IMF Press Release: December 4th, 1997

Primary source analysis

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Link to source

Background

After neoliberal financial reforms in the 1980s and early 1990s, the U.S. dollar enjoyed a strong position relative to other global currencies. Although the economy suffered a short-term setback in the early 1990s, the resulting bailout measures by Treasury Secretary Alan Greenspan raised U.S. interest rates and made the U.S. even more of an attractive investment opportunity for foreigners. This was especially so compared to the previous "hot" investment opportunities in Southeast Asia, that had similarly relied on raised interest rates to attract investment. Southeast Asian currencies were pegged to the U.S. dollar, meaning that the growth in value of the U.S. dollar made their own currencies more valuable, and thus their exports more expensive.

This reached a tipping point in July 2nd, 1997, when the Thai government made the decision to abandon the peg to the U.S. dollar and cut off the cause of this economic slowdown. Unfortunately, the abandonment of this peg (some call this event the "float" of the Thai baht) led to foreign withdrawal of investment and thus massive devaluation of the baht, leading to a chain reaction of financial events like the closure of banks, mass layoffs, and the migration of workers back to their homes from the previously job-rich cities. This reaction led to crises in many other countries, the most infamous of which took place in Indonesia and South Korea.

The chain reaction came to Korea a few months later. Foreign investment in general, to the tune of some $100 billion borrowed in that year alone, began pulling out rapidly in Korea after worries of financial instability across Asia. Given many Korean firms had borrowed what they could not pay back, foreign confidence in Korea quickly fell and investors withdrew more money, beginning a cycle that would escalate into crisis. This reached its peak in November 1997 as the *chaebol*[1] Daewoo collapsed, car company Kia Motors was bought by Hyundai Motors, and the stock exchange fell twenty percent that month after speculation that restrictions tied to the IMF bailout would worsen the crisis. By the end of that year,

[1] Family-run large conglomerate. Sort of the like the Murdoch family and Fox News.

Korean currency was devalued by around fifty percent, unemployment tripled to around seven percent, and the government even began a campaign of collecting gold from its citizens to inject value into the federal coffers.

After two weeks of negotiations in November 1997, the IMF reached a bailout agreement with the Korean government. In exchange for a $21 billion loan, the Korean government agreed to structural and financial sector loans that would result in the loss of employment for millions, the mass closure of companies, and a renewed financial dependence on foreign (U.S.) investment. These developments would launch Korea into the "IMF era" over the next five years and would shape its course of development for the decades after.

My analysis focuses on the IMF's December 4th, 1997 press release that first introduced these reforms to the public. I will first summarize the contents of the press release, which is titled "IMF Approves SDR 15.5 Billion Stand-by Credit for Korea." I will then read it "against the grain" to see how arguments like these contributed to the financial dependence of Korea on the U.S. as well as the IMF's logic or grammar of financial order. Lastly, I will discuss what is not in the text – what reforms or protections were not noted in the press release, and what questions the press release raises that may be answered by other resources that my thesis will discuss.

The reforms

This section is a brief overview of the press releases' content: the structural adjustment program in the IMF's own words.

"The centerpiece of the government's program is a comprehensive restructuring and strengthening of the financial system to make it sound, transparent, and more efficient." So sayeth the IMF in this press release, in its introduction to the reforms of Korea's financial sector. These reforms entailed the immediate suspension of nine financial institutions, and their closure if they did not submit "appropriate restructuring plans." With the euphemistic caveat that it would "entail losses to shareholders," the IMF also warned here that many financial institutions of all kinds would be subject to mergers and acquisitions as from both domestic and foreign investors. The IMF conclues this section with a standalone paragraph stating simply that "to promote competition and efficiency in the financial sector, the authorities will allow foreigners to establish bank subsidiaries and brokerage houses by mid-1998."

Besides reforms specifically for the financial sector, the IMF also prescribed general structural reforms. These all center around a program of economic "liberalization" that mainly involved opening the country for foreign investment. The ceiling on foreign ownership in Korean equities and listed Korean shares would be raised from 7 percent and 26 percent to fifty percent by the end of 1997, which would entail quite a dramatic shift considering this agreement was finalized at the beginning of December 1997.[2]

[2]Fifty percent sounds ridiculous to me, but even crazier is that the ceiling on foreign investment in listed shares would

Besides these general ceiling adjustments, other major barriers to foreign investment were also modified, including foreign access to domestic money market instruments[3], foreign access to corporate bonds, and general simplification of approval procedures.

