

Financial Crisis Prompts Asian Chiang Mai Initiative

by Kathy Wolfe

As Asia, Europe, and the United States alike face a renewed global financial crisis, East Asian finance ministers on May 6 reached what Thailand's *The Nation* called "an historic agreement to redesign Asia's financial architecture" to protect their currencies from attack. Meeting at Chiang Mai, Thailand, the Association of Southeast Asian Nations (ASEAN) plus Japan, China, and South Korea (ASEAN Plus 3) created a network of currency swaps among all 13 nations, a pool of foreign exchange reserves to fight off currency speculators.

The minimum necessary size of the "Chiang Mai Initiative" fund, agreed to on the sidelines of the May 6-8 Asian Development Bank meeting, would have to be "at least \$20 billion," former Japanese Vice-Finance Minister Eisuke Sakakibara told a Bangkok audience, and could potentially involve the \$700 billion-odd reserves of the 13 nations, as ASEAN Deputy Secretary Suthad Setboonsarng said in Brunei on March 25 (see *EIR*, May 5, p. 16).

"If Japan and China work together, nothing can stop this now," a former Tokyo Ministry of Finance official close to Sakakibara told *EIR* on May 10. "The Chiang Mai initiative is a very important step forward, and marks a significant change in sentiment in Asia. Japan and China have huge amounts of dollar reserves, and now we are ready to use them in joint cooperation. Japan has over \$338 billion, and China almost \$200 billion, I believe."

"The initiative would establish a well-coordinated economic and financial monitoring system in East Asia," the 13 nations said in a statement, the *Korea Times* reported on May 7. Asian members "would lend U.S. dollars to each other to defend their currencies during speculative attacks or liquidity

problems," so that the country under attack could sell the dollars, the statement explained. "The loans would be paid back in local currencies at fixed exchange rates," thus potentially creating a new currency system internal to Asia.

The East Asian move comes as the crash of Wall Street stock markets has blown back around the world. As U.S. investors, frantic to cover cash gaps, pull money out of Asia and Europe, the Tokyo Nikkei has fallen 3,000 points (15%) in the past month, and many East Asian markets have collapsed with it. In April alone, foreign investors dumped a net \$7.7 billion in Japanese stocks, the biggest sale since February 1990. South Korea's Finance Ministry on May 9 announced that Seoul's short-term foreign debt has again risen to 30% of total foreign debt, \$43.4 billion out of \$143.2 billion—levels which allowed George Soros to start the 1997 "Asia Crisis" in Korea.

The European single currency, the euro, during this time has dropped by more than 20%; Soros himself told the British Broadcasting Corp. (BBC) on May 8 that it may soon fall below 80¢ and "disintegrate." The world's next financial crisis "is soon to come," he said, and this time, it "will originate in the relationships among the world's biggest countries," and smash the dollar itself.

New Bretton Woods System Needed

As *EIR* Founder Lyndon LaRouche emphasized in a speech to an audience in the Dominican Republic on May 3, the only way out of this worldwide crisis, is for world leaders to dump the current International Monetary Fund (IMF)-based global system, and create a New Bretton Woods mone-

tary system. This entirely new system, he said, requires fixed exchange rates, as in the 1950s, and must function as Franklin D. Roosevelt intended the original Bretton Woods system to do, by supplying large volumes of low-interest credit for long-term, high-technology development for all nations.

Without this, western Europe faces financial meltdown. This is seen in today's speculative assault against the euro by U.S. financial interests, protected by Treasury Secretary Lawrence Summers, who is frantic to keep the dollar high, in order to keep U.S. markets propped up during Presidential election campaign. The European Monetary Union Finance Ministers, meeting in Brussels on May 8, however, did nothing. They issued a statement expressing "concern" over the euro, but committing themselves to further deregulation of their markets.

