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Indonesia's Suharto: 'IMF is not a roaring success'

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In mid-February, even as the praises were being sung of the International Monetary Fund (IMF), at the annual meeting in Washington, D.C. of its sponsor, the official Bretton Woods Committee, the message from Indonesia, the world's fourth most populous country, came through loud and clear: The IMF is finished. Events in Indonesia, and other nations of East Asia make that obvious.

What now?

On Feb. 13, the same day as the Bretton Woods Committee met in Foggy Bottom (the State Department), Indonesian President Suharto delivered a message to President Clinton in a phone call placed from the White House to Jakarta. According to press accounts of the private conversation, Suharto conveyed, that "the current IMF program hasn't been a roaring success." Suharto asked Clinton, where is the alternative, "because what you've got here now isn't working"?

Indonesia may be farther down the path of disintegration under its $43 billion IMF bailout, than some other locations, but other IMF "bailout victims" are close behind—Thailand and South Korea, followed by Russia. Indonesia is at a standstill, particularly on its $74 billion in private corporate sector foreign debt, for which a de facto debt moratorium went into effect in January. On Feb. 19, IMF Managing Director Michel Camdessus was in Moscow, announcing details of a new, harsh IMF package for Russia, to last through 2000. In fact, there are trillions of dollars of unpayable financial claims of all kinds, in various locations all over the world, all coming due on an accelerating timetable. The financial system itself is blowing out, and the IMF is the problem, not the solution.

In the absence of coordinated emergency actions to replace the IMF system, a series of stop-gap initiatives are being discussed or implemented in East Asia. Efforts range from trying to jump-start trade through trade-insurance and finance agreements, to using regional currencies more, in trade and barter.

On the urgent question of stabilizing currencies, in particular the Indonesia rupiah, the hoary "currency board" idea—the old British colonial practice—is being promoted. This got a ringing endorsement from the *Wall Street Journal,* in its Feb. 19 lead editorial, "Rally Round the Rupiah." (See p. 6).

In April, finance ministers from 22 countries will meet to discuss global financial reform, which should be made to take up the task of a "New Bretton Woods" system. A pre-meeting of deputy finance ministers in Washington on Feb. 17 was addressed by U.S. Treasury Secretary Robert Rubin, who stated: "It is enormously important to the economic well-being of all of our nations that we work together to strengthen the architecture of the international financial system so that we can make the most of the opportunities and minimize the risks. . . . Among the topics that I expect will be an initial focus are: promoting efficient functioning of global markets; steps to increase disclosure and transparency; strengthening financial systems, both globally and in individual economies; national policy management to help avoid crises and deal with crises that occur; the role of the international community in financial crisis; and appropriate burden-sharing by the private sector, especially with respect to the so-called moral hazard problem, so that investors and creditors bear the full consequences of their decision."

In reality, trying to "manage" the financial crisis, by continuing any such IMF-era practices as floating exchange rates, guarantees disaster.

Scrap the floating exchange rate system

Japan's delegated executive to the IMF headquarters in Washington, Yukio Yoshimura, told an audience at the Wharton School of Business on Feb. 13, that the current floating

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exchange rate system followed by most Asian countries cannot be sustained "over the medium term."

In an interview with "EIR Talks" weekly radio broadcast, Lyndon H. LaRouche, Jr. situated this point: "We are now getting on the track toward a new eruption of the same financial crisis, but the last one was an earthquake of 4 on the Richter Scale. The next one will be about 6. We're going to have a new explosion in East Asia and Southeast Asia, very soon. . . . It's very probable that this will occur by the second half of March, if not earlier. . . .

". . .Two characteristics will prevail. Number one . . . that every reform introduced by the IMF or other institutions into East and Southeast Asia thus far, has been a failure, and that these reforms, so-called, must be immediately scrapped, or else the whole thing goes.

