. . . . We propose the revision of the so-called 'slavery laws' because we want to regain the country's economic sovereignty, the Thai people's human rights, and fair business operations."

Thailand is now looking to great infrastructure projects, similar in character (if not in scale) with the Chinese projects. These include: major oil and gas development in the Gulf of Thailand, in partnership with Malaysia; the multi-faceted Greater Mekong Subregion (GMS) projects; road and rail projects aimed at linking all the nations of South and Southeast Asia through Thailand; and making the long-stalled Kra Canal, linking the Andaman Sea and the Gulf of Thailand, finally a reality. On Jan. 21, Deputy Prime Minister Chavalit Yongchaiyudh, the leading sponsor of the Kra Canal, signed a contract with a Hongkong based company to conduct a full feasibility study for the project: construction of the main canal across the Kra Isthmus, eastern and western harbors, a monorail, an east-west highway, an oil refinery, water supply and management, and electricity systems.

Asian Bonds

The economies of Southeast Asia have never fully recovered from the devastating speculative assault of 1997-98. The problem confronting them today, in planning for "Chinese-style" development projects (once known in the region as "American-style" development projects!), is where to obtain the capital investments. While they are open to foreign investments, both government and private, they are no longer willing to accept the conditionalities and breach of sovereignty demanded by the international financial institutions. They know that Western private capital, in the current global crisis, is interested only in short-term gains, not in long-term, large-scale investments in infrastructure.

Efforts to create an "Asian Monetary Fund" after the 1997-98 crisis—credit independent of the Western-dominated international financial institutions—were crushed under U.S. opposition. But there is now a move afoot to create an Asian Bond market, first proposed by Prime Minister Thaksin, and aimed at pooling the reserves of the region for defense against new speculative attacks, and more importantly, to finance regional infrastructure development projects.

In early January, bilateral meetings between Dr. Mahathir and Japanese Finance Minister Masajuro Shiokawa, and between Thaksin and Singapore's Prime Minister Goh Chok Tong, concluded with agreements that formal discussions for the launching of the Asian Bond program will begin in June at the meeting of the Asia Cooperation Dialogue. Initial plans are for 1% of the reserves of the participants—hopefully all 13 of the Association of Southeast Asian Nations, plus Japan, China, and South Korea, known as ASEAN+3—to be turned into bonds for these purposes, providing an initial investment of $7-8 billion. Such a program, even if it leads to a broader Asian Monetary Fund, will not be able to counter the full impact of the dollar collapse now threatening the world economy. But it could be a crucial building block for the new global system required to replace the bankrupt IMF order—the New Bretton Woods proposed by *EIR*'s Founding Editor Lyndon LaRouche.

Indonesia, too, is expressing the new optimism. It was by far the nation most devastated by the 1997-98 financial tsunami, as it watched its currency, the rupiah, collapse by three-quarters. One result: Every dollar of foreign debt required nearly four times more domestic currency to repay than before the collapse. Despite huge debt payments since 1998—in sum, far more in 1996 rupiahs than the total debt owed at that time—indebtedness is still rising, with payments acccounted at only one-fourth their former real value.

This hits industries such as the power sector in a similar manner. To appear "profitable" to foreign investors, the national power company would have to increase the price charged to Indonesians fourfold, to keep up with "world market prices." This has led several former governments, and now the current one of President Megawati Sukarnoputri, to attempt to reduce national price subsidies for fuel and electricity, under intense pressure from the IMF. Similar IMF-demanded measures by former President Suharto led to mass riots, and subsequently his downfall. Thus, when demonstrations against President Megawati's price hikes swept the country in January, the government chose to step back, reducing the price increases to a fraction of that demanded by the IMF, and offering discounts on electricity to business. This retreat from IMF orthodoxy came on the same day the nation's leading donors—including the IMF, the World Bank, and the Asian Development Bank—were gathering in Bali to determine their loan package for 2003.

Even more surprising, given its subservience to international creditors since the 1997-98 crisis, is that Indonesia, like Thailand, has declared its intention to pull out from IMF tutelage. During 2002, a few outspoken economists—including State Minister for National Development Planning Kwik Kian Gie—and a few political leaders, including Speaker of the Parliament Amien Rais, called for leaving the IMF, saying its policies were keeping the country in a poverty and subservience. The government, however, while not always fully implementing IMF demands, has insisted on continuing its program. But on Jan. 14, the Coordinating Ministry for Economic Affairs announced that the nation was preparing an "exit strategy from the IMF" for the end of 2003.

And yet the donor institutions meeting in Bali appear willing to sustain the lending requested by Indonesia. This should be no surprise, when considered in the light of Argentina's recent refusal to pay debts due to the IMF and World Bank, without an agreement to refinance all outstanding debts—and the IMF's capitulation, effectively demonstrating that *it* is the actual bankrupt. Last year, Indonesia used a similar kind of "debt weapon," simply telling the donors that it could pay neither principle nor interest; it was effectively granted a debt moratorium for the past year.

The Coordinating Ministry explained why Indonesia was planning to leave the IMF, while emphasizing new investment in "vital infrastructure": "These priorities are based on the understanding that despite macroeconomic improvements and monetary stability in 2001 and 2002, the real sector has not realized a tangible benefit as of yet." Indonesia's Ambassador to the United States, Soemadi D.M. Brotodiningrat, addressed the USINDO Society in Washington on Jan. 16, in what was appreciatively described by a former U.S. diplomat as a "most undiplomatic" speech. In their precarious economic position, Indonesian officials have generally spoken cautiously about the United States and the IMF in public. But besides stating directly that any U.S. unilateral action against Iraq would be taken extremely negatively by Indonesia, and warning against the hostile attitude expressed in U.S. visa restrictions and travel advisories against Indonesia and Indonesians, the Ambassador challenged American and IMF economic policies.