This is not a euro crisis, but a global monetary crisis, German economics professor Wolfgang Filz, former Deputy Finance Minister under Oskar Lafontaine, editorialized in the German financial daily *Handelsblatt* on May 9. The reasons for the weakness of the euro lie not within Europe, "but rather in the U.S. [which] daily takes \$1 billion away from the world financial markets in order to finance consumption. The U.S. economy desperately depends on these foreign funds. This can only be sustained as long as the dollar is strong," and therefore the U.S. Administration is pushing an artificially strong dollar.

At the April G-8 Finance Ministers' meeting in Washington, a European banker told *EIR* on May 9, European ministers made an effort "to bring this up, to say that the dollar was overvalued. But Summers absolutely refused to discuss it." Intervention by the European Central Bank on the currency markets without backing by the United States would be very risky, the German daily *Die Welt* added on May 9, because even the European Union's \$350 billion of reserves might not be enough to stop speculation. It is unlikely that the United States would help such intervention, *Die Welt* said, because "expectation of a further rising dollar" is needed to maintain "enormous net capital flows into the U.S."

IMF Discredited in Asia

Since the Chiang Mai currency defense fund was first announced at an ASEAN meeting on March 25 in Brunei, many Asian spokesmen have gone to great lengths to insist that they are not challenging the authority of the IMF, but rather are merely creating a "complement to the international financial institutions," as the May 6 Chiang Mai ASEAN Plus 3 ministers' statement put it.

In 1997, when then-Japanese Vice Finance Minister Sakakibara in 1997 proposed creation of an Asian Monetary Fund (AMF) to replace the IMF in Asia as an independent, Asian-run lender of last resort among Asian nations, the reaction from the IMF, the U.S. Treasury, and Federal Reserve was ferociously negative; they stated bluntly that *no* institu-

tion must be allowed to undercut the IMF.

Many Asian officials, not anxious to be subjected to such pressure tactics again, have been carefully repeating: "This is *not* the AMF."

It is no secret, however, that the IMF is totally discredited in Asia, and that the new Asian currency defense system is conceived by some, especially Sakakibara, as a step toward some kind of Asian Monetary Fund. Sakakibara himself made several statements at Chiang Mai that he still would favor an AMF.

"This Chiang Mai deal is seen as the first step toward building a regional mechanism to sort out Asian problems by Asian nations," as the *Korea Times* put it on May 7. "The U.S. earlier turned down a Japanese proposal of creating an Asian Monetary Fund. Still, with the growing views on the IMF's inappropriate prescription to some of the crisis-hit Asian nations, countries in the region have been supportive of creating another lending organization with Asian origins. Malaysia, which refused IMF treatment, suffered less during the crisis of 1997-98."

One Japanese colleague of Sakakibara was far more direct. Reached for comment on May 10 on Chiang Mai, he stated simply: "The Chiang Mai initiative . . . will develop into an Asian Monetary Fund. It is a very big change and a major step forward — and very necessary. Mr. Larry Summers and the U.S. Treasury ruined it the last time Mr. Sakakibara proposed the AMF in 1997, but there is nothing Mr. Summers can do now." The former Finance Ministry official added, "Today the situation is completely different. We see the total necessity of it.

"Two years ago, Asian leaders did not realize that a crisis such as the 1997-98 crisis could have such a severe and long-lasting impact on the welfare of their populations, and such a big contagious effect on the whole world economy. . . .

"For example, the fact that China is now in favor and has joined is a very substantial change," he pointed out. "The Chinese are now ready to move. They were very reluctant before, but now they have decided, that if ever a crisis such as 1997 occurs again, and it easily can, that they will be heavily affected unless we do something strong, especially as they will now be joining the WTO [World Trade Organization] and will be more a part of the global market economy. What is new is that Japan and China have huge amounts of dollar reserves, and now we are ready to use them in joint cooperation together for currency support loans. . . . If Japan and China work together, no one can stop this now."

