A neocolonial scheme to destroy Asia

Washington bureau chief Richard Cohen, in the first of a two-part series, analyzes the gameplan behind the State Department's new "Pacific era."

The concept of a Pacific Basin Community (PBC) is currently being advertised by leading elements of the Anglo-Swiss banking aristocracy as the new investors' Shangri-la—an area of the world that has weathered the economic shocks of the 1970s and early 1980s, holding on to relatively high growth rates, low wage scales, and a limited degree of protectionism compared to the protectionist devices imposed by Western Europe during the recent period.

Since late 1983, senior spokesmen for the U.S. Department of State, notably Lawrence Eagleburger, the recently retired undersecretary for political affairs and a close associate of Henry A. Kissinger, have publicly heralded the dawn of the Pacific era. In a speech in Washington in February 1984, Eagleburger emphasized, "what I would have to describe as the shift of the center of gravity of U.S. foreign policy from the transatlantic relationship toward the Pacific Basin and particularly Japan." Eagleburger's statements signaled an acceleration of the State Department drive to use the Pacific Basin Community idea to "decouple" Western Europe from the United States.

According to the plans of the leading PBC promoters, the shift in global investment into the Pacific Basin region, attracted by high rates of return and a trading environment stabilized by the existence of such a community, would escalate the 1970s tilt of investment away from Europe toward the Pacific. Europe—already hemorrhaging from high protectionism and relatively uncompetitive equipment—would be forced to seek a trading outlet in the East.

The PBC proposal dates back to the 1978-79 period, when the world economy was in the throes of the second world oil-price shock and Paul Volcker's high interest-rate recession. The proposal is but an arm of a broader operation identified by Kissinger's mentor Lord Peter Carrington as a "New Yalta" negotiation with the Soviet Union. Under the Carrington plan, while Europe emerges as a neutralist, independent factor tilting toward Moscow, Anglo-Swiss operations, hiding behind U.S. and, secondarily, Japanese interests, would manage the rich Pacific Basin, which would include the Pacific Rim countries, Canada, and most of Ibero-America. At present, China's entry into such an arrangement is considered secondary and a point upon which PBC promoters have not yet reached a consensus.

Controlled economic disintegration

Far from promoting the economic development of the region, this scheme would give the Anglo-Swiss bankers fingertip control over the economic disintegration of the Pacific Basin. Current high growth rates based on the Japanese model of capital-intensive development would be slashed. The efforts of the Japanese and other governments of the area to protect their economies from the effects of the world depression would be sabotaged, their internal markets opened up for looting.

The strategic objective of the Pacific Basin proposal is to be achieved through four principal steps to reorganize the economy of the Basin:

• First, the Pacific region economies are to be "Atlanticized" through the introduction into the Pacific of a centralized economic advisory group, modeled on the Organization for Economic Cooperation and Development (OECD). This new supranational advisory panel would seek to "advise" individual member nations on what were previously their sovereign investment policy decisions. In addition, this new advisory group would, according to the consensus plan, be staffed not by representatives of the individual governments but by U.N.-style technocrats.

The consensus position was outlined on Oct. 24, 1983, by PBC promoter and former Australian Prime Minister Malcolm Frasier at a meeting at the Center for Strategic and International Studies in Washington, D.C. "I would suggest a development towards something like the OECD, beginning perhaps with an arrangement similar to the OECD's Economic and Development Review Committee. . . . The OECD pattern could well set an example for further development."

• Second, this new Pacific Basin Community advisory body, accepting the OECD forecasts of long-term global slow growth, would set regional parameters in which the successful Japanese model for investment and highly regulated banking would be scrapped. Japan and South Korea would have to "liberalize" their currency and domestic markets and accept foreign investment in their capital markets. This process would drive up domestic interest rates in these countries, curbing traditional high rates of growth in tangible goods, while driving investment into the inflation-generating areas of services, "invisibles," and speculation, on a level comparable to that of the Eurodollar market.

- Third, in exchange for the opening of markets in the industrialized Basin countries—particularly the United States, Japan, and Canada—the developing-sector Basin countries—particularly the ASEAN members—would be expected to more rapidly facilitate direct foreign equity investment in their nations.

