

Chiang Mai Moves Ahead as G-8 Ignores Financial Reality

by Kathy Wolfe

Asian financial officials at the “World Economic Symposium on Global Economy and Asia in the 21st Century,” in Fukuoka, Japan on July 7, discussed expanding their May 6 “Chiang Mai initiative” for Asian currency defense, by creating a regional exchange-rate system pegged to a basket of currencies, instead of to the dollar, the Swiss daily *Neue Zürcher Zeitung* wrote on July 8. The proposal, first made in 1997 by former Japanese Vice Finance Minister Eisuke Sakakibara as part of his Asian Monetary Fund (AMF) plan, was hailed by Dr. Yu Yongding of China’s Academy for Social Sciences. China’s participation in the Chiang Mai move, Yu said, reflects Beijing’s “growing interest in Asian regional economic cooperation,” which he said should be strengthened.

China’s currency, the yuan, will soon be revalued, de-linked from the dollar, and tied to a currency basket with more weight for the Japanese yen and the European euro, Dr. Yu told Denmark’s *Jyllands-Posten*. Tokyo is “now awaiting confirmation of this move from Beijing,” one Japanese official told *EIR* on June 13; “there is an entirely new level of China’s interest in” the Chiang Mai/AMF idea. The Fukuoka forum was organized by Japan and Malaysian Prime Minister Dr. Mahathir bin Mohamad to produce an “Asian position” for Japan to present at the Group of Eight finance ministers, foreign ministers, and heads of state meetings on July 8-23.

In Korea, plans for South-North détente also moved ahead as South Korean President Kim Dae-jung’s government called for major Asian and world investment in North Korean infrastructure reconstruction as the best way to jump-start the entire Asian regional economy.

The global financial crisis meanwhile continued with the July 12 collapse of Japan’s giant Sogo Department chain with \$9.3 billion in bad debts to 73 banks, dragging the Tokyo stock market down 4% to the critical 17,000 level as investors dumped bank stocks and Moody’s threatened to again down-

grade Japan’s credit rating. Southeast Asian currencies such as the Indonesian rupiah, Thai baht, and Philippine peso are also dropping to 1998 crisis levels, giving lie to the “Asian recovery” myth.

Yet, the G-7 finance ministers meeting in Fukuoka on July 8, and the G-8 foreign ministers meeting in Miyazaki, Japan on July 12-13, ignored these developments. The G-8 finance ministers issued a communiqué on July 13 endorsing instead, increased International Monetary Fund austerity conditionalities and praising Information Technology for allegedly causing a world economic boom. They also praised “rapid globalization” and “the open economy.”

In fact, as Lyndon LaRouche emphasized in a June 16 *EIR* article, “Regional Organization under a New Bretton Woods,” the IMF globalization policy is precisely what is sweeping the world swiftly toward disaster. “The present financial system as a whole is hopelessly bankrupt,” he wrote. “There is no way in which present financial obligations outstanding could be paid. Over-the-counter derivatives must be the first to go, followed immediately by other forms of derivatives and junk-bond indebtedness. . . . The world requires a new monetary and financial system, rebuilt from the ground-level of expanded present levels of physical output measured in quantities of employment and output in production of physical goods of newly produced infrastructure, agriculture, and manufacturing. A sudden and sweeping cancellation of all changes in monetary, financial, and economic policies since August 1971, is mandatory.”

‘Let Them Eat Yen’

Leading the globalizers was U.S. Treasury Secretary Larry Summers, who told Japanese Finance Minister Kiichi Miyazawa on July 7-8 that Japan must stick with its zero-interest-rate policy of hyperinflation, to keep feeding the United States the \$1 billion a day it needs to finance its huge

trade deficit. Sakakibara and other financial leaders have been pointing out recently that if Japan and the rest of the world do not continue to loan the United States this cheap cash, the United States can't pay for its deficit, which now tops \$365 billion annually. Under the policy, not only Japanese but also U.S. and European banks borrow yen for free from the Bank of Japan (BOJ). The yen, thus, is at a six-week low against the dollar, and Tokyo's *Nihon Keizai* predicts a heated fight at the BOJ's July 17 policy board meeting, where BOJ chief Masaru Hayami will argue that the zero-rate policy must end.

The BOJ, however, now faces a minefield thanks to its "made-in-U.S.A." zero-rate policy. Just as the yen begins to drop, needing higher rates to defend it, the Sogo and related financial crashes mean that Japanese banks are desperate for cheap yen to cover more than \$9 billion in bad loans. Prime Minister Yoshiro Mori, following more talks with Summers, made an outrageous and unprecedented public statement on July 14, that the BOJ should not raise rates "since the Japanese economy is not completely on a recovery track. . . . Other G-8 countries also want Japan to take care of its economy. I expect the Bank of Japan to make an appropriate decision."

