
Conference Report

LaRouche's ideas polarize forum on China at Harvard

by Roger Ham

On May 30, this correspondent, along with Leni Rubinstein, editor of *EIR*'s Chinese-language edition, participated in the inaugural conference of the Harvard China Review organization, entitled "Asian Financial Crisis: Challenges and Opportunities." The day-long conference, held at the John F. Kennedy School of Government, was attended by 350 people, of whom about 90% were Asian, mostly Chinese, from the academic and business community. The event was an excellent example of the power of Lyndon LaRouche's ideas in a time of crisis.

To fully appreciate what happened at the conference, it is important to identify the specific role Harvard has played in the ongoing global financial crisis, and with respect to China as well. Harvard trains government officials from all over the world, and also "advises" nations on how to run their economies, with deadly results we have only begun to see unleashed.

One notable example is Jeffrey Sachs, an economics professor at Harvard and one of the sponsors of this conference. Sachs has been one of the leading advocates of "shock therapy" economic policies for eastern Europe and elsewhere. When the Soviet Union collapsed, the Russian government turned to Harvard and Sachs for advice on how to "reform" its economy. As *EIR* repeatedly warned over the last several years, the shutdown of 50% of Russian industry and the explosion of organized crime were the direct and predictable results of Sachs's free enterprise dictums. The ongoing collapse of the Russian financial system and economy is living proof of the bankruptcy of these policies.

Sachs is the current director of the Harvard Institute for International Development (HIID), which was recently involved in a major scandal in Russia. According to the June 1 *Boston Globe*, the two main HIID officers in Moscow were accused of gaining influence over the Russian capital markets that they were helping to set up, and had sought personal gain. According to the head of the Russian government's auditing agency, the HIID officers had "ultimate control over the entire privatization effort in Russia. This route to privatization led to a disaster for Russia." The two HIID officers were dismissed, and the Moscow office was shut down, after the U.S. Agency for International Development cancelled its contract

with HIID. Over the past six years, virtually all senior Russian military officers have attended Harvard seminars.

HIID runs projects in 60 countries; it ran major economic advisory operations in the Malaysian President's office in the 1970s and '80s, and played key roles in Indonesia and South Korea. These programs helped launch the so-called Asian economic boom, which is now collapsing.

In the past year, more than 100 senior Chinese civil servants, including several dozen colonels and intelligence officers, have gone through similar Harvard programs funded by Hong Kong billionaire businesswoman Nina Kung. With \$7 million contributed by Kung, a scholars program was set up at the Kennedy School in 1997, and is now the largest program of interaction with Chinese elites in the world.

Harvard's president, Neil Rudenstine, visited China in March, and will return this month. Last November, Chinese President Jiang Zemin spoke at Harvard.

The conference sponsors

The China Review conference was sponsored by many of the same financial institutions that are trying to pressure China into opening its economy and financial markets to the policies which are now ripping into pieces Indonesia, Russia, and numerous other nations. Among the sponsors were Morgan Stanley Dean Witter & Co., John Hancock Mutual Life Insurance Co., and BankBoston. The conference consisted of seven panels, representing a "Who's Who" of the financial establishment, including the World Bank, the International Monetary Fund (IMF), Salomon Smith Barney, the Federal Reserve Bank of Boston, Goldman Sachs, Microsoft/China, the International Association of Investment Bankers, and the *Washington Post*, *Financial Times*, and the *Asia Pacific Economic Review*. The aura of prestige associated with Harvard was demonstrated by the fact that at least one speaker had flown in overnight from Hong Kong, in order to speak on one of the panels for 15 minutes.

Rubinstein had been invited by one of the conference organizers to give a presentation on the panel entitled, "How Should the World Deal with the Asian Crisis?" She was to take the place of the Assistant Secretary for International Affairs from the U.S. Treasury, who had to remain in Washing-

ton because of the Asian crisis. But, allowing a representative of LaRouche to speak at Harvard ruffled some feathers, and after a protracted fight, she was only allowed to ask an extended question from the floor after one of the panels.

The keynote speaker was Zhou Xiaochuan, president of the China Construction Bank. Zhou explained that various people have claimed that China will have to devalue the renminbi, if not in 1998, then certainly in 1999. "Maybe this is not true," he explained. China had been hurt by the financial crisis, but China continued a trade surplus this year. "As a developing nation, we do not need that much foreign exchange reserves. \$100 billion is enough," he said. He concluded by stressing again that China is not going to devalue the renminbi in 1998 or 1999.

