Asia must slap on exchange controls

by Gail G. Billington

If ever there were good occasion for the governments of Southeast Asia to act on *EIR* Founding Editor Lyndon LaRouche's recommendation to slap on foreign exchange controls and re-regulate currency convertibility, the first three days of trading in 1998 should be motivation enough. The grim New Year's greeting delivered by nearly every head of state, including Thailand's King Bhumiphol, that the worst is yet to come in this new year, landed with a resonating thud.

It were better to admit now, rather than waste any more resources, that every International Monetary Fund (IMF) bailout agreement negotiated since the free float of the Thai baht on July 2 isn't worth the paper on which it is printed. The heavy toll that these economies have paid in the last six months to "restore market confidence," is revealed for what it was to start with, a "con game," based on assumptions about the globalized economy that were dead wrong from the start. Clinging to those assumptions now is clearly killing these economies and, soon enough, their people.

In the first days of trading, on Jan. 5-8, the five currencies of the founding members of the Association of Southeast Asian Nations (ASEAN) have broken through previous floors on three successive days. The hardest hit has been Indonesia's rupiah, which had already fallen some 56% in value since early July, and fell as much as 14-15% just in the morning of Jan. 7. Over the three days, the rupiah collapsed at least 17%; on Jan. 8, it collapsed more than 18% in one day. Only the example previously set by South Korea's won, when it broke through the then 10% trading ban on each of four successive days, dropping 10% in four minutes on the fourth day, compares with the hyperbolic rate of collapse suggested by the early January fall in the ASEAN currencies.

By the close of trading on Jan. 8, these principal currencies have fallen, compared to their July 1, 1997 standing as follows: Indonesian rupiah, 74.9%; Malaysian ringgit, 45.8%; Filipino peso, 41.4%; Thai baht, 52.1%; Singapore dollar, 16.25%.

Thailand, Indonesia: sovereignty vs. the IMF

As the first full week of January began, gaping fault lines have opened in the IMF bailout packages worked out with Thailand last July, and with Indonesia in late October and early November. Thai Prime Minister Chuan Leekpai announced that Finance Minister Tarrin Nimmanahaeminda will travel to Washington before the end of the month to re-open discussion of certain terms of Thailand's package with the IMF, specifically, the IMF demand that Thailand achieve a 1% budget surplus in the current fiscal year. Prime Minister Chuan told a meeting of lawyers and judges on Jan. 5, "The premise on which the terms were based have changed, and we will ask if the IMF has a plan to review it." Beyond the more than 50% depreciation of the baht and continuing collapse in the stock market, the government expects as much as a 100 billion baht ($2 billion) shortfall in revenue. No one in Bangkok was particularly surprised by the announcement, and no one will seriously question the sincerity with which the Thai government has sought to fulfill its obligations under the IMF arrangement, because nearly $4 billion, roughly 25%, has already been cut from the budget by the previous Chavalit, and now Chuan governments. An analyst with Standard and Poor's warned that "the IMF is being far too strict and risks causing a lingering and severe recession in Thailand."

Little more than 48 hours after the Thai announcement, Indonesia's President Suharto delivered a 55-minute budget address to the parliament, outlining the proposed 1998-99 budget. The most telling feature of the budget is that all calculations are premised on an exchange rate of 4,000 rupiah to the dollar, a rate that would have seemed appropriate at the time Indonesia worked out its program with the IMF in late October, when the rupiah was hovering around 3,600. But, as President Suharto delivered his speech, following a press briefing on the details of the budget by Finance Minister Mar'ie Muhammad, the rupiah was headed pell-mell toward 7,400, closing at 9,700 on Jan. 8, after brushing 10,000. The depreciation of the currency is one factor fuelling the 32% increase in spending in the budget, but a more telling figure is the penalty Indonesia will pay in debt service as a consequence of the fall of its currency. The Jan. 7 *International Herald Tribune* reported that foreign debt service costs will rise 57%, to 30.2 trillion rupiah, up from last year's 19.23 trillion rupiah, due to the currency's depreciation.

Western press and economic pundits, in reporting on the budget presentation, have shown a necrophiliac obsession with President Suharto's health, trying to foist blame for the further collapse of the rupiah on the lack of "sincerity" they think they detect in the budget, specifically, the failure to commit to achieving a 1% budget surplus, the decision not to end a fuel subsidy to a population whose financial holdings are worth more than 70% less than six months ago, and, as reported by an anonymous "senior IMF official" in the Jan. 7 *Washington Post,* "major reform measures that affect the [Presidential] family." When asked about the 1% budget surplus, Finance Minister Mar'ie Muhammad said it was

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only a "target." Such suspicions are fuelling concerns that future release of IMF funds to Indonesia may be stalled, in spite of the verbal commitments in Suharto's speech to meet all obligations, including payment of the "heavy burden" of foreign debt, "fully and on time." The next scheduled release of $3 billion is in mid-March, in the same time frame as Presidential elections, which are the subject of equally obsessive speculation about Indonesia's survival.

