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As Trilateral Game Ends, Will Asia Walk Away from the IMF?

by Kathy Wolfe

The current inflow of $1 billion a day into U.S. capital markets from the world outside was not enough on May 22 to prevent another "Black Monday," in which Wall Street's Dow Jones and Nasdaq indices each fell more than 200 points, only to be temporarily propped up by covert Federal Reserve futures index purchases and other support operations. U.S. Commerce Department figures released in May showed another record trade deficit at $30.2 billion for March, with the Organization for Economic Cooperation and Development projecting this year's U.S. current account deficit at $440 billion, or more than $1.2 billion a day.

Recent capital outflows from Japan, South Korea, and most Asian markets, as well as out of Europe, meanwhile, continue, with the Tokyo Nikkei stock index down to 16,300, its lowest level in 11 months, and the Seoul government issuing daily plans for multibillion-dollar bailouts of its banks and stock market. The Korean currency, the won, fell to a three-month low against the dollar after J.P. Morgan stated, in its May 17 *Asian Markets Research Report,* that the won is now "the riskiest currency in Asia." Meanwhile, there appears to be no bottom to the euro.

South Korean President Kim Dae-jung, former Malaysian Finance Minister Mustapha Mohamad, and Japanese Finance Minister Kiichi Miyazawa all warned in May that the bursting of the Wall Street stock bubble threatens an even worse "contagion" which would pull down markets worldwide. "Fear is rising again of a sudden reversal of financial flows," an "Asia Crisis II," as Mustapha put it on May 17, in demanding reform of the global system.

Yet U.S. Treasury Secretary Lawrence Summers, asked by *EIR* on May 17 to take a stand on the need for a New Bretton Woods monetary system, refused. "I don't see fixed exchange rates among any of the major currencies in the near term, due to international macro-economics," he babbled. Fixed rates would deprive global private bankers of the "the mobility of capital and independent monetary policies"—and Summers of his $1 billion a day.

"Summers, Greenspan, et al., have put the U.S. at the throats of the vital interests of its Trilateral partners, continental Europe and Japan" by doing this, *EIR* founder Lyndon LaRouche wrote on May 16. The "Trilateral World" is over, he added on May 18. The Trilateral Commission mode of Wall Street financier control over the U.S.-Europe-Japan relationship has broken down, because Europe and Japan cannot feed Wall Street's billion-dollar daily habit.

The Road to Chiang Mai

The "Trilateral World" control mechanism received a swift kick on May 6 in Chiang Mai, Thailand, where the ten-member Association of Southeast Asian Nations with Japan, China, and South Korea, known as "ASEAN-Plus-3," set up a large new pool of funds for currency protection loans and swaps among themselves, dubbed the "Chiang Mai Initiative" (see *EIR,* May 19, p. 4). ASEAN-Plus-3 foreign exchange reserves total more than $700 billion.

On May 16, LaRouche endorsed the Chiang Mai initiative and the idea of its expansion into an Asian Monetary Fund (AMF). Asia has been forced to this in self-defense by Summers's insanity, LaRouche wrote, urging a challenge be made to the bankrupt International Monetary Fund (IMF) (see *EIR,* May 26, p. 6).

Japan, in particular, LaRouche pointed out on May 18, can only survive as an industrial economy, an exporter of quality heavy industrial goods such as machine tools; it cannot survive as a mere paper or electronic financial center. Under the Trilateral system, Japan had been turned into almost a financial appendage of Wall Street, which is now a threat to Japan's national security. China, South Korea, and the ASEAN nations are the partners to whom Japan would now naturally turn to create sane trade, investment, and develop-

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ment project relations.

Asked if the Chiang Mai initiative will be broadened into an AMF, a Japanese Ministry of Finance official on May 23 directed *EIR* to a series of speeches and interviews which show that an Asian regional monetary system has been in the works for a while.

First, it had to be shown that London, Washington, and New York had no real intention of "reforming" the bankrupt IMF. "After Japan proposed the Asian Monetary Fund in 1997 and it was rejected by the U.S., we had to try to promote serious reform of the global architecture, within the IMF," the official said. "We had many serious discussions at the G-8, with the support of South Korea and other Asian nations. The [June 1999] Cologne G-8 summit promised IMF reform, but little was done, so we tried again. We proposed [former Finance Vice Minister] Dr. Eisuke Sakakibara for IMF chief, also with the strong support of Korea and other Asian countries, to test if there could be a serious reform of the IMF."