Following his speech, this reporter asked the first question—whether the \$750 billion that China had decided to invest in infrastructure over the next three years, would enable China to avoid the dangers of the bubble economy. Zhou answered that this decision was very good. The development of the cities is going smoothly in China, he said, but we still have some problems regarding infrastructure, so the identification of new projects is very important. Otherwise, he said, "I am not the right person to talk about government policy."

Establishment defends speculators

In general, the seven panels consisted of one Chinese and two other financial representatives; the Chinese panelists being the only speakers reflecting reality. This was apparent in the "banking" panel which followed. Peter Bottelier, the senior adviser to the World Bank vice president for East Asia and the Pacific Region, claimed that the World Bank had warned the Asian countries about their structural problems, mismanagement, lack of transparency, and so on, but they simply didn't listen and are now suffering the consequences.

Akinari Horii, general manager and chief representative of the Bank of Japan in the Americas, asserted that the crisis began with the speculative attacks on the Thai baht. Readers of *EIR* are familiar with our role in exposing the speculators, such as George Soros, who led these attacks. Yet, Horii stated that Japan would continue its easy money policy as it deals with what he called "the post-bubble economy." LaRouche has warned that the enormous output of new yen and new credits have led to liquidity flowing out of Japan and merely served to feed the growing bubbles in Europe and the United States, and therefore have done little or nothing to halt the impending bankruptcies and defaults throughout the Japanese economy. The growth of money supply in Japan at an annual rate of 41% will only fuel a hyperinflationary collapse.

Steven Radelet, HIID associate and co-author of several papers with Sachs, spent four years as resident adviser on macroeconomic policy to the Minister of Finance in Indonesia (1991-95), and has worked in Thailand, the Philippines, Korea, and Nepal. He claimed that no one had seen this crisis

coming. He said, "We had the tulip bulb bubble, the South Sea Oil bubble, and now we have this bubble, but we just don't know why they happen. It has something to do with excess capital flows into underdeveloped financial systems."

The disintegration of Indonesia, the fourth most populous nation in the world, under such guidance from Radelet and Harvard, should serve as a warning to other nations still using (and paying for!) their services.

Reality begins to emerge

The simplistic explanations of the crisis presented by the other panelists were implicitly rejected by Wu Jinglian, one of the chief economic advisers to Chinese Prime Minister Zhu Rongji. Wu stated that the fundamental root of the Asian crisis is the divergence of the financial system from the real, physical economy. He continued that the asset inflation in Asia and the West had led to bubbles which burst. On the one side, large amounts of money have been pumped into inefficient projects and a growing accumulation of non-performing debt has followed, and second, financial institutions have channelled huge sums into economic corruption and widespread speculation. China is being very cautious to increase demand while avoiding inflation and such "bubbles" (the common term used to describe speculative financial activity). "Why does China have a good performance?" he asked. "Not because the deep structures are better than our neighboring countries, but because China in 1993 took measures to bring down the inflation and squeeze the speculative bubbles out of the system." Restrictions have been enforced to lower the real estate and stock prices, yet the price-to-earnings ratio remains high. The inconvertibility of the renminbi has also helped China from being hit. "We have to deal very cautiously with the Asian crisis," Wu said. He described how the government has taken long-term measures to reorganize the state-run enterprises, and is emphasizing the creation of a favorable business environment for small and middle-sized enterprises. China's emphasis will be on the long-term development of suppliers in the region as well.

During the question period, I thanked Professor Wu for pointing out the essential cause of the financial crisis as the deviation of the financial system from the real economy, a point that Lyndon LaRouche has made for years. I further explained that this was the reason that the other panelists and most so-called "experts" have failed to understand the cause or the solution to the global crisis. When I described LaRouche's forecast of the 1987 New York stock market crash and his forecast of the October 1997 currency crisis in Asia, one of the American VIPs sitting in the front row, smacked his forehead, but the audience was receptive, applauding when I described the ongoing collapse in Russia as proof that this is a global crisis, brought about by the failed policies of the IMF and World Bank.

From that point on, the discussion increasingly shifted to issues of the physical economy. The effort of the financial

establishment to restrict the conference to a level of virtual reality was broken.

The World Bank official responded, "Well, some people who make enough predictions, can be right five out of three times [sic]. Without naming names, I would agree that these are important issues to consider. . . . It's true that global liquidity greatly exceeds GDP, and the discussion of creating a new architecture seems to indicate something as important as the creation of a New Bretton Woods after World War II." Yet, he also defended speculators: "Don't attack them; they may have triggered the crisis, but they didn't cause it." In response to a question regarding Malaysian Prime Minister Mahathir bin Mohamad's call for banning currency speculation as immoral, he referred to Chile's restrictions on capital flows and the proposed Tobin tax on speculative transactions, but dismissed such measures as unworkable.

