

## The Asian Monetary Fund Is Facing Strategic Challenges

by Kathy Wolfe

“The overriding concern among Asian nations, including China, is to avoid at all costs an ‘Asia Crisis II,’ ” a Japanese diplomat told *EIR* recently. Following the Okinawa Group of Seven (G-7) summit, which simply endorsed today’s monetary system “centered on the International Monetary Fund,” he said, “there is now a pervasive sense that we must find a way to defend ourselves” from an oncoming global financial crash, and that is, to create an Asian Monetary Fund (AMF). After the IMF’s actions in the last financial crisis, he said, “the sense is that these matters are better handled by Asians themselves.”

“The real problem,” he said, “is *how* to do it: What kind of system should we create, and which form should it take? I don’t see any consensus yet. Prime Minister Mahathir [bin Mohamad] of Malaysia, it seems, would hope to cut Asian ties to the IMF very soon. China has reservations about contributing to an actual Asian lending fund, for fear that it would be dominated too much by Japan. Many factions in Japan are debating this, so Tokyo’s own position has not gelled yet. As a G-7 nation, Japan can’t just disrupt world markets, and so Japan is not ready to junk the IMF; but, we want it known we’re very unhappy with the current situation.”

At the heart of this debate, however, is fear—fear of a set of enormous strategic challenges in the path of any independent new Asian Monetary Fund, which the region has just begun to discuss. The most fearful economic issues are the more than \$2 trillion in bad loans crippling the banks of the region, the fact that most East Asian nations depend on selling exports to the United States to survive, and the fact that all of the region’s currencies are about to go up in smoke, as Lyndon LaRouche’s described in “Trade Without Currency” (see *EIR*, Aug. 4, 2000).

But, given a united and ruthless resolve, and their \$700

billion in foreign exchange reserves—including the world’s largest chunk of U.S. Treasury debt—the Association of Southeast Asian Nations plus China, South Korea, and Japan (“ASEAN-Plus-3”) could certainly walk away from the IMF and set up their own system. The IMF, Wall Street, and their so-called “Washington Consensus” would be pretty much powerless to stop them. But perhaps the worst fear in the region is that deep-seated historical and cultural frictions could make the required level of unity impossible. The level of anger between several of these nations is no simple matter; it is the one stumbling block which could send the IMF and Western financiers laughing all the way to the bank.

This cultural hurdle concerns everyone, however, because it is in the urgent interests of 80% of the U.S. population, and most of the rest of the world, which has seen living standards plummet over the past 30 years, that the IMF-run present global system be quickly dumped. By walking away from the IMF, ASEAN-Plus-3 could give the IMF the good swift kick it needs into the grave, so the region’s leaders have been placed in a unique position by history. As this writer put it to one key Asian negotiator: “You are already trying to save Asia. I’m asking you to save the world.”

### Elephants on the Front Lawn

Asia’s first giant problem—now being carefully ignored, like polite company trying to ignore an elephant on the front lawn—is the more than \$2 trillion in non-performing loans (NPLs), unpayable debts held by commercial banks in the ASEAN-Plus-3 region, at least \$1 trillion of which is held by Japan’s banks. This liability, which even the most