with respect to social services to "the poor and such as have been most affected by the war and unrest," since "a puffed-up social budget would undermine the budgetary prudence which is indispensable for stability."

Blunder 4: Destruction of the state's role

Those who want to enforce such priorities, also have to prevent the state from pursuing its own economic policy, independent of foreign interests. Article II of the Dayton Agreement limits the economic responsibilities of the central government to monetary policy (which operates under a foreign-controlled currency board), foreign trade, and customs issues, as well as acceptance of foreign credits and repayment of debt. Beyond these areas, the central government has scarcely any income from taxes, because taxes are collected by the two half-republics and the cantons. The central government is simply supposed to create the legal framework, so that the "free market" can work.

Thus, the IMF preparatory document for the second donor conference on April 2, 1996 (Executive Summary, p. xxi), says: "The government's extremely bad tax situation leaves no alternative but that of the private sector, should the current macroeconomic stability be sustained. The resources for any investments or interventions whatsoever on the part of the government are simply not available. Under these conditions, it will be the task of the creditors to take up job creation as an integral part of the reconstruction program."

The declared ideological aim of the leading aid institutions, the IMF and the World Bank, is to continue the process of privatization which was interrupted by the war. In IMF language: "It is tempting to argue that, on account of the special conditions in Bosnia-Herzegovina, the government should have a direct role in the expansion of production by reactivating state-owned enterprises." But the IMF strictly rejected that "tempting argument," and, instead, insisted on the promotion of "the expansion of the service sector and light industry by private enterprises."

Blunder 5: The currency board

Since August 1997, the chief instrument for denying the central government any independent role in reconstruction, has been the central bank, which, according to the constitution stipulated in the Dayton Agreement, is to function for at least six years as a currency board. The board is under the control of the IMF, and is led by a non-Bosnian president, who is chosen by the IMF, and who has three national deputies. It is expressly forbidden for the central bank to create money (Article VII of the constitution, Annex 4 of the Dayton Agreement). The bank may, as may any currency board, bring only that volume of money into circulation, which is covered by foreign exchange (in this case, deutschemarks). Because Bosnia has no export earnings to speak of, the main source of exchange is the money provided by the international community, which the currency board dispenses as it sees fit. If the volume of this money contracts, which has been increasingly the case since 1997, this immediately has an impact on the amount of money circulating in the economy.

Reconstruction can work

The above analysis is not intended to spread pessimism, but rather to show how a reconstruction program should *not* be designed. What is now needed, is a grand reconstruction plan for the entire region of Southeast Europe, *without the IMF and World Bank conditionalities*. Nations must have the possibility to create their own reconstruction projects, modelled upon the German Kreditanstalt für Wiederaufbau (Bank for Reconstruction), and to create credit through a national bank for financing those projects. International aid money must be administered by the governments themselves, with an accounting for their use. Humanitarian and international organizations may play roles in an advisory capacity only, but should not have the power to dictate decisions.

ASEAN seizes opportunities in a time of crisis

by Gail G. Billington

Three major conferences took place in Southeast Asia in late July, which proceedings reflect a distinct shift leading to even closer collaboration among regional leaders in concert with what *EIR* has identified as the "Survivors' Club" of major powers, including Russia, China, India, and Japan. The shift is driven by political fallout from the NATO bombing campaign against Yugoslavia and the lingering effects of the so-called "Asian contagion," the financial *tsunami* that slammed ashore in the first week of July 1997, and has yet to subside.

The annual ministerial meetings of the Association of Southeast Asian Nations (ASEAN) began in Singapore on July 23, followed by the July 26 meeting of ASEAN's foreign ministers with their 12 counterparts in the ASEAN Regional Forum (ARF), the only regional political and security forum, and concluding with the Post-Ministerial Meeting. On the sidelines, a density of bilateral meetings took place between individual foreign ministers, and among ASEAN's combined foreign ministers and each of their ten "dialogue partners," including China, India, Russia, the United States, the European Union (EU), Japan, South Korea, Australia, and New Zealand. Singapore Foreign Minister Shanmugan Jayakumar, who chaired the ARF meeting, welcomed Mongolia as a new participant; Papua New Guinea is the only other member.

Flanking the ASEAN meetings, the regional and global economic crisis was featured at the July 25-28 fourth annual Langkawi International Dialogue, hosted by Malaysia, which brought together representatives of 38 developing nations, including nine heads of state and government leaders, most from central and southern Africa.

The third major conference on the economic crisis was held in Bangkok, Thailand on July 29-30 under the title, "Asia: Back to Basics?" Sponsors included Thailand's English-language daily *The Nation,* CNBC, the Kenan Institute, and iTV, along with a number of corporate sponsors, including Lion Corp., the Tourism Authority of Thailand, and Thai Airways International.