"The second feature of this, . . . [as] Japan officials have said, is that the underlying problem here, is not simply the economic factors and financial factors: The underlying problem here is the system which was introduced implicitly by President Nixon on Aug. 15-16, 1971, and actually established then at the Azores IMF conference, and later in 1975 at the Rambouillet . . . international monetary conference. This so-called floating exchange rate monetary system, which has been the new IMF system in effect since August of 1971, but, more specifically, since 1972; this system is the cause of the problem. So you have to scrap the whole system. . . .

"Why? Because the floating exchange rate system made it possible for parasites, looters, raiders, like this George Soros, people whose activities would have been illegal and jailable back before 1971; these pirates have been set up, largely out of London, set up, and are the people who have triggered the entire East Asia crisis, from the attacks on Myanmar and Thailand, which came in the spring of this past year, 1997, up to the present time. . . . This thing is not going to function, and it's these kinds of pirates, like Soros, who have to be put out of business. That means we have to return to the kind of monetary system of relatively fixed parities and limited convertibilities, capital controls and financial, import-export financial controls, which we had back in the 1950s, which continued, if it was in a somewhat modified form, up until 1970-71. . . .

"If we *don't* go back to that system, in other words, if we don't stop globalization, if we don't stop this rabid free trade policy, if we don't eliminate this open market, this free market kind of stuff, that is, the kind of thing that they pushed in North and South America, with the Common Market proposal, if we don't stop that, if we don't reverse the fast track, and go all the way back to the no-track, in a sense, of 1950 IMF rules, then we're not going to get out of the system.

"So, what's going to happen, therefore, is you're coming to a point, in March, April, or something like that, of this year, in which all of the games, including the games played by the Clinton administration of this financial system, are going to blow up. . . .

"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."

Too many holes to plug

Despite frantic stop-gap attempts, there are too many holes, to plug the financial disintegration. Asian central bank governors meeting in Bali, Indonesia in mid-February, renewed discussions of an Asian Monetary Fund, and made a special appeal for the Group of Seven meeting in London on Feb. 21 to address the Asian crisis. The week of Feb. 16, German Finance Minister Theo Waigel made a personal tour of the region ahead of the London G-7 meeting. He announced pledges of additional assistance to Thailand and Indonesia, which add up to little more than token sums. At a press conference in Indonesia, Waigel asserted, "There is no alternative to the IMF reform program." He added that President Suharto agreed to re-think adopting a currency board.

In South Korea, a potential detonator of world financial explosion exists in the form of derivatives losses, but the IMF still pursues bailouts, as usual. The leading Seoul daily *Hanguk Ilbo* reported in February that South Korean banks and brokerages lost up to $5 billion in 1997 on derivatives trading. SK Securities Group is now engaged in a major lawsuit with J.P. Morgan Bank over a $300 million derivatives bet that went bad. Derivatives losses in Asia are powerful enough to blast holes through the $100-plus trillions of derivatives contracts worldwide.

What is the IMF doing? On Feb. 18 the IMF announced an emergency disbursement of $2 billion for South Korea (part of bringing to $15.7 billion, the total advanced out of the $57 billion bailout package). Conditionalities include reducing GDP annual growth to under 1%, or negative; retaining 30% interest rates; and accepting 1 million layoffs. That same week, South Korea's currency, the won, dropped 11%. Some $10 billion in private sector foreign debt comes due at the end of March. Only $24 billion of private debt was rescheduled by early February, with another $100-140 billion in private foreign debt of the huge *chaebol* conglomerates outstanding.

But the biggest crisis could be Japan, in spite of its recent 30 trillion yen domestic bank bailout package. "Japan will be very vulnerable from now until end of March fiscal year," observed a senior European financial source. "The Feb. 20 government package of measures to deal with the banking problems will be a disappointment to the markets," when the "bailout" design is to push the Nikkei stock levels up above 18,000 where it closed a year ago March. In fact, there is pressure to push the index down below its present 16,700 levels.