Radelet, from HIID, also defended speculators. "They play a positive role, a very positive role," he said.

After the second panel on the Asian crisis, Rubinstein was called on from the floor as the first questioner. She described the systemic nature of the global crisis, and asked, "Is it not remarkable that nobody so far has mentioned a word about the derivatives crisis?" She explained that the derivatives held by U.S. banks alone comprised a sum several times larger than the GDP of the United States. She compared the current crisis with the crisis in the 14th century, with the collapse of the Lombard banking system, which devastated Europe, and stated that the only way to solve this crisis is a total reorganization, not reform, and that such a reorganization should take the best features from the old Bretton Woods system. She continued, that to put a human face on this crisis, you must look at how IMF policies have killed millions and driven millions more into poverty. This is criminal. She briefly outlined the LaRouche concept of the Eurasian Land-Bridge and said that for the sake of the world's children, we must fight for this future in the 21st century. She was heartily applauded and several people approached her for literature.

In response, Jane Little, the assistant vice president of the Federal Reserve Bank of Boston, acknowledged that, in fact, there is a global crisis. Another panelist, Charles Clough, Jr., chief investment strategist of Merrill Lynch, said he hadn't read enough about the idea of a New Bretton Woods to comment, and further, that he didn't know very much about derivatives, which is a very complex area that needed to be researched much more. One of the other panelists asked Rubenstein afterward for any information she could give him on derivatives.

So much for the financial experts telling other countries how to run their economies!

After lunch, Li Zhaoxing, Ambassador of the People's Republic of China to the United States, spoke. He was born in Shandong Province (the birthplace of Confucius), has travelled to 110 nations, and speaks several languages. He said that China is stable, but has suffered losses. We have learned,

he continued, that China cannot use any country as a model, but must build our own socialism. In 1997, China had a growth rate of 8.8%, with inflation of 0.8%. The target for 1998 is 8% growth, with inflation under 3%. China wants to deepen the reforms and wants to buy more U.S. goods. This year China will buy more oranges and California wines, for example, but these do not amount to a lot of money. And the goods that do, often encounter trade restrictions. China would like very much to help the United States reduce its trade deficit, he said.

On the Asian crisis, Ambassador Li said that China has contributed \$4 billion to assist its Asian neighbors, and has probably contributed even more by maintaining a stable currency. He said that China is being very cautious to prevent the bubble economy from misleading them, although they do want to continue to open up to the world market. He cited the \$750 billion planned infrastructure investment over the next three years, as an opportunity to create many new jobs and investment opportunities. China is still a poor country—the U.S. GDP is ten times larger than China's—and wants peace in order to concentrate on solving this problem. He deplored the nuclear tests by India and Pakistan, describing them as "very dangrous," and said that China must cooperate on non-proliferation, as well as cross-border crimes, such as drugs.

The impact of LaRouche's ideas grew during the day as panel after panel was forced to address reality. During panel four, "Investment in Asia: How Will It Be Affected by the Crisis?" Carroll Perry, director of Emerging Markets Corporate Finance for the BankBoston, admitted, "We got it completely wrong on Asia! If you had asked me the odds of Thailand collapsing, I would have said 1-in-50, and South Korea, 1-in-500. It's these huge capital flows. If you're standing on the beach when the wave hits—you're gone!"

After such an uncommon admission, I thanked him for his honesty, but asked, "If you got it that wrong on Asia, why are you sitting up there and we're sitting here listening to you?" He winced, and I proceeded to urge everyone in the audience to read the latest issue of *EIR*, particularly the article entitled, "Financial Crisis: End Phase of a 30-Year Disease." I said, "The article explains the errors in thinking that prevented most people from seeing the warning signs when they appeared, such as derivatives. Some \$140 trillion in derivatives cannot be explained away as 'risk management'; it's pure gambling. This is what is destroying Russia as we speak, and I hope that China has the courage to resist the pressure to devalue, deregulate, and open itself up to this speculative looting." I concluded, telling people that I had this material in both English and Chinese.

For the rest of the conference, people were thanking us for asking such good questions. The overwhelming response was one of joy to know that this is not an Asian crisis, and that there are people working all over the world to build a just, new world economic order.