A more dangerous world situation

This year's ASEAN meetings in Singapore celebrated the achievement of the 32-year-old dream of the group's founding fathers, to unite the 10 continental and archipelagic nations of Southeast Asia: Myanmar, Thailand, Cambodia, Laos, Vietnam, Malaysia, Indonesia, Brunei, Darussalam, and the Philippines. The induction of Cambodia into ASEAN in April, after a two-year delay, finally closed the circle.

These meetings were the first major international "talk fest" since the NATO bombing campaign in Yugoslavia, and the response to that campaign came through loud and clear, exemplified at the extremes by U.S. Secretary of State Madeleine Albright's categorical defense of the campaign, on the one hand, and Chinese Foreign Minister Tang Jiaxuan's speech to the ASEAN Post-Ministerial Meeting, on the other, in which he eloquently called for a "new international political, economic, and security order" as the only way for mankind to "achieve its *beautiful* ideal of building an equal, cooperative, and prosperous world." Against which, he warned that "hegemonism, power politics, encroachment upon the sovereignty of another country, and interference in other countries' internal affairs are still affecting, and even threatening, mankind's peace" (see *EIR,* Aug. 6, 1999).

On July 26, *The Nation*'s editorial encapsulated ASEAN members' concern: "After years of reluctance, ASEAN has at last come to grips with a harsh new reality in international politics: conflicts that cannot be solved regionally could end up with international intervention. Recent events in Kosovo prompted ASEAN to realize that outside military intervention is possible and could be done, with or without the approval of the United Nations."

Leading the charge to "internationalize" key regional issues, such as claims by six regional nations to the Spratly Islands in the South China Sea, and human rights (especially with regard to Myanmar), were Albright, Australia's Foreign Minister Alexander Downer, and EU Council president Finnish Foreign Minister Tarja Halonen. In the past, ASEAN has come under pressure from these powers to include them in the rotation of the chairmanship of the ASEAN Regional Forum, a demand that the Southeast Asian nations have consistently refused. Under current circumstances, it is not surprising that during their pre-meetings, the ASEAN foreign ministers held their first-ever, ministers-only "retreat," a four-hour session to prepare for the talks to follow.

On July 26, *The Nation* reported that for the first time since the signing of the Treaty of Amity and Cooperation (TAC) in Southeast Asia in 1976, ASEAN decided at these meetings to take advantage of a mechanism written into that treaty precisely to preclude external interference, by setting up a High Council to arbitrate bilateral disputes between countries. The ASEAN foreign ministers also took the initiative to prepare a draft to move from "confidence-building measures" to "preventive diplomacy."

Albright cuts 'una brutta figura'

Albright arrived in Singapore on July 25 exuding the worst combination of the arrogance of Vice President Al Gore's performance at the ASEAN heads of state meeting in Kuala Lumpur in 1998, and the *primus inter pares* superpower belligerence of her mentor, Zbigniew Brzezinski. Declaring that even though the United States has been preoccupied with the Balkans and Europe, "no region of the world is of greater importance to U.S. interests or to the future of world stability and peace than the Asia-Pacific," she proceeded to tick off her agenda: China-Taiwan relations, stability in South Asia, the Korean peninsula, tension over the Spratlys, extracting a pledge for a peaceful transition in Indonesia and a "free and fair vote" in East Timor, human rights in Myanmar, and nuclear nonproliferation and weapons of mass destruction, which, she declared, "will remain for some time, the most important diplomatic challenge we face."

She had an additional set of "transnational issues," including terrorism, drug smuggling, trafficking of women and girls into prostitution, and, her personal bugbear, denouncing Myanmar as "a threat to regional security" because of its "failure to move toward democracy." She threatened, "I want to make clear that Rangoon [Yangon] should talk to the National League for Democracy and Aung San Suu Kyi," which, of course, assumes Aung San Suu Kyi wishes to speak to Yangon. Last but by no means least, Albright told ASEAN to stick to International Monetary Fund (IMF) economic reforms, saying, "It is vital . . . that neither those inside nor outside the region declare victory too soon. . . . The battle against corruption and cronyism must be waged on all fronts."

During the ARF meeting itself, Albright reportedly refrained from her earlier blast at Myanmar, but not so with the highly sensitive Spratly Islands disputes. "We cannot simply sit on the sidelines and watch. Nor can there be any doubt that this is an inappropriate forum for discussion of this issue," she said. Australian Foreign Minister Downer concurred in remarks at his press conference, going directly to the heart of that which ASEAN sought to prevent: "One of the issues the ARF needs to cut its teeth on is the South China Sea issue. It is certainly the view of the Australian government that the ARF needs to be a catalyst for helping to develop ways of managing the South China Sea conflict." Subsequent to the ASEAN meetings, Downer has made similar statements about Australia's military contingency planning in the event of a UN peacekeeping mission in East Timor following the autonomy vote on Aug. 30—no doubt a most unwelcome surprise to Jakarta.