As Finance Minister Miyazawa explained in a March 14 statement: "The nomination of Dr. Sakakibara reflected Japan's position that the IMF, as a truly global financial institution, should determine its Managing Director based on a candidate's ability to lead the IMF in the right direction and not on his/her country of origin. I send my sincere appreciation to the countries that expressed their support for Dr. Sakakibara. . . . The IMF should be reformed so as to reflect the reality of the new global economy. Greater attention should be paid to large-scale and abrupt capital movements."

"When it became clear that Dr. Sakakibara would not be accepted, we decided to try to build an Asian regional monetary system," the Ministry of Finance official said.

Asian Fund vs. 19th-Century Occupation

The documents show that the ASEAN-Plus-3 nations envision an Asian central bank-type of mechanism to serve as "lender of the last resort," an Asian regional bond market, regional banking and savings markets to keep Asia's hundreds of billions of dollars in annual savings invested in its own nations, and a plan to peg Asian exchange rates together using a basket of currencies, in addition to the currency protection swaps discussed at Chiang Mai.

Dr. Sakakibara specified, in a Jan. 6, 2000 interview with *AsiaWeek,* that these steps are necessary because "the U.S. has sucked in about $800 billion over the course of the last two years and their net foreign debt is now above $1.5 trillion. They need $1 billion each working day to sustain this. This is not possible," and Asia must be ready for a Wall Street-triggered global crash.

Asia also needs its own "lender-of-last-resort mechanism," he said, a sort of pan-Asian central bank, to lend to its own nations in need, because "if the global mechanism is not there, you need to have some kind of regional mechanism." He dismissed Western reforms of the IMF system to date as "interior decorating."

The region also needs its own currency arrangement to avoid the "dollarization of Asia," he said, or else "Asia will be divided and ruled again by the Europeans and the Americans . . . like in the 19th Century." This idea will especially resonate in China, which has been wary of cooperation with Japan in the past, but is even more wary of Western threats to China's integrity today.

"It is important that China be included," Sakakibara said. "It is essential that China and Hong Kong, of course, be major players in this regional arrangement. Eventually we have to include India as well. Those are the two growth centers in the world."

Japan's Vice Minister for International Finance Haruhiko Kuroda, Sakakibara's successor, made a similar speech in Tokyo on April 11, stating that the 1997 currency crisis removed "about $100 billion worth of funds" from Asia. Asia can't tolerate another crisis, but the IMF won't permit regulation of the global markets, so "I believe we have to explore 'a third way' to enhance stability," Dr. Kuroda said. "Since the saving ratio is as high as 30 to 40% in Asian economies, their growth could have been largely achieved without overseas borrowing," so Asia should "establish a regional capital market." He also called for a regional bank, lender of last resort, or "the establishment of a safety net . . . to support the financial market" in the region.

Finally, Dr. Kuroda noted, "exchange rates must be stabilized." As the IMF won't discuss global reform, "a regional mechanism is possible and may be necessary."

Reject 'Unqual Agreements' with IMF

Malaysian Prime Minister Dr. Mahathir bin Mohamad, in a speech in Kuala Lumpur to the Asia Africa Forum on May 23, accused the United States of "opposing the setting up of an Asian Monetary Fund for fear it might undermine the IMF and, therefore, U.S. hegemony." "We now have to prepare ourselves to face and deal with challenges and dangers arising from new ideas about the structure of the world's economy, trade, and finance," said Dr. Mahathir, who has been one of the brains behind the AMF since 1997. "Most of all, we have to deal with the self-declared right of some countries to interfere in the affairs of others." Pointing to the divide between the richest 2% and the poorest 20%, he warned: "Unless the interpretations of globalization and liberalization are changed, the poor will not only lose more, but they would virtually be colonized again."

South Korean Foreign Minister Hong Soon-young, in a Dec. 17, 1999 *AsiaWeek* interview, also promoted the ASEAN-Plus-3 grouping, saying that President Kim Dae-jung and his government are "glad to see this growing sense of community among East Asian members." Asked if he saw a role for the United States, Hong replied, "The People's Republic of China should be brought into the regional community. . . . The U.S. has no reason to complain." Hong also endorsed the Sakakibara IMF campaign, saying, "We need to have an Asian voice."