At a recent conference of the Council on Hemispheric Affairs, U.S. Secretary of State George Shultz, echoing the 1978-79 PBC proposal, urged that Third World countries no longer finance their internal development through foreign loans but instead seek direct foreign investment. This approach is now the centerpiece of Anglo-Swiss efforts to shatter the sovereign decision-making capability on investment by Third World countries through the enlargement of foreign equity positions in them.

- Fourth, the PBC proposals stipulate that the Pacific region will function as a sub-category of a global "free trading" system, an expansion of the GATT (General Agreements on Tariffs and Trade). The trading system would prevent protectionist measures now taken by sovereign nations of the area, opening up the domestic economies of Asia for colonialist looting.

Origins of the plan

The concept of Pacific-wide economic cooperation first surfaced for a very different purpose in the early 1960s, as a result of consultations between certain Australian industrial interests and Shigeo Nagano, then head of Nippon Steel. The discussions were initiated following the renewal of diplomatic relations between Australia and Japan (severed since World War II). At the time, Japan was in the process of launching its "income doubling" program, with heavy emphasis on domestic investment and external export, and Australia was targeted as a prime source of raw materials required for the Japanese plan.

Then in 1966, Kiyoshi Kojima, a principal in developing the income-doubling program, introduced into the Australo-Japanese discussions the idea of a "Pacific Free-Trade Area" (PAFTA), following an internal debate in Japan with those who criticized the PAFTA idea for excluding the non-market economies in the region—China and the Soviet Union. In 1967, then Foreign Minister Takeo Miki publicly proposed the idea of an "Asian-Pacific policy." But the Australo-Japanese search for mechanisms to facilitate channeled growth in the region went no further at that time.

When the concept of Pacific cooperation was reintroduced in 1978-79, it had a new purpose within an entirely different economic geometry, defined by the *1980s Project* of the New York Council on Foreign Relations, whose director was Cyrus Vance (later secretary of state in the Carter administration). The principal operatives behind the 1978-79 PBC revival projected a severe slow-down in global economic growth, a prospect which the CFR study labeled "controlled economic disintegration."

Three centers of power emerged during this period to articulate a Pacific regional thrust on this conceptual basis. In Japan, following the inauguration of Prime Minister Masayoshi Ohira in December 1978, a major study on the Pacific Basin was initiated under the direction of Trilateral Commission member Saburo Okita. In Australia, the government of Prime Minister Malcolm Frasier supported the Japanese initiative on behalf of Asian-based British Commonwealth interests—the Anglo-dominated banking institutions of Hong Kong and Singapore. And in the United States, through the auspices of Sen. John Glenn as chairman of the Asian Affairs Subcommittee of the Senate Foreign Relations Committee, a wide range of "Asia hands" led by former Ambassador to South Korea and former Kissinger staffer Richard L. Sneider received publicity for their version of the new Japanese-Australian proposal.

The U.S. retreat from the Pacific

It was at approximately this time that the Anglo-Swiss-centered banking interests and allied political forces launched a decade-long assault aimed at containing the pivotal force—the Japanese economic model—responsible for the high rates of development growth witnessed among the Pacific Rim countries. And in 1969, Henry Kissinger had begun the military withdrawal of the United States from Asia.

During the 1950s and 1960s, the principal shield of defense against Soviet and Chinese-inspired imperial grabs in the region was the U.S. tactical air and naval force, harbored in a ring of bases on the rim of the Asian mainland. Japan, the focus of U.S. security interests in East Asia, was placed firmly under the U.S. strategic nuclear umbrella. South Korea, the prime invasion route for any direct Sino-Soviet aggression against Japan, was also placed under the protection of U.S. strategic forces, particularly after the implied withdrawal of such protection by then Secretary of State Dean Acheson supplied a crucial incentive for the North Korean invasion of the South in 1950. In addition to tactical air, sea, and strategic force, the United States had committed itself to station ground troops on the Asian mainland—ground forces that later participated in both the Korean and Vietnam wars.

Then in 1969, National Security Adviser Henry Kissinger persuaded President Richard Nixon to adopt a new doctrine for Asia. In some respects, that "Guam Doctrine" parallels Kissinger's March 1984 *Time* magazine threat to withdraw U.S. ground forces from Europe. Using the failing U.S. role in the Vietnam War and the apparently successful North Vietnamese "Tet Offensive" as a pretext, Kissinger outlined a policy for U.S. military decoupling from the Pacific Basin—which had its first application through the so-called "Vietnamization" program.