Where Albright did not tread, at least during the ARF meeting, EU President Halonen stepped in with both feet, effectively declaring an impasse in talks with Myanmar's Foreign Minister Win Aung, and warning that the EU would not lift visa sanctions against Myanmar officials, who might wish to participate in ASEAN investment "roadshows" to Europe.

The most spectacular results of the ASEAN meetings, while not anticipated by Albright, Downer, and Halonen, speak volumes about how ASEAN and its dialogue partners, Russia, China, and India, view the world in the post-Yugoslavia bombing era. China's Tang Jiaxuan declared Beijing's readiness to accede to ASEAN's Treaty of Amity and Cooperation and its 1995 agreement to establish a nuclear-weapons-free zone in the region, the Southeast Asian Nuclear Weapons Free Zone Treaty. One day later, India announced a similar intent, and Russia has signalled that it will study the possibility further. On the sidelines of the ASEAN meetings, these three emerging "strategic partners" held fruitful bilateral meetings.

Within ASEAN itself, one of the most dramatic responses came from Thailand, which has genuine cause for alarm over the explosion of illegal amphetamines production being carried out by the rebel United Wa Army in Myanmar, one of several continuing insurgencies against the central authority. But, unlike Albright, Thai Deputy Foreign Minister Sukhumbhand Paribatra refused to blame Myanmar, saying, "The call for ASEAN to intervene is based on a wrong assumption of the genesis and nature of ASEAN." Instead, Thai Foreign Minister Surin Pitsuwan proposed in the pre-meetings the need to re-think the regional Mekong River Development Project, a major transportation and energy-generation project, as a model of the type of necessary infrastructure project that would do more to raise the economic and social potentials of the poorest of the ASEAN member-states, and thereby go further toward eliminating precisely those social ills which Albright and the EU are so wont to complain about. Surin described his idea as "a mini-Marshall Plan" for the region.

The dam breaks vs. the IMF, globalization

Parallel to the ASEAN meetings in Singapore, the Malaysian government hosted the fourth annual Langkawi International Dialogue (LID) on July 25-28, which squarely addressed "new global financial architecture," and detailed the failings of IMF policy. The LID provides a forum for "South-South" discussion among developing nations. This year's meeting included nine heads of state or government leaders, mostly from central and southern Africa, among whom are several of the world's leading gold-producing nations that have suffered a price collapse below the cost of gold production thanks to the strenuous efforts of Bank of England Governor Eddie George and cronies to bail out bankrupt hedge funds.

Prime Minister Dr. Mahathir bin Mohamad delivered the keynote address on July 25, titled "Globalization Must Be Humanized," in which he laid out the need to protect nations from the ravages of the unregulated, free-market system. He said, "The first thing that everyone must admit is that a level playing field is not enough. . . . Handicaps must be given to the disadvantaged. . . . Secondly, in order to have free trade, you must regulate." Currency traders and market speculators should have high and low limits slapped on them. A tax should be imposed on all international speculators, which tax would compensate looted countries. They should be banned from offshore financial centers.

"Globalization . . . is already a fact," he said. "But . . . that does not mean that we should just sit by and watch as the predators destroy us. Those of us who believe in sharing, in prospering our neighbors; we certainly cannot just submit. Many of us still remember the days of colonial subjugation, the pain and the humiliation. . . . We must therefore work to put a human face to globalization." Malaysia's Securities Commission chairman Ali Abdul Kadir told the meeting that Malaysia will push for direct regulation of hedge funds.

The African heads of state attending the meeting included Zimbabwe's Robert Mugabe, Namibia's Dr. Sam Nujoma, Botswana's Festus G. Mogae, King Mswati III of Swaziland, Mozambique's Joaquim Alberto Chissano, Lesotho Prime Minister P.B. Mosisili, South African Vice President J. Zuma, and Seychelles Vice President James Alix Michel. Keen interest in Malaysia's selective capital controls was expressed by these leaders. President Mugabe told a press conference on the sidelines of the LID in Malaysia, "Yes we will impose currency controls where necessary." He reported that the Zimbabwe dollar has depreciated 60% because of internal and external speculation.

The team that put together Malaysia's economic recovery policy was in high demand for consultations during the meeting. Heads of state from Zimbabwe, Swaziland, and Mozambique met with the team. Malaysia's Bank Negara Deputy Governor Dr. Zeti Akhtar Aziz was to address the 300 participants on what Malaysia has done. In the course of discussions, she demanded that big and small economies participate in reform of the international financial system, including a framework for regulating capital flows.