In Thailand on May 21, meanwhile, a direct call was made

to overthrow the "unequal agreements" with the IMF, a reference to the "unequal treaties" many Asian nations had with colonial powers in the 19th century. Amarin Khoman, president of the Star Group and relative of former Foreign Minister Thanat Khoman, wrote in the *Bangkok Post* that the eight Letters of Intent Thailand has signed with the IMF since 1997 "almost surrender our sovereignty to foreign powers." Similarly, he slams passage of the 11 "rehabilitation laws," passed under IMF pressure, which patriots call the "11 treacherous laws," aimed at selling off public sector firms, utilities, and airports.

Documentation

Asian Leaders on the Financial Crisis

Sakakibara on 'Interior Decorating'

Japanese former Finance Vice Minister Eisuke Sakakibara said that the U.S. bubble "contagion" makes the Asian monetary plan necessary, in a Jan. 6 interview with *AsiaWeek* in Hong Kong, shortly after retiring to Tokyo's Keio University. "We suffered from a major crisis of global capitalism in 1997 and 1998" and "embarked on the reform of the international financial system," he said. "But the measures we have come up with are more or less interior decorating, not a major reform. So the crisis-prevention measures to avoid the contagion are not sufficient. We haven't really solved the problems yet. For example, if you allow capital to freely move across borders, you need some kind of lender of last resort. We still don't have that.

"So, countries are now preparing themselves for what [Bank of England Deputy Governor] Mervyn King called a do-it-yourself lender of last resort. You accumulate foreign reserves and you have some contingent borrowing arrangement with the private sector in case of a crisis and you start to develop some kind of internal mechanism for the crisis.

"Cyber-capitalism is extremely unstable. I've been talking about the IT [information technology] revolution. It's a major progression. It will probably drive the world economy upward. However, it is a very volatile, aggressive train which may cause a crisis again. I wouldn't be surprised if the crisis came back three or four years from now. The most likely place that could happen right now is the U.S. The U.S. has sucked in about $800 billion over the course of the last two years and their net foreign debt is now above $1.5 trillion.

"They need $1 billion each working day to sustain this situation. This is not possible, so the U.S. either has to hard land or soft land. A soft landing is possible. I am not predicting a collapse in the U.S. market. However, a hard landing is also possible. We should be careful . . . the risk is there. It's not a sustainable situation: a $1 billion flow of new capital and a negative savings ratio. I think they can manage it. . . . But anything could happen. . . .

"What is needed is a lender of last resort when it is perceived that the crisis . . . is systemic."

Asked how the AMF would be a possible solution, Sakakibara replies: "The AMF is one of the do-it-yourself lender-of-last-resort mechanisms I have mentioned. You either accumulate your reserves, have some arrangement with the private sector, or have a regional fund. If the global mechanism is not there, you need to have some kind of regional mechanism. It does not have to be a monetary fund. It could be an arrangement among central banks, some kind of swap arrangement—multilateral or bilateral—or some kind of agreement among regional countries with regards to crisis lending or cooperation. The whole idea of regional cooperation is proceeding, although gradually. There are now discussions among China, Korea, and Japan going on. ASEAN countries are inviting Korea, China, and Japan to participate in their cooperative schemes. It has started to move and that is good.

"Asia generates a large amount of savings, but what happens is that those funds first go to New York and London and then come back in U.S. dollars with the exchange-rate risks. So you need to develop a market here, either a bond market or capital market, where you can raise the capital in your own currencies. The integration of two markets in Hong Kong is a step forward. If you can raise Asian money in Asian markets, that would be one of the strongest crisis-avoiding measures. What we have learned in the past during the crisis is that we have depended too much on the U.S. dollar, too much upon global financing mechanisms through New York. So, we need to develop regional markets where regional money could be recycled.

"The way things are going it may be difficult to have a global agreement to create some sort of lender of last resort. If that's the case, we need to proceed regionally. The Europeans are proceeding regionally already. The euro is set up and is going to be expanded to include some eastern European countries. And some kind of dollarization is going on in the North American continent. What is left is Asia. No regional arrangement exists.