The actual financing that the IMF agreed upon was a package of $21 billion, along with promises for loans from the World Bank[4] of $10 billion, from the Asian Development Bank for $4 billion, from several Western countries for a total of $20 billion. These Western countries specifically were Australia, Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom, and the United States.[5] The main payment of $21 billion was distributed in stages, with $5.56 billion available available at the time of agreement, $2.6 billion available after the first review on December 18th, $2 billion after the January 8th review, and the rest being available after "the attainment of performance targets." All of this comprised some 1,939% of Korea's yearly contribution to the IMF.

Dependence

Perhaps the most dangerous argument the IMF drives forth here relates to foreign investors and their role in the crisis. The IMF's biggest indictment in this press release are corrupt and harmful banking practices in South Korea, that stem from a "legacy of intervention" from the Korean government. According to the IMF, these practices led to the shuttering of several large corporations like Kia Motors and Hanbo Steel, and brought the crisis to Korea.

Without defending the Korean mega-corporations that the IMF criticized, I want to note the relationships and events that led to the shuttering of these *chaebol* groups. Nowhere in the IMF's discussion is the culprit of the U.S. dollar as the "peg" or the currency from which all other currencies derived value. This relationship forced the inflation of currencies across Southeast Asia and kickstarted the Asian financial crisis after the inflated currencies made it difficult for Southeast Asian exports to be sold.[6] More broadly speaking, the IMF ignores the issue of foreign dependence that led to the crisis in Korea, or in

actually be removed by the Korean government altogether in 1998. I haven't been able to find data on if the proportion of foreign investment even approached any of these limits, but the fact that the Korean government saw it fit and useful to raise the limits indicates that a very high proportion of foreign investment was desired.

[3]For reference, money market instruments are short-term loans, typically to bridge two payments. A company might use this kind of device if they had to pay a supplier one week to make a product but would only receive customer payment for that product in the next week after.

[4]For reference, the World Bank is typically a fund generating general-purpose and development loans, while the IMF's funds are used specifically for short-term crises.

[5]It is strange that every one of these nations besides Switzerland was at one point an imperial power. Even Switzerland profited from informal engagements and mercenary contracts, which is quite a contradiction to their current nonviolent image. Perhaps points to discuss in the actual thesis.

[6]Korea had actually also used the U.S. dollar as its peg, which became a problem during the crisis as the continued growth of the dollar made Korean exports more expensive and thus fall in the international market. Korea took the *won* off of the peg in December 1997, which resulted in the immediate devaluation of the *won* by 50% and deepened the already-severe financial scare. But this happened after this press release was published, so it is left here to a footnote.

other words the rapid withdrawal of foreign investment throughout 1997 as discussed above. Why should the loss of foreign "confidence" result in the closure of keystone Korean companies? In the press release, this question is presumed to have been answered and justified; the logic of foreign dependence as part of the financial machine is a given, not something that demands explanation.

This assumed invisibility of parasitic foreign dependence as the *cause* of the crisis is necessary for the IMF to prescribe parasitic foreign dependence as the *solution* to the crisis. Firstly, the $21 billion promised by the IMF was given with an interest rate three times higher than standard IMF or World Bank loans [wording] But much more consequential than the loan itself in establishing dependency was in the IMF's structural adjustment program for Korea. The $21 billion promised by the IMF is indeed a large amount of money, but to the IMF the greatest savior to Korea would not be this loan itself but the structural adjustment program's opening of Korea to even greater foreign investment, which would inject several times the amount of the IMF loan package into the Korean economy. Besides foreign investment itself, the IMF also permitted foreign ownership, mergers and acquisitions, and the creation of brokerage houses in Korea that heightened the U.S. hand in the Korean economy.

Importantly, the IMF's goal of bringing an "early return of [foreign] confidence" in the Korean market is stated without justification. As with the absolution of foreign actions in the cause of the crisis, foreign "confidence" (investment) in the Korean market as a solution for the crisis is presumed instead of justified or explained. The justification for these processes comes in the crisis itself – when millions of lives are on the line, the most immediate solution of quick foreign aid becomes the most feasible solution compared to questioning how foreign intervention led to the crisis in the first place. Thus, even though the terms of the IMF bailout led to mass rallies and criticism at the time of the negotiation, in the end the IMF's terms sheet was ratified and even extended by the leaders of the Korean government.[7]

In sum, instead of promoting independence and sovereignty from foreign aid, the IMF's programs are focused on the exact opposite of ensuring Third World countries are bound to depend on the West for financial security and stability. It is able to do so not only through simple loan packages, but far more consequentially through first ignoring the relationship to Western investment these countries already had that contributed to the crisis in the first place, and then prescribing even more dependence through restructuring of entire economies. In this way the IMF serves as a small but powerful engine, striking at times of crisis to ensure the world depends on a few financial powers.[8]

[7]Chossudovsky, "The Recolonization of Korea"; Lee, "To Thine Ownself Be True"; Medley, "The East Asian Economic Crisis"; Strom, "South Koreans Protest Spread Of Layoffs In I.M.F. Plan"; Weisbrot, "IMF Blunders Through Asia, Leaving Disaster in Its Wake - Los Angeles Times."