At the LID, Thai Deputy Prime Minister and Commerce

Minister Supachai Panitchpakdi gave his most explicit endorsement yet of Malaysia's selective controls, fed by the bitter battle over the World Trade Organization Director General's post, in which the United States and much of the EU favored a Mont Pelerinite, New Zealand's Michael Moore, over Supachai's candidacy.

"Each country should try its own medicine," Supachai said, pointing out that it is "cold consolation" for the IMF to now admit it made mistakes in handling the Asian crisis. IMF aid brought controversy, crippled economic activity through tight fiscal and monetary policies, and contributed to social chaos and loss of lives in Indonesia. In the Thai case, he said that it was "inevitable" that it turned to the IMF, because of the former government's delayed action, the weakness of macro-economic policy, and the draining of $40 billion in foreign reserves in a failed effort to save the baht peg. He added that the timing of the float of the baht on July 2, 1997 was the worst imaginable, precisely because reserves had been exhausted.

But the IMF's fiscal austerity was "harsh," especially the initially mandated 1% surplus (later scrapped). Supachai declared, "This was not only impossible, but also the direct opposite of what was needed. Thailand should have been spending to boost the economy." He also charged that double standards were in use regarding the cause of the crisis: "In the West, when banks are rescued, it is a necessity, but in Asia, it is seen as corruption and cronyism." He also renewed his call for an Asian Monetary Fund, saying, "It is unthinkable to have financiers in New York control the destiny of our economies."

Malaysia's leading daily, the *New Strait Times,* described the Langkawi Message, issued at the end of the conference, as "a strong indictment of the IMF for the failure of its one-size-fits-all bailout conditions."

Many, if not most of those attending, also belong to the British Commonwealth, and consensus was reached to bring the results of the LID discussions into the November Commonwealth Heads of Government meeting in South Africa. Following the meeting, several leaders joined Dr. Mahathir at the new capital, Putrajaya, including Sudan's President Omar Ahmad al-Bashir, Mozambique President Chissano, Lesotho Prime Minister Mosisili, Ghana Vice President Professor Mills, South African Deputy President Zuma, and Jordanian Finance Minister Dr. Michel Marto.

Re-thinking privatization, general welfare

At the July 29-30 Bangkok conference on "Asia: Back to Basics?" World Bank chief economist Joseph Stiglitz dumped cold water on any suggestion that Asia has recovered. "Most of the countries are nowhere near recovery in terms of fundamentals of output, employment, and real wages," he said. He praised China, saying that Beijing realized and acted on the need to stimulate demand, and put into place "a well-thought-out stimulus package that addressed the country's long-term needs at the same time that it addressed the short-term macroeconomic situation."

In his keynote address, Stiglitz advised against a rush to sell off domestic banks to foreigners, because such a step might turn out to be simply giving away domestic assets on the cheap, paving the way to restructure as a means of asset-stripping. He cited a case in South Korea, in which the Seoul government had reached a preliminary deal to sell a local bank to U.S. investors, but when the time came to settle, the U.S. side tried to talk down the price. Korea held its ground; a threat was issued that if the deal did not go through, word could be spread that Korea was dragging its feet on financial and economic reform.

Prof. Takashi Shiraishi of the Center for Southeast Asian Studies, Kyoto University, reviewed the post-World War II evolution of the Asian economies, to make the point that it would now be "folly to mix up industrial policies with cronyism and corruption and short-term efficiency in resource allocation with long-term national welfare."

British takeover of Asian banks is facing trouble

Several high-profile British buyouts of Asian banks have either fallen through or are on the verge of falling through, because of a nationalist backlash, the *Far Eastern Economic Review* reported in its July 15 issue. The most spectacular is Standard Chartered's plan to take over one of the oldest private banks in Thailand, Nakornthon. The deal was so rotten, and drew such broad protest throughout Thailand, that the government finally refused to approve it. Standard Chartered was putting in only about $160 million, while the existing stockholders took a 100% loss, and the government had to cough up $350 million—and yet Standard Chartered would get 68% ownership!

In Indonesia, Standard Chartered's much ballyhooed purchase of Bank Bali is also running into problems, while Hongkong & Shanghai Bank Corp.'s plan to buy Seoul Bank in South Korea has stalled. Thus far, only three takeovers in all of Asia have gone through since the beginning of the financial crisis in the summer of 1997: DBS of Singapore bought Thai Danu Bank, ABN Ambro bought Bank of Asia in Thailand, and Commerzbank bought Korea Exchange Bank.

The collapse of the Nakornthon deal is causing distress across the board, because the lucrative deal was to be a model for several other buyouts in the pipeline.