"It is absolutely necessary for Asian countries to develop a regional arrangement for both finance and trade. Free-trade arrangements are now being negotiated between Singapore and Korea. Korea and Japan are interested in developing similar arrangements between the two countries. And discussions on financial cooperation have started. If we cannot develop a regional mechanism, we have only two options: belong to the U.S. dollar zone or the European grouping. It doesn't have to be the yen. It could be [a basket of] Asian currencies. It is important that China be included. It is essential that China and Hong Kong, of course, be major players in this regional arrangement. Without this Chinese participation, it is impossible. Eventually we have to include India as well. Those are

the two growth centers in the world."

If Asia can't do this, he says, despite how tough it will be, "then we will be divided and ruled again like in the 19th century." Asked, "What about dollarization? Hong Kong seems to be heading that way," Sakakibara replies: "That's fine. But then again Asia will be divided and ruled by the Americans and the Europeans. . . . Sure, dollarization is one option for Asia, but I personally don't like to do that."

Mahathir: Globalization Will Lead to a New Oligopoly

Malaysia's Prime Minister Dr. Mahathir bin Mohamad warned that globalization will lead to a new oligopoly, in an interview with the *New Straits Times* on May 23. He reviewed the measures that Malaysia took to defend its currency and financial markets against speculative attack, and how the International Monetary Fund (IMF), the World Bank, and financial pundits and blood-suckers such as speculator George Soros, view those efforts. Dr. Mahathir pointed out that, to this day, the IMF and World Bank refuse to accept Malaysia's argument that the initial cause of the Asian crisis was currency speculation, as they were intent on pressing Malaysia to adopt a "virtual IMF" program, which would only have made matters worse. Malaysia was labelled a "pariah," and is still condemned for not doing as told by these institutions.

Dr. Mahathir adamantly insists, "What is important is the rapid fluctuation, the violent fluctuation of the exchange rate, and because we control the exchange rate, we have regained control over the exchange rate. Other things can be directed, including the inflow and outflow of capital." He dismissed as "ridiculous" the assertion of World Bank President James Wolfensohn that Malaysia's recovery is due to following IMF-World Bank advice: "This is ridiculous, as they never told us to do anything. In fact, they practically supplement the action of the IMF. What happens is that the IMF destroys the economies, and they [World Bank] come in and try to rescue and then grab credit for it."

Asked about the Fall 1998 bailout of Long Term Capital Management, Dr. Mahathir slammed it as "the worst kind of bailout that you can think of." Asked about the Asian Monetary Fund, he replied: "We think there is a future. We need to convince certain people. We know that there are certain outside forces trying to sabotage it. We know there are some people inside, also, who are working together with outside forces to shoot down this idea, probably because these people do not need the money and it may affect their own roles. But the AMF is very essential for developing countries in the ASEAN [Association of Southeast Asian Nations] region."

Q: "How prepared is Malaysia for the next crisis? It will happen, it is a question of how, when, and in what magnitude in this world of IT and globalization. What lessons have we learnt, if any?"

Dr. Mahathir: "We have learned a lot. We have in fact anticipated quite a bit. For example, when the dotcom companies appeared on the scene, we had already seen that the increase in share value represents a bubble that sooner or later is going to burst, although we did not expect it to burst so soon. Now the bubble has also destroyed Soros, and this is some kind of justice for him. But, we have to examine everything that is proposed to see how they will affect us; if not, we will again be caught in the same position as accepting short-term capital to be invested and allowing our money to be traded."

Q: "There are a lot of companies in the U.S. and Europe that have started buying in the cheap sales in South Korea, Thailand and, to a certain extent, even Soros has started investing in Indonesia. Will that change the economic landscape and how do we deal with that?"

Dr. Mahathir: "Well, it is part of a much bigger picture. The whole idea of bringing down borders is to enable the very rich capitalists to take over most of the economies of the world and, of course, the IMF has managed to pry open many of these countries. With globalization and mega-mergers, we are going to see even greater activity in this area. The attempt will be to have an oligopoly in which a few companies, a few banks, will control the economies of the whole world."

The West Is Encouraging Cartels

Dr. Mahathir briefed the three-day Asia Africa Forum on the risk of oligopolies, in his keynote on May 23. Dr. Mahathir drew on themes developed in his *New Straits Times* interview,

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charging that "where once Western government used to abhor monopolies, they are now encouraging the formation of cartels and oligopolies to dominate the world. Each one of their mega-entities is bigger in terms of capital than any of us developing countries. . . . The rich countries of the North are ganging up. . . . We, on the other hand, are greatly divided, partly because we don't seem to know how to work together, but mostly because the superpowers are actively preventing us from cooperating." He accused the United States of "opposing the setting up of an Asian Monetary Fund for fear it might undermine the IMF and, therefore, U.S. hegemony.