[8]I also want to noted the nominal connection to the dependency theory of Hans Singer, Raul Prebisch, Walter Rodney, and many others, but after some research think it might take some work and additional historical background to apply its central claims to late-90s Korea. Korea at this time was not a country deprived of economic resources and deeply entrenched in poverty, or a country that had its natural resources extracted by First World countries. Its dependence on former colonial powers is to be sure economic, but it is harder to say that this dependence is material (as dependency theory canonically discusses) given that much of it was based on financial loans. A point to be fleshed out in detail in my thesis. See Prebisch, "The Economic Development of Latin America and Its Principal Problems"; Rodney, *How Europe Underdeveloped Africa*;

The IMF world-system

Financial dependency is half of the IMF's goal. To uncover the rest, let us examine one euphemism from this press release. The IMF states that "to facilitate the ability of the Korean labor market to respond to changing economic conditions, labor market flexibility will be enhanced by easing dismissal restrictions under mergers and acquisitions." The language suggests the order of the IMF's priorities: the most important objective of the IMF is to protect the Korean market, and under this goal the layoffs of potentially millions of people just serves the greater good. Layoffs are described as "labor market flexibility," as if to suggest that the tripling of the unemployment rate in this period could even be a good thing – that's just the economy being "flexible."

In addition to being a horrifying description as it is, this sleight of hand illustrates the broader goal of the IMF that I hope to illustrate in my thesis. The IMF's priorities aren't to protect the most vulnerable, but to protect the logic of a unified, global financial system that has as its center the West and the U.S. Instead of using the interregnum of financial crises to lift those out of inequality or prevent catastrophe, the IMF uses these crises to place every country into its own perfect spot in this order. More important than people, and perhaps even more important than money itself is this financial logic that makes the world go round.[9] In this press release in particular, more important than the layoffs of millions is the abstract idea that these layoffs are subsumed into, that "labor market flexibility be enhanced."

Just as the IMF simultaneously ignores and pushes for foreign dependence, so too does the IMF "ignore" (or rather, presume) this logic and simultaneously pushes this logic forward. This logic isn't something that needs to be clarified or laid out in transparent detail in order to be "valid"; documents like this press release can drive the IMF's arguments forward simply with the authorial tone of objectivity. The IMF's arguments are valid because they are stated as if they were valid – leaving out gigantic holes like of the issue of foreign dependence as the cause of crisis, as explained above.

The result of the logic is a global financial order, or as Immanuel Wallerstein might argue the capitalist world-system.[10] "Periphery" countries like Korea must depend on "core" countries like the United States, in an ultimately parasitic relationship that reifies the position of "core" countries as leaders of the world-system. This world-system is composed of relationships of financial dependence, but even before these relationships are begun this world-system requires an epistemological backbone to grow from. That backbone produces and is fulfilled by discursive products like this press release and material products like

Singer, "Economic Progress in Underdeveloped Countries".

[9] In the end it really is all about money, so I don't want to discard the logic as being more important than money itself. But money can sometimes take a hit so that logic can pull the rest of wagon forward. In the case of the Asian financial crisis, for example, the IMF has noted that many investors actually lost money in the recovery process. But with the establishment of dependency and an integration into the global financial order, the West can recoup its investment in the neo-colony of Korea. Money can only be made when the logic to do so is secure.

[10] Wallerstein, *The Modern World-System*, Grosfoguel, "Colonial Difference, Geopolitics of Knowledge, and Global Coloniality in the Modern/Colonial Capitalist World-System"; Grosfoguel, "World-Systems Analysis in the Context of Transmodernity, Border Thinking, and Global Coloniality."

its billions of dollars in distributed loans.

Beyond this

The press release still leaves many questions to be answered, partially because it was published at the beginning of Korea's journey through the crisis and also because of its official, high-level view of the crisis. Some of them are:

- How might the IMF have used Korea to position other countries in the IMF's world-system in the years after?
- How was the world-system resisted or refused by Korea and Korean workers?
- How did relations of dependency affect social structures in Korea?

I hope that further resources can help me answer these questions, and ultimately help me turn towards not only the IMF's financial logic but its racial logic.

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