The continuing lunacy from U.S. financial "experts" was, once again, expressed by U.S. Federal Reserve Chairman Alan Greenspan, who told the New York Council on Foreign Relations "Financial Crisis Conference" on July 12, that the "continued rapid growth in world trade" and "rising standards of living" are entirely due to the "new international financial system" we have—based upon "financial derivatives"! The only reason Asia had a crisis in 1997, Greenspan stated, is that Asian financial markets lacked the huge derivatives markets which U.S. banks have, which, he claimed, protect from crises by hedging.

The July 21-23 Okinawa heads of state summit is likely to be the "summit meeting from hell," Asian specialist Dr. Chalmers Johnson, president of the Japan Policy Research Institute, told *EIR* on July 13, due to the failure of U.S. and other G-8 leaders to address any of these situations. "On the eve of the summit, the U.S. military in Okinawa showed that it cannot control its own men," Johnson wrote in the July 19 *Japan Today.com*. On July 3, "a drunken Marine broke into a home and groped a 14-year-old girl sleeping in her bed. Only a few days earlier a group of drunken Marines got into a fight with a taxi driver to help one of their mates escape paying him. And on July 10, a drunken airman from Kadena Air Force Base ran a red light, hit an Okinawan pedestrian, and sped from the scene. With allies like these, the Japanese government does not need enemies. To add to the fiasco, Secretary of State Madeleine Albright declared she was too busy with the Mideast summit at Camp David to attend. . . .

"When President Clinton lands at Kadena Air Force Base on July 20, he will face some 25,000 Okinawans surrounding the airfield in a human chain. They will all be holding up red cards. This 'red card movement' is intended to show the Okinawans' true feelings by giving the American President the final sanction in European football. When a soccer referee

holds up a red card it means that a player has so violated the spirit of the game he must get off the field at once. That's what the Okinawans want Americans to do—get their bases off now."

Indeed, Dr. Johnson said, and Nikkei reported editorially on July 14, the Japanese now fear President Clinton will not show up for the summit, an enormous slap in the face to Japan.

Korean Reconciliation Continues

While U.S. policy flounders, the peace initiative taken between North and South Korea last month continues to gain momentum. Seoul's Vice Finance and Economy Minister Uhm Rak-Yong, speaking in Fukuoka, called on Asia and the rest of the world to support Korea's peace drive by investing in North Korea and backing rapprochement. "Based on the historic South-North declaration signed on June 15, our government proposes an undivided effort to ensure peace and prosperity by increasing economic cooperation with North Korea," he said. "To further encourage positive developments in Korea, the government hopes the international community will take a more active stance in enhancing economic cooperation with North Korea." Uhm said that the end of the Cold War in Korea would contribute substantially to the prosperity of states in the region.

President Kim Dae-jung and North Korean National Defense Commission Chairman Kim Jong-il's joint pledge on June 13-14 to promote Korea-wide reconciliation and economic reconstruction "were not empty commitments," Dr. Johnson said. "Within a few weeks, North and South Korea had agreed to visits by families divided by the Korean War and to repatriate political prisoners. Two genuine American allies, Italy and Australia, have already recognized North Korea, and the Philippines is set to do so. President Kim Dae-jung, whose initiative brought about these achievements, declared that the threat of war on the Korean peninsula is over."

The Association of Southeast Asian Nations Regional Forum (ARF) in Manila meanwhile agreed on July 7 to welcome North Korea as a new member at a meeting to be held on July 26-27 in Bangkok, the *Nihon Keizai Shimbun* reported. The ARF encompasses ASEAN members, as well as Japan, the United States, China, Russia, and South Korea.

The Japanese government will resume diplomatic normalization talks with North Korea as soon as possible, Foreign Minister Yohei Kono told President Kim Dae-jung and Foreign Affairs and Trade Minister Lee Joung-binn in Tokyo on July 13, Nikkei reports. Kono told Kim that Japan will try to have Seoul's "sunshine policy" for peace with the North reflected as much as possible in a document on matters involving the Korean peninsula to be compiled during the G-8 summit in Okinawa.

Japanese and North Korean officials are finalizing a first-ever meeting between foreign ministers. Japanese Foreign Minister Kono and his North Korean counterpart Paek Nam-sun are also to meet at the Bangkok ARF meeting in Bangkok on July 26.