source of credit, and the portion of these credits calculated in yen is relatively large, the devaluation of the yen also basically reduces the cost of our repaying its loans to us.

"Our reserves of $140 billion are the second largest in the world; we have surpluses both on current and capital account, and our reserves are gradually increasing. From the standpoint of the foreign currency market's supply and demand, there is hardly any reason to devalue the RMB. The main cost of not devaluing the RMB is in not being able to thereby stimulate our exports to the U.S., Europe, and Africa. But there are many other methods to accomplish that." According to Lin, an increase of eight percentage points, for example, in the export taxes reimbursed to Chinese producers, would have a corresponding stimulating effect on exports equivalent to devaluing the RMB by 16%.

"Summing up, the drawbacks of devaluation are large, the benefits small, and the advantages of devaluations can be obtained by other methods. Therefore, in terms of the present situation, it is not necessary to devalue the RMB and we should not give up the policy of not devaluing the RMB."

Defensive measures are not enough

There now appears to be a strong consensus among leading circles in China, on the policy of non-devaluation. While quite rational in and of themselves, the reasons given so far in public do not adequately take account of the reality of a world on the edge of the greatest financial cataclysm in modern history. Thus, the danger which China and the world's other nations really face today, is orders of magnitude more serious than anything which the so-called Asian crisis has produced so far.

LaRouche stressed that only "sudden, and very radical changes in international and national financial, monetary, and economic policies" could avert an otherwise impending, total disintegration of the world economy. In order to survive the crisis, LaRouche said, "the monetary and trade policies of China, the U.S.A., and other relevant nations, should be: 1) to establish, as early as possible, a new international monetary order, eliminating the present 'floating-exchange-rate' system, and establishing a set of adjustable, but approximately fixed parities, similar to the pre-1959 form of the Bretton Woods agreements; 2) to establish forms of regulation of international trade which are consistent with a return to a system of relatively fixed exchange-rates among leading currencies; 3) to orient financial, monetary, and trade policies to promoting long-term flows of development of basic economic infrastructure and advanced technologies of agriculture and industry from the already industrialized to the so-called developing nations."

China's current resolve, not to give in on the issue of the RMB, is a crucial factor holding the world back from the abyss. It is urgent now to push beyond mere defensive measures, to forge a strategic alliance for radical reform of the world financial and economic order.

IMF package is no solution for Ukraine

by Konstantin George

An agreement between the International Monetary Fund and Ukraine on July 31, if it sticks, may narrowly avert a state default on foreign debt obligations that had been projected for September. The IMF loan is a three-year Extended Fund Facility of $2.2 billion, to be paid out in quarterly tranches of up to $250 million. The agreement, which was reached with an IMF delegation in Kiev, Ukraine's capital, on the last day of its five-day stay, has to be ratified by the IMF Board. That decision, according to Ukraine's Economics Minister Vasyl Rohovy and the IMF, will be taken at the end of August or the beginning of September.

As always concerning the IMF, Board approval will be contingent on the recipient country complying with horrendous conditions. Indeed, Ukraine will pay a very high price: The main requirement is that the 1998 budget be cut 30% across the board. Parliament recessed in the last week of July without approving these draconian cuts. However, the Parliament voted Ukraine President Leonid Kuchma the authority to slash the budget by decree. This occurred after a statement to the visiting IMF delegation on July 27, by Speaker of the Parliament Oleksandr Tkachenko of the Socialist Party, that President Kuchma and the cabinet have the right, under Ukrainian law, to slash the 1998 budget. Tkachenko's statement meant the de facto end of Parliamentary resistance to IMF demands. A budget-cutting decree was prepared by July 31, and signed by Kuchma during the week of Aug. 3. These cuts will come on top of an already bare-bones austerity budget.

The demographic catastrophe

The primary indicator of what IMF shock therapy has done to Ukraine since 1992, is the demographic catastrophe. For the third time this century, Ukraine's population is experiencing a sharp fall (the first was Stalin's genocide of 1932-33, in which up to 8 million Ukrainians were killed during a famine; the second, was World War II and the Nazi occupation). In an article in the July 14 *Vechirniy Kiyyiv,* titled "There Are Fewer of Us by 1.7 Million People," Halina Balbut reported, based on data recently released by the Ukraine National Academy of Sciences Institute of Economy, that Ukraine's population has fallen from 52.2 million in 1992, to 50.5 million people today. Every year, she wrote, it's as

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though a city the size of provincial capitals like Zhitomir or Chernihiv, disappeared from the map, and the cumulative total, so far, is like an entire region vanishing.

