EIR Economics

IMF ghouls descend on China, as Asian markets lead crash

by Kathy Wolfe

Some 12,000 international bankers, led by Federal Reserve Board Chairman Alan Greenspan, Bank of England Gov. Eddie George, and other followers of nihilist free-marketeer Ayn Rand, are flying to Hongkong at this writing for the Sept. 23-25 International Monetary Fund-World Bank Annual Meeting, the first ever held in China. In addition to worries over the survival of the bankrupt financial system, it promises to be a brawl over whether the people of Asia have the right to an economic, and human, future.

Going into the conclave, financial markets have been crashing across the Far East. The industrial economies of Japan and South Korea joined the paper tigers of Thailand, Indonesia, and the rest of Southeast Asia in the barrel on Sept. 12, as the Tokyo and Seoul currency and stock markets collapsed to their lowest levels in years. This followed reports that Japan's Gross Domestic Product collapsed by 2.9% in the second quarter, an 11.2% annual rate, implying the physical economy is faring far worse.

"IMF people are saying in advance that it is time for shock therapy to come to Asia," a Japanese Finance Ministry source told *EIR* on Sept. 16, referring to the International Monetary Fund program which decimated industry and employment in Russia, but which has been resisted in Asia until this year. The "implied threat," he said, is that "countries that disagree" will be subject to further speculative attack by George Soros and friends on their currencies and banking systems.

In response to headlines about the "Asian crisis," however, *EIR* Founding Editor Lyndon H. LaRouche had a blunt comment on Sept. 13. "There's no earthquake in Asia," he said. "A worldwide earthquake, a seismic effect, has *erupted* in Asia." Since the IMF, the Federal Reserve, the Bank of England, and the major Western banking systems are hopelessly bankrupt, LaRouche said, "everybody is trying to defend their position." While the IMF demands Asian spending cuts, speculators around the globe are pulling funds out of Asia, to prop up collapsing bubbles in London, New York, and so on. "There is a shortage of ratio of monetary assets to size of financial turnover, globally, such that the worldwide system is about to blow," he said.

The philosophy of Greenspan and his IMF crew is a remarkable plagiarism of Rand in her *Atlas Shrugged,* in which entire industries, railroads, and cities are shut down—to support a "hard dollar." Greenspan and the IMF crowd "do not seem to care what happens after their program is put in place," the Japanese official said. "I've never heard of Ayn Rand, but I think of this as a 'scorched-earth' policy."

IMF demands upon China

While the IMF will be making demands upon every Asian nation, this will be the first time that the 1.5 billion people of China are put directly under the IMF microscope in a public forum, an Asian banker told *EIR* on Sept. 16. IMF demands on China will be "as big a topic" at the Hongkong IMF confab, as the Southeast Asian currency crash, he said. China's Premier Li Peng, who will head up a large delegation, will deliver the keynote speech.

The IMF and World Bank have scheduled a full day of seminars on China. In a recent statement, the IMF's executive directors demanded that China "speed up" reform of state industry, show "greater budget transparency," levy more income taxes and value-added taxes, and stop tax breaks for foreign companies—à la the policies of Greenspan and House Speaker Newt Gingrich (R-Ga.)—all "to strengthen China's fiscal position."

The seminars will discuss the World Bank's recent highly critical report on China's state industries, financial system, agriculture, health care, pension system, and "economic integration with the world," i.e., the World Bank's demand for "globalization" genocide.

The World Bank report was particularly harsh against China's state-owned enterprises (SOEs), and demanded that over 300,000 such companies be shut down outright. These include huge chunks of China's basic steel and other heavy industry, infrastructure, and power plants. The World Bank said these giant firms, which employ hundreds of millions of Chinese, are "technologically inefficient," full of "redundant" workers, and provide too many social services such as schools and hospitals. Allegedly as a result, 50% of SOEs lost money last year, the World Bank complains, while absorbing 75% of domestic bank credit inside China—thus "crowding out" China's new private companies from the credit markets.

The World Bank ghouls also threatened that China could suffer a banking crisis just like Japan or Thailand, unless chunks of SOEs are shut down. The report claims that 20% of the loans on the books of Chinese banks are "non-performing" (i.e., bad) loans to SOEs which are losing money, and can't make repayments. This has resulted in "state banks with negative net worth," that is, which are themselves bankrupt, the World Bank report insists.