At the end of the Vietnam War, this Kissinger policy became a full-scale retreat of U.S. ground forces from Southeast Asia—a development which sent shudders throughout the region. With the advent of the Carter administration the retreat became a rout, as the deployment of U.S. naval forces in the region was further scaled down. The threat of a catastrophic drain on U.S. naval and tactical air support from the region further escalated during 1977-80 when the focus of Soviet imperial ambitions shifted from Southeast Asia to West Asia and the Persian Gulf. The collapse of the Shah's Iran, following the Soviet move into the strategic Horn of Africa in 1977, led to the drawing-down of what remained of the U.S. Seventh Fleet in East Asia. United States military fixation on the Gulf and the security of oil flows intensified by 1980 with the Soviet invasion of Afghanistan and the initiation of the Iran-Iraq War.

But even prior to the Soviet military breakout in West

East Asia's rapid rate of economic growth

From 1970 to 1981, average annual Gross Domestic Product (GDP) growth rates in East Asia ranged from 6.2% for the Philippines to 9.9% for Hong Kong. During that same period the Japanese economy showed a 4.5% growth rate—compared to 2.9% for the United States and lower rates still in Europe. In fact, when Europe's GNP dropped 0.2% in 1981, East Asia's GNP rose 5.8%, and in 1982, among middle-income oil importers, Pacific Basin countries showed an increase in GDP of 4.2% compared to 1.2% in Latin America and the Caribbean.

These high rates of growth had a dramatic impact on world trade flows, which increasingly gravitated toward East Asia and the Pacific Basin. In the 1950s, Great Britain accounted for 40% of Australia's trade; by the early 1980s, it accounted for only 4%. For the first eight months of 1983, total trade between the United States and Asia amounted to $82.1 billion—higher than U.S.-European trade which only accounted for $73.5 billion. Finally, by the early 1980s under conditions of recession, 50% of trade conducted by Basin countries was carried on *between* Basin countries.

These rapid growth rates have been largely the result of growth patterns generated in the Japanese economy since it first entered a period of intense mobilization as a direct result of the Korean War, and then again as a result of investment decisions taken during the early 1960s income-doubling plan. The rebirth of a Japanese heavy industry base was first facilitated by Korean War demands. The modernization and expansion of this base followed in the 1960s. This momentum has made Japan the world's second-largest economy.

Critical in this Japanese effort has been the maintenance of extremely low domestic interest rates supported by a high rate of savings. These low interest rates, function in many instances as government-directed channeling of private banking system credit into industry, are the inner financing mechanism propelling sizable Japanese growth rates in tangible goods production. To ensure this process, the Japanese authorities have, until recently, kept foreign financial interests out of their domestic financial markets for fear that outside intervention could drive up domestic interest rates and destabilize production momentum. In addition, such intervention would drive up the value of the yen, thus making Japanese exports more expensive.

These growth rates in Japan have, during the course of the 1960s and 1970s, spun off into the South Korean and Taiwanese economies, both of which have adopted the Japanese economic model.

Finally, the Basin has received an additional economic boost from the West Coast of the United States; while productivity in the United States has stagnated since 1979 and previous productivity gains in the late 1960s and the 1970s were wiped out by inflation, the weight of decline heavily concentrated itself in the industrial Midwest and East Coast. West Coast growth rates have been higher, due to concentration in the computer, aerospace, and energy industries. This West Coast growth has created a trading base for other nations in the Basin.

Thus as a result of the Japanese growth shock wave, the U.S. West Coast investment boom, and the development of the smaller but important Taiwanese and South Korean economies, an increased demand for raw material exports from the ASEAN countries—particularly Malaysia and Indonesia—had been generated. These same pressures propelled the raw materials-rich Australian economy into this Basin dynamic. This process of development was able to weather both economic and military shocks of the 1970s.

Asia, the momentum of the Kissinger-led decoupling operation had reached the extreme point at which Carter's State Department under Cyrus Vance would recommend the withdrawal of U.S. ground forces from Korea—a plan which President Carter endorsed.

The 'China card' and the 'Nixon Shocks'

The U.S. withdrawal from the Pacific was a milestone in Kissinger's effort to reach a New Yalta agreement with the Soviet leadership.