President George Bush's offer of bilateral "Free Trade Agreements" with ASEAN nations was worth consideration, he said, but the United States would first have to lift its non-tariff barriers, on shrimp, tuna and steel in particular. Repeated demands for privatization of Indonesia's state-sector industries were not welcome, since the profitable, well-run industries should remain state-owned, and the less productive industries couldn't be sold for the give-away prices being offered.

This new assertiveness reflects a recognition that the internatonal economic system is in crisis, but also that Indonesia has taken dramatic measures to solve social instability. The government has carefully and effectively dealt with the separatist and ethnic conflicts that re-emerged with 1998's economic hardships, in Aceh, Papua, and the Moluccas, open targets for foreign manipulation and subversion. The nation's sovereignty was put in danger by the terror bombing of a disco, popular with tourists, in Bali on Oct. 12, 2002, and by the fact that the West portrayed it as proof that Indonesia was a playground for al-Qaeda. "Pre-emptive strike" in Indonesia was discussed around the Bush Administration, and openly proclaimed by its "deputy sheriff," Australian Prime Minister John Howard. But the Indonesian police, in rounding up the suspects in the Bali case, have demonstrated that the terrorist apparatus has deep roots in Indonesian history, and only incidental connections to international networks. When less threatened by destabilization, the government can act more directly in the interest of the general welfare of its population.

Interview: Sarasin Viraphol

'China's Emergence Brings Forth Optimism'

Dr. Sarasin Viraphol is Executive Vice President of the Charoen Pokphand Group Co., Ltd., Bangkok, the largest agribusiness group in Thailand, and one of the largest foreign investors in China. Dr. Sarasin, who has a PhD in History and East Asian Languages from Harvard, was a Professor at Chulalongkorn University before joining the Ministry of Foreign Affairs, where he served as Director of the Department of the Americas and Pacific, and Deputy Permanent Secretary. EIR *correspondent Michael Billington spoke with Dr. Sarasin on Jan. 15.*

EIR: I would like to focus on some of your work in China and the Greater Mekong Subregion (GMS) development programs.
Dr. Sarasin: I have to tell you, that is really incantations. Really we are looking into the future.

EIR: Yes, I know, but there is a new wave of optimism, I sense, throughout the region.
Dr. Sarasin: There are new opportunities emerging, and that's probably the reason for the general optimism.

EIR: At the November Phnom Penh meeting of the ASEAN+3, there was included a meeting of the GMS, at which they laid out quite optimistic programs for water transport, as well as dams, water control and power generation, and also road and rail programs. What is your sense of how much that will actually move forward?
Dr. Sarasin: Well, you know, all of this has been talked about for much of the past decade or so, since the Asian Development Bank (ADB) initiated a series of studies on the GMS. And after more than ten years, I guess, there is a consensus emerging that this is the basis for cooperation among the countries that are on peninsular Southeast Asia, where the GMS is geographically focused, and which, of course, includes parts of China.

I guess for the newcomers of ASEAN—as in Indochina, particularly Vietnam, Cambodia, but particularly Vietnam—I would say, I think there seems to be a lot more enthusiasm for this concept of regional cooperation, because they would directly benefit from anything that would open up their territories for development, infrastructure and other things. The original six members of ASEAN share the enthusiasm, but they may not show it as much as the newcomers, including Burma [Myanmar].

Thailand, on the other hand, is probably the most prepared to push for the GMS concept, but Thailand also has other things in mind, other priorities in its development. So GMS is readily endorsed, but perhaps it is not as urgent [for Thailand], as it is for some of the other countries.

Understand that what I am saying here is, that other things need to be taken into account. Of course, the Asian Development Bank, being an international institution, may have all kinds of good ideas, genuine ideas for subregional cooperation. That is their mandate, but at the same time, ADB is a multinational institution with its own set-up and own limitations, and other things. ADB cannot speak for all of the countries in the GMS. It can promote the idea. It can help, but it cannot be in the driver's seat, if you know what I am saying.

EIR: Are you concerned that it is trying to be in the driver's seat?
Dr. Sarasin: ADB would like to be unlimited in its status as a multilateral financial organization. It can come up with money, financial support for studies, and it can show the way. It can push. It can endorse. At the same time, the countries of the GMS have to be in the driver's seat. We *have* to be the ones to decide how fast, or how slowly we want to proceed with our regional cooperation.

EIR: Let me ask you about the tremendous development last week in China, with the first trip of the magnetic levitation train in Shanghai. This immediately brought to my mind, and to others that I talk to, that Thailand is at the hub of the Asian rail networks, both east-west and north-south, and would be a place where high-speed rail, and, perhaps, even the maglev, would be advantageous.
Dr. Sarasin: I think the Germans would like it very much! . . . At the moment, the Germans and the Chinese are talking about bringing the maglev to other parts of China. They are not talking about doing anything for Thailand. But, in terms of the idea of "linking up," or improving on the rail services of continental Southeast Asia, definitely since Malaysian Prime Minister Dr. Mahathir proposed this—some eight or nine years ago at the ASEAN summit, in Bangkok, I believe, under the administration of Prime Minister Barnhan—that idea is on the table, and, of course, the Singaporians have recently talked about that, too. But, there has not