The Institute of Economy says that only an "improvement in the socio-economic situation" can turn around the demographic nightmare, but they see no such improvement in sight. Nearly 20% of the population is 60 years and older. Life expectancy is 73.2 years for women and 62.3 years for men. The institute notes that conditions have produced a reverse migration, from the cities back to farms and villages. In addition to those who have permanently resettled, nearly every family, on a seasonal basis, "migrates" to work their own plot outside the city, or land held by relatives, at least for a few days each week, and for longer stints during planting and harvesting.

Cuts into the bone

The newest spending cuts will be even more severe than the July budget data would indicate. The budget must be cut to a deficit of no more than 2.3% of GDP. The revenue side of the Ukrainian budget consists of two main components: tax revenues, and money pulled in from privatization of state enterprises. In August, the latter will drastically fall, because the government badly overestimated 1998 privatization earnings.

This was all made public on July 28, the second day of the IMF delegation's stay in Kiev, when Oleksandr Bondar, head of the Ukrainian State Property Fund, announced that the Fund will ask the government to halve the 1998 privatization target and incorporate this new target into the revised budget for 1998. Bondar revealed that the government had only earned a paltry 241 million hryvnia ($113 million) from privatizations since Jan. 1, 1998, and the Property Fund has had to cancel dozens of privatizations since January, because they failed to attract even a single bidder.

So, in exchange for the deepest budget cuts ever, Ukraine will get a financial stay of execution (assuming the disbursements actually arrive). This will allow Ukraine to squeak through the third quarter, but Ukraine will then be confronted with a renewed threat of state bankruptcy in the fourth quarter, and require more assistance from the IMF or other sources. Given the relatively small amounts needed to postpone a default until the fourth quarter, it is assumed the IMF Board will approve the agreement.

The state is throwing everything into the breach to manage the crisis in August, when about $1 billion in debt redemptions fall due, on top of debt interest payments. On Aug. 12, a $450 million Eurobond issue fell due; the total of domestic debt issues being retired stands at more than $500 million during August. As in Russia, there are no takers nowadays, neither foreign nor domestic, for Ukrainian Treasury bills, known as OVDPs, Ukrainian cousins of the Russian GKOs. Therefore, every issue that comes due is retired, further draining Ukrainian Central Bank foreign exchange reserves. As with Russia's GKOs, the existence of exorbitant OVDP interest rates has done nothing to mitigate the problem that there are no takers. In Ukraine, as of July 24, OVDP annual rates were at 65%.

Technically speaking, the Ukrainian Central Bank can meet the August crunch. As of June 30, it officially had $1.75 billion in foreign exchange reserves, and by the end of July it still had around $1.7 billion. This is probably enough to handle the August debt retirement and interest payment load, but, going into the September round of OVDP redemptions, it is far short of what is needed. The projection of default in September, was based on the unrealistic assumption that there will be no runs on the Ukrainian currency, the hryvnia, during August.

In reality, runs on the hryvnia are likely. This prognosis occasioned an announcement on July 27 by Standard & Poor's, that Ukraine's foreign exchange reserves of "less than $2 billion" were "not enough" to cover the August load of debt redemptions and at the same time prevent a devaluation of the hryvnia. The announcement was coupled with a scathing attack on Ukraine, meant to provide the regime an impetus to implement the "reforms" that the IMF is demanding. Standard & Poor's called Ukraine "one of the most difficult business environments in eastern Europe, reflected in poor transparency, excessive taxation, burdensome regulatory constraints, contradictory legislation and widespread criminalization."

On July 28, Moody's Investor Service gave its equally bleak assessment, that it is considering downgrading Ukraine's single-B-2 debt rating. Moody's said that it was worried about the depletion of Ukraine's foreign currency reserves over the past few months. Moody's said that if Ukraine were unable to get a new IMF credit or borrow from international financial markets, it could run out of reserves "before the end of September."

If the IMF tranches are all the help that Ukraine gets this year, then a fourth-quarter crunch even worse than August is to be expected. Foreign investors have been stampeding out of the Ukrainian OVDP market during 1998. The figures are telling: In 1997, about 50% of OVDPs were held by foreigners (including Russians). As of June 30, 1998, this figure had fallen to 28% of the $4 billion in outstanding OVDPs.

Knowing full well that the IMF tranches are not enough, Ukraine is desperately seeking to return to the international financial markets, where it is considering two bond issues: a privately placed short-term Treasury bill split into dollars and hryvnia, through ING Barings; and, a deutschemark-denominated issue through Commerzbank. It won't be easy. Ukrainian Eurobonds in the last week of July were trading at an annual yield of more than 24%, nearly eight points above the 16% Ukraine was paying on its deutschemark-denominated debt, from what now seems like another epoch, "way back then," in February 1998.