Since 1966, the Pacific region had begun witnessing a new conflict of strategic dimensions within its borders. At that point, the post-Khrushchev leadership of the U.S.S.R. took its first steps in the militarization of the Sino-Soviet conflict.

Seizing upon this vulnerability in 1970, Kissinger moved to play the China card, primarily in order to pressure Moscow into the broader New Yalta arrangement. But by 1973, following Kissinger's strategic give-away in the 1972 SALT I and Anti-Ballistic Missile treaties, it became clear to Soviet leading circles that any broader agreement with the West was no longer necessary.

Following the humiliating U.S. withdrawal from Southeast Asia, that zone of the Pacific region became the focal point for the increasingly militarized Sino-Soviet dispute. At the height of the consolidation of Soviet military power in West Asia in the second half of the 1970s, President Carter's National Security Adviser Zbigniew Brzezinski desperately and foolishly moved toward a revival of Kissinger's China card policy. This failed miserably when Soviet-backed Vietnamese forces successfully invaded Kampuchea in late 1978, and when China's counter-invasion of Vietnam in early 1979 failed. In the aftermath of these episodes, Moscow conducted thunderous shows of strength, including massive land maneuvers on the Sino-Soviet border and naval maneuvers in the South China Sea.

The U.S. administration, which had made public demonstrations of its support for the Chinese position, did not raise a finger.

Compounding these setbacks to the U.S. military-strategic position in East Asia from 1969-78, the 1970s witnessed an equally devastating succession of economic shocks delivered to the area. In August 1971, President Richard Nixon delivered a body blow to the world economy, through a series of measures that hit the Japanese economy especially hard. The Nixon administration's moves were an assault on the Japanese government's tight control over its domestic economy, and were labeled in Tokyo "the Nixon Shocks."

The White House's unilateral declaration of a 10% dollar devaluation was a form of trade war that was later repeated in the Nixon administration on the recommendation of Office of Management and Budget Director George Shultz, Treasury Secretary John Connally, and Undersecretary of the Treasury Paul A. Volcker. This devaluation made Japanese exports more expensive in the United States, hurting Japan's trading position.

Second, Nixon removed the U.S. dollar from the gold standard. This maneuver quickly gave rise to an unregulated off-shore Eurodollar market, run by a banking cabal that would channel dollar investment away from tangible productive areas and toward "services" and speculation. The inflationary impact of this development was worsened by the fact that these unregulated banks could relend without having to respect reserve ratios.

The deregulation of the dollar also put pressure on the yen, forcing the Japanese government to intervene to support it. The highly regulated Japanese banking system, under the watchful eye of the finance ministry, shielded the yen from the dictatorship of the off-shore speculators. But this occurred at the cost of growing budget deficits, forcing Japan's internal economy to accommodate to the new inflationary phase which the world economy was entering.

Then in 1973-74, the vulnerability of the raw materials-dependent Japanese economy was highlighted when oil prices zoomed in the aftermath of the Arab-Israeli war. This threw the previously positive Japanese balance of payments into the negative and generated a period of soaring domestic prices.

After a weak recovery in 1978-79, Japan weathered its second oil shock. Then came the sharp escalation of U.S. interest rates under the regime of Paul Volcker, now chairman of the Federal Reserve Board. The depression that ensued shrank Asian export markets in the United States, Europe, and the developing sector.

By the 1978-79 period, the combined impact of Kissinger's military decoupling—including the failed China card—and the brutal attack on the East Asian development boom had shattered the institutional framework of relations that had existed during the 1950s and 1960s. The East Asian side of the Pacific lay vulnerable to Soviet military intimidation; the U.S. deterrent was more unreliable than ever, and the economic shocks were taking their toll. Yet East Asian growth rates continued to be substantially higher than in the rest of the world (see box).

Then came the threatened bankruptcies of Ibero-America's major debtors in 1982, which threw into jeopardy Asian trade with the continent. As for the United States, only the overvalued U.S. dollar, high interest rates, and the sky-rocketing U.S. trade deficits, subsidized the virtually bankrupt U.S. economy in 1983-84. This has temporarily buffered the effects of global depression in Asia, particularly among those economies heavily reliant on the U.S. consumer market. But as the crisis in the U.S. banking system begins to explode, the economies of Asia will find themselves increasingly drawn into the maelstrom.

To be continued