Unless China shuts down the SOEs, it will soon end up like South Korea, William Overholt, director of Asia research for Bankers Trust, a firm quite close to Greenspan, said on Sept. 15. "Highly guided economies such as those of South Korea can suffer cascading bankruptcies of the big subsidized conglomerates, leading to a banking crisis," he said. China's state banks, he claimed, hold $250 billion in bad loans to SOEs, so the South Korean crisis is "an important warning signal because China is vulnerable to a much bigger crisis of that kind. If politicians are too soft on the state enterprises, they will drag the Chinese banking system down."

This entire approach is insane, the Asian banker told *EIR*. Most Chinese bank loans to state-sector industry were made under a non-market communist central banking system, in which credit is directed to certain industries by China's Five-Year Plans, and the banks simply disperse funds as directed by the government. Such loans have always been irregularly repaid, and were not realistically meant to be repaid. The idea that suddenly they would be viewed as "commercial borrowing" is absurd.

Chinese President Jiang Zemin's speech on Sept. 12 to China's 15th Party Congress in Beijing—widely reported in the British-run media as a call for IMF privatization—must be seen "in light of strong pressure from the IMF," the Asian banker said. "No one in China wants to end up like the Russians," he insisted, predicting "more talk than action" on privatization. "But Chinese leaders had to at least address the issue," he said.

Jiang called for "strategic adjustments of the position of the state-owned sector of the economy," and said that "enterprises will operate independently, according to the law, responsible for their own profits and losses." The British financial press has taken this with delight to mean that China will demand that SOEs must repay their loans, or else be shut down in bankruptcy. But, China's real intent remains to be seen.

Jiang also warned that China will clamp down on speculation and "strengthen the supervision and control of the financial institutions and markets, including the securities market, standardize and safeguard the financial order, and effectively guard against financial risks." He said that the policies of Vice Premier Zhu Rongji, who forced anti-speculation measures on China's stock exchanges last year and this year, will be continued.

Hara-kiri for the rest of Asia

The IMF also has its "hara-kiri list" for Japan, Korea, Indonesia, Thailand, and the rest of Asia. After Japan's Economic Planning Agency announced on Sept. 11 that second-quarter GDP collapsed at an 11.2% annual rate, its worst drop in 23 years, the Japanese yen and stock market took sharp nosedives. The yen slid down to 120 to the dollar, and the Nikkei stock average fell 1.73% to finish at 17,965.80, its lowest close since April 15.

Japan will be sharply attacked at the IMF meeting because of the collapse of the yen, one banker said, because it makes Japanese exports cheaper. In addition to this "damned if you do or damned if you don't" position, Japan will also be the major target of a new amendment proposed to the IMF Articles of Agreement, to give the IMF a specific mandate to demand "capital account liberalization to meet new challenges in global capital markets." Translated, this means that Japan will be ordered to further open its currency and banking systems to Anglo-American speculators, or else suffer more Soros-style currency warfare.

South Korean Finance Minister Kang Kyong-shik said on Sept. 9 that IMF demands for globalization must be met at all costs. "Korea should prepare for the global community by vitalizing market functions, establishing a strong foundation for future growth, and bringing its economic regulations and practices in line with international standards," he told an international conference in Seoul. "Intense competition brought about by the removal of barriers that impede access to the domestic market will eventually enhance the effectiveness of financial and labor markets, and enforce market discipline."

In Indonesia, on Sept. 16 Finance Minister Mar'ie Muhammad announced the year's worst IMF cuts yet: $13.22 billion worth of infrastructure projects will be put off until the currency collapse "subsides," and another $23 billion in projects put under "review." These include a $2 billion bridge linking Malaysia to Indonesia; two other major bridges; a $285 million rail and road terminal, and a $560 million telecommunications tower in Jakarta; two refineries; and 14 power plants.

The Thai currency, the baht, collapsed again on Sept. 15-16, because of a report in the *South China Morning Post* that the IMF will cancel its planned $20 billion bailout package, unless Thailand makes further draconian budget cuts.