

Asia Begins New Arrangements for the Coming Dollar Crash

by Kathy Wolfe

The April 10 announcement that North and South Korea will hold a heads of state "Reunification Summit" in Pyongyang on June 12-14, is part of a broader move by China, Japan, the Koreans, and members of the Association of Southeast Asian Nations (ASEAN), faced with the coming crash of the U.S. dollar-based global financial casino, to create new arrangements for their nations. The joint statement by Seoul and Pyongyang, calling for an "end to the Cold War structure of confrontation," was encouraged by Beijing, which provided the venue for negotiations. It was followed by two successful meetings in the Korean Demilitarized Zone (DMZ), on April 22 and 27, the first on Korean soil since 1994.

The Inter-Korean summit focus will be a drive to rebuild the infrastructure of the North, Yonhap News and other Korean press report. South Korean President Kim Dae-jung on April 14 announced plans to issue more than \$1 billion in "unification bonds" for large rail, road, power, and other projects, in the vein of *EIR's* "Euro-Asian Land-Bridge" plan, widely circulated in Beijing and Seoul. Such a "great project" would not only jumpstart South Korea's economy, but could also allow Kim Dae-jung to escape from the International Monetary Fund (IMF) austerity program, which has gutted his country since the global financial crisis broke out in Asia in 1997, one Korean official told *EIR*. Despite the popularity of the April 10 announcement, Kim had been shocked by his defeat in Seoul's April 13 National Assembly election, as voters, with more than 50,000 auto workers on strike against rising unemployment, cast their ballots against the IMF.

Meanwhile, Asian officials may be creating groundwork for a bigger challenge to the IMF: a new fund modelled on the Asian Monetary Fund (AMF) proposed by former Japanese Vice Finance Minister Eisuke Sakakibara during the 1997 crisis. The Korean move follows the March 24-26 finance ministers summit of ASEAN plus Japan, South Korea, and China, or "ASEAN Plus 3," in Brunei. In a March 26 statement, they announced plans to expand joint currency swaps into a larger "Asian reserve fund," to protect Asian currencies against attack. ASEAN Deputy Secretary Suthad Setboonsarng, said in Brunei on March 25, that there was "over \$700 billion in international reserves" among the group. "We can use that to help each other."

Federal Reserve Bank of New York President William McDonough quickly denounced the idea, saying that the

United States opposed Sakakibara in 1997, and continues to oppose any type of Asian facility that would undercut the IMF. "Will they [the IMF] fund us when we have problems?" Suthad retorted.

The Post-Dollar World

No matter how loudly the Fed and the U.S. Treasury scream, it has finally become obvious in Asia, especially following the April 17 "Black Monday" collapses of Asian stock markets after U.S. markets crashed the previous week, that the emperor has no clothes. Plans must be made to keep the region afloat when the U.S. and global dollar markets collapse, even if it means challenging the IMF.

"It is a fact that the dollar hedge system was behind the 1997 currency crisis," Japanese Finance Minister Kiichi Miyazawa told the Tokyo Diet's (parliament) Lower House Budget Committee on April 25, the *Nikkei* daily wrote, reporting on a speech Miyazawa made to explain the Brunei Asian currency fund plan. Miyazawa "appears to be returning to the idea of a regional version of the IMF," meaning the AMF, "after Tokyo's plan for an Asian Monetary Fund was shot down by the U.S." in 1997, the newspaper stated.

Miyazawa told the Diet that Japan plans to propose "a very large multilateral currency swap accord," to include ASEAN, China, South Korea, and Japan, "to guard against future currency crises." He will propose this at the follow-up to Brunei during the May 6-8 Asian Development Bank meeting in Chiang Mai, Thailand. This would have to include wider use of Japan's yen as a "safety net" against fluctuations by the dollar against other currencies, Miyazawa said. "We had been reluctant . . . about the yen's internationalization. But . . . unlike in the past, we are positive now."

"As a matter of fact, we are planning to expand swap and repurchase agreements between Japan and other countries," Miyazawa told the Diet. "Through such things, I hope other countries will have a sense of affinity with the yen." Miyazawa said that he planned to encourage other countries to use the yen more often this way. Currently, 60% of world foreign exchange is conducted in U.S. dollars, and 23% of it in European currencies, so that every time an Asian nation wants to import or export, it has to dump its own currency to buy dollars or European currencies in order to trade. The Japanese Finance Ministry hopes a region-wide swap network "could

develop into an Asian monetary fund,” *Nikkei* reports.

Asian officials are refusing to use the term “Asian Monetary Fund,” Japanese and Korean officials have told *EIR*, simply due to the furious U.S. opposition to any such challenge to the IMF. They are referring to the new fund only as a regional currency support facility. One official told Agence France Presse that ASEAN is taking the lead and down-playing Japan’s role, “to try to cool Washington opposition to anything” that could be seen an alternative to the IMF.