"We now have to prepare ourselves to face and deal with challenges and dangers arising from new ideas about the structure of the world's economy, trade, and finance. Most of all, we have to deal with the self-declared right of some countries to interfere in the affairs of others." Pointing to the colossal divide between the richest 2% and the poorest 20% of the world's population, Dr. Mahathir warned again that "unless the interpretations of globalization and liberalization are changed, we think the poor will not only lose more, but they would virtually be colonized again."

Resist Hedge Funds

Haruhiko Kuroda, Japan's Vice Minister of International Finance, called for a regional Asian system to resist hedge funds' looting of Asia, in a speech entitled "Future International Financial Architecture and Regional Capital Market Development," at the Round Table on Capital Market Reform in Asia, in Tokyo on April 11.

The Asian currency crisis removed "about $100 billion worth of funds" from Asia, and this must never be allowed to happen unchecked again, Kuroda begins. "A year later, Russia was hit by a currency crisis, and at the end of 1998, it was Brazil's turn. During this 18-month period, many emerging economies had either been directly hit or at least affected by their worst crisis since World War II. These developments caused experts to conclude that these almost simultaneous global currency crises were caused not simply by problems in individual economies, but by defects in the international financial system."

After several summits blamed Mexico's "lack of transparency," or Asian "crony capitalism," Kuroda says, finally the folks at the IMF had to admit there was a fundamental systemic crisis. The Cologne Summit of G-7 Finance Ministers' "Report on Strengthening the International Financial Architecture" contained many "unprecedented" promises for "comprehensive reform of the international financial architecture," he said. Unfortunately, the floating-exchange-rate system and the vast power of the "highly leveraged institutions," a.k.a. the hedge funds, brought these proposals to nought, he said.

For example, Kuroda says, the report proposed to study regulation of hedge funds, but this could not be implemented, because "most hedge funds are established in offshore markets, where transactions are free from control by outside regulatory bodies. Also, given that most hedge funds are managed from the United States, whether the U.S. Congress accepts such a measure would be critical," which, of course, the Congress does not. Therefore, Kuroda says, the first thing is that Asian governments will have to consider "direct regulation" of the hedge funds.

Since Asia can't tolerate another crisis, but the IMF crowd won't permit regulation of the global markets, "I believe that we have to explore 'a third way' to enhance stability," Kuroda states. "Since the saving ratio is as high as 30 to 40% in emerging Asian economies, their growth could have been largely achieved without overseas borrowing," so Asia should "establish a regional capital market, because capital providers have nationalities and regionalities, although funds can move freely across borders. Such reasoning is the main factor behind Europe's great efforts to set up a regional capital market. . . . Fortunately, in Asia, there is a large pool of savings that could be effectively used for mutual benefit through a regional capital market. A common mechanism to enhance the credibility of such a regional marketplace, standardized bonds for issuance in the region, and a regional credit-rating organization are measures worth considering to support the distribution of such funds within Asia."

Japan's Ministry of Finance in particular wants to encourage fewer short-term loans and stock speculation, in favor of getting Asians to buy long-term bonds of Asian companies, he says: "This is why the New Miyazawa Initiative in the second stage places particular priority on the development of bond markets. The initiative aims at boosting financing through bond issuance by guaranteeing bonds issued by Asian countries."

Kuroda then calls for some sort of Asian regional central bank or lender of last resort, saying: "Also worth considering is the establishment of a safety net . . . to support the financial markets. . . .

"Finally, to enable the financial and capital markets to contribute to the economic growth of the region, exchange rates must be stabilized," he notes, getting to the Chiang Mai issue. While the IMF won't permit discussion now of a global mechanism to stabilize foreign exchange rates, "a regional mechanism is possible and may be necessary," he says. "It would be difficult for the yen on its own to play a role similar to that of the euro and the dollar; however, the region could start with a basket composed of the yen, the euro, and the dollar before imaging a common currency for Asia."

While waiting for the never-never-land of reform of the international financial system, "in the wake of the Asian crisis, emerging economies independently introduced various domestic controls and regulations," he concludes. "It is understandable that they resorted to such countermeasures; however, it is an undesirable solution for the long term. A shift from the individual nation approach to a coordinated regional strategy may be a practical alternative."