Philippines' 'graduation' delayed again

In the Philippines, the record decline of the peso to 45 to the dollar has led to yet another postponement of Manila's "graduation" from IMF supervision, after nearly 30 years of tutelage. Originally scheduled with no lack of verbal fanfare back in July, "graduation day" was shoved aside by the ricochet effect of the free float of the Thai baht on July 2, which, within one week, led to a one-day fall of the peso of 10%, and an emergency offer of $1 billion from the IMF to tide Manila over. The IMF is still "tiding" Manila over, according to Bangko Sentral ng Pilipinas (the central bank) Governor Gabriel Singson, who said on Jan. 6 that the IMF continues to insist that the government ram through deregulation of oil prices—a measure the Supreme Court has declared unconstitutional once already this year, and which has repeatedly provoked popular demonstrations that have brought traffic to a standstill across the country. Singson also said that the IMF still seeks "a small budget surplus or a small budget deficit," and even if and when Manila does graduate, Singson says Manila still has to run the gauntlet of "bloody negotiations" with the IMF on a $2 billion "precautionary arrangement," or standby credit, in case of another financial crisis.

Malaysia stands firm

Malaysia continues to stand its ground against turning to the IMF, for reasons articulated by Prime Minister Dr. Mahathir bin Mohamad once again in his New Year's message. To accept IMF conditionalities, he said, is to accept that those already impoverished by currency and stock market depreciation will be further punished; the IMF will demand the closure of banks, finance companies, and businesses, followed by foreign takeovers. "If this happens, we will lose our freedom to manage the country's economy and political freedom. . . . We must be willing to face challenges and be willing to sacrifice in defending our independence and dignity." Malaysia has attempted to address the current crisis by self-imposed austerity, including major cuts in large-scale infrastructure projects, substantial pay and benefit sacrifices by government functionaries, and, as in Thailand and Indonesia, mandatory consolidation of the financial sector.

In the wake of the latest collapse of currencies and stock markets in Southeast Asia, talk of the need for government intervention has picked up steam, including by some officials who have repeatedly rejected the idea of imposing foreign exchange or currency controls. In his budget speech, President Suharto said many things the IMF would wish to hear, including that Indonesia will maintain the free float of the rupiah, but the level of debate on controls has been intense in the closing weeks of 1997, and the rather sanguine response of Finance Minister Mar'ie Muhammad to the IMF demand for a budget surplus and the fuel subsidy are notable. In Malaysia, Deputy Prime Minister and Finance Minister Anwar Ibrahim has stated that the central bank, Bank Negara, reserves its option to intervene in the currency markets. In Thailand, the Cabinet meeting on Jan. 6 authorized new measures to curb currency speculation, by narrowing the time frame for repatriation of foreign funds by exporters and those holding foreign currency. The Singapore Monetary Authority has likewise stated it will act decisively against speculative attacks.

Save the people, not the markets

The most persuasive reason for governments to move now in concerted and collaborative fashion to re-regulate markets, is the horrific crisis looming in employment, in countries that had little margin for error to start with. The most vulnerable are the migrant laborers, both legal and illegal, whose cheaper, less-skilled labor subsidized these economies in the boom years. With the boom turned to bust, the announced repatriation of perhaps 3 million workers to their homelands signals an even more rapid rate of recession contagion spreading out of Southeast Asia into former Indochina and South Asia, in particular. Malaysia has announced plans to repatriate half of its 2 million legal migrant workers, the majority of whom are from Indonesia, but also Bangladesh, Thailand, and the Philippines. Thailand's labor minister announced on Jan. 6, his country's intent to repatriate 300-500,000 foreign laborers every year over the next three years, to free up workplaces for the 2 million Thais who will lose their jobs. This move will hit hardest those countries with the least economic resilience: Myanmar, Cambodia, Bangladesh, and India. South Korea is expected to repatriate nearly 270,000 guest workers, many of them Filipinos.

Presidential elections are scheduled in Indonesia and the Philippines in the early spring. Thailand was to hold elections, but has apparently delayed them indefinitely. Malaysia has local elections in March. Cambodia has a key UN-supervised election in May. The countries of Southeast Asia and their neighbors need no chiding from Western press or the IMF about the explosive mix such mass migrations of the unemployed, and unemployable under current economic conditions, mean. Dr. Mahathir, in his New Year's message, warned his countrymen, "The world will not show any sympathy and offer their hand to us because we are facing economic pressure. The laws of the jungle are rampant."