Speaking to reporters on the sidelines of the Asian Development Bank's meeting on May 5, Thailand's Deputy Finance Minister Pisit Leehtam made clear that the new Chiang Mai facility should "work alongside the International Monetary Fund," Japan's *Nikkei* reported. "However," the Tokyo newspaper added, "Pisit's support for a regional fund appears to dust off moves to create an Asian Monetary Fund, which

were abandoned shortly after the outbreak of Asia's 1997 currency crisis due to opposition from the U.S. and other Western governments. 'I think this is a sort of lead-in to the final solution of an AMF,' said Thailand's Deputy Prime Minister and Commerce Minister Supachai Panitchpakdi. Philippine National Treasurer Leonor Briones said she privately supports such a facility. 'As we have learned from experience during the crisis, Asia has to take care of itself,' she said."

Will Asia Challenge the IMF?

The problem is, that Asia's leaders cannot handle a full-blown global crisis with local Asian arrangements. At present, none of them is prepared to directly challenge the authority of the United States and the IMF. Yet, while the dollar is high for now, as Soros himself told the BBC, the unsustainable U.S. current-account deficit and the stock bubble on Wall Street mean that a "reverse leverage" crash of the dollar could also hit at any moment. This would be even worse news for nations in Asia and Europe, which depend on trade with the United States to live, and it could bring down every financial market on the planet.

The real question, therefore, is the courage of national leaders to survive. It is clearly important that ASEAN Plus 3 is taking steps to defend regional currencies. However, as LaRouche stated, to do even that, they will need to bite the bullet and address the true need—for an entirely new monetary system, a New Bretton Woods, and on a *global* level, in which Asian thinkers will have to take *global* leadership.

One way to start to render the IMF obsolete, would be to go beyond currency support operations, to make significant loans in Asia on Asian terms, long-term loans for industrial development projects. Speaking on May 5 on the nationally syndicated, Jeff Rense radio program, LaRouche endorsed the AMF concept in the hope that it would bring to the fore such large-scale development programs, at which the industry ministries of China, Japan, and South Korea have excelled.

What is needed, LaRouche said, is "10-, 20-, 30-year agreements, with Asia, in general. I think we should support the Asia Monetary Fund idea put forward by people like Sakakibara, and others, in Japan, to get cooperation among these nations in East Asia, to have long-term credit going into various areas to build up the productive powers of labor and the infrastructure of these countries, investments which will not actually pay off until 5, 10, 15, 20 years" of development later.

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Europeans Are Getting Uncomfortable on the Titanic

by Rainer Apel

With their stubborn refusal to enter a serious debate on how to implement a sound, production-based economic system that bans financial speculation and creates millions of jobs, the European Union (EU) governments have condemned themselves to stumbling from one emergency to the next. Domestically, EU governments have applied scandal-mongering tactics to contain their opponents, but this approach cannot be successful for very long.

In Germany, the party-funding scandals that had haunted the opposition Christian Democrats starting last November, as of late April had vanished from the news headlines. According to public opinion polls, only 4% of Germans still think they are a priority issue, whereas 74% think that the fight against mass unemployment is the number-one priority.

Worse, the government, which realizes that the disastrous economic situation is back on people's minds, and that all the propaganda about an "upswing" has collapsed, has also come to realize that the recent financial market crashes and the related collapse of the single EU currency, the euro, have destroyed much of the paper-thin support that official propaganda had been able to build for the euro and the European Monetary Union (EMU). At the end of April, 61% of Germans viewed the euro negatively, particularly in terms of the consequences for their own lives, whereas only 24% saw it as positive.

This was bad news for the government, because the euro, and the unrealistic expectations woven around it, since its inauguration in January 1999, are the only thing that the EU governments can point to, to indicate how "European" their policies are—and there is not much of anything else in their policies, anyway. With a euro that, as of early May 2000, was at less than 0.90 to the dollar, not the 1.40 originally forecast, the EU governments are very exposed indeed.

The Boycott of Austria

There has been another component of EU government propaganda, namely, the EU boycott of the Austrian government, on the pretext of taking action against the "right-wing extremist" views of Jörg Haider, whose Free Democrats entered the new Austrian government in February. The haste with which this boycott was forced through by the three biggest EU countries—Germany, France, and Britain—shortly thereafter, left many observers with the impression that some-