A New Korean Future

South Korean President Kim Dae-Jung’s visit to Pyongyang to meet North Korean leader Kim Jong-Il on June 12-14 is meanwhile being firmed up rapidly. Kim’s plan to rebuild the North’s infrastructure is the core of the summit, and it could become a way for South Korea to circumvent the IMF austerity program. Kim has to move fast, because his Millennium Democratic Party was beaten on April 13 by the opposition Grand National Party, which now has 133 seats, just four short of a majority in the 273-seat National Assembly.

Voters cited the economy as an overriding reason they went against Kim. “Many blamed the government for having to rely on the IMF,” Dr. Kim Jong-nam of the Sejong Institute said on April 14. “Many people at the bottom don’t feel improvements have trickled down.”

After the election, President Kim issued a statement that he plans to pay more attention “to the economic needs of the people,” and called for revising all security and budgetary laws which now prevent large-scale assistance to the North.

Seoul and Pyongyang made rapid strides during talks on April 22 and 27, as the South made it clear that economic support was its focus. North Korea in turn did not make any of the maximal demands it often makes, which have derailed past meetings, such as calling for the removal of U.S. troops from Korea. The Seoul press on April 27 was filled with photos of negotiators embracing each other. The meeting was “successful, making 80 miles of the 100 mile distance,” South Korean Unification Minister Park Jae-Kyu said, “enough to sign an accord at the third meeting,” which will be in the southern part of Panmunjom in the Korean DMZ on May 3.

In a move with immense emotional impact in the South, North Korea announced on April 26 that South Koreans can now, for the first time since the end of the Korean War in 1953, research the whereabouts of family members in North Korea, and send food, clothing, and money to them. Union Community, a Seoul Christian charity group, and Hanvit Bank said that they will start remittance operations for divided Korean families on May 2. South Koreans can apply to Union, which will contact Kumgangs International Group of North Korea to confirm whether the relatives are alive. The South Korean Unification Ministry for its part, then granted permission for South Koreans to send money to family members in North Korea, something which has been strictly forbidden under the South’s security laws.

China at the Center

China has been the key player in the Korean developments, the one without which nothing of weight can be created in Asia. Now, Beijing has helped bring North and South Korea together, while also agreeing for the first time to discuss joining an Asian alternative to the IMF. China hosted three weeks of secret negotiations in Beijing between Seoul and Pyongyang starting on March 17, after years of support for direct inter-Korean negotiations, which have previously been carried out with Washington as the middleman. The Inter-Korean Summit agreement was signed in Beijing on April 8 by Seoul’s Culture and Information Minister Park Jie-Won and vice-chairman of the North’s Asian and Pacific Peace Committee Song Ho-Gyong. Chinese Foreign Ministry spokesman Zhu Bangzao expressed “welcome and support” for the summit.

South Korean Foreign Affairs-Trade Minister Lee Jung-binn arrived in Beijing on April 26 for a three-day visit to request help in moving the Inter-Korean summit forward quickly, from his Chinese counterpart Tang Jiaxuan, *Yonhap* news reported. “Consultations over the unprecedented summit between President Kim Dae-jung and North Korean leader Kim Jong-il topped the agenda,” they said. “Minister Tang pledged to make all possible efforts “to help the summit create momentum for a peace settlement on the Korean peninsula.” Tang said that Li Peng, chairman of the standing committee of the Chinese National People’s Congress, is set to visit Pyongyang in May, and will convey the peaceful intentions of Seoul’s engagement policy to Pyongyang.

Similarly, without China’s participation, any new Asian monetary fund could not effectively challenge the IMF global system. Numerous Japanese and Chinese diplomats have told *EIR* that China and Japan had found it difficult to agree on joint participation by the two countries when Sakakibara originally proposed the AMF in 1997, and that this was the real reason it did not then get off the ground. Japanese officials seem to think that China, which during 1997-98 was in intense negotiations to strengthen its friendship with President Bill Clinton, did not want to provoke the wrath of the U.S. Federal Reserve and Treasury Department just at that point. Many Chinese officials, for their part, did not believe Japan was ready to make a serious attempt to actually challenge the IMF. They also feared providing funds for a multilateral institution which might be run by Japan.

After China’s full participation in the Brunei “ASEAN Plus 3” meeting, however, some Japanese officials believe that Beijing is now ready to move. Referring to the U.S. bombing of the Chinese Embassy, one official said, “The Belgrade event did not make the U.S. as popular in Beijing as previously. China is getting closer to working with Japan on the AMF. If the ASEAN Plus 3 group actually does set up an exchange stabilization fund in May, which China joins, then it’s a big move. As the minister from Brunei mentioned at the meeting, ‘It’s not \$2 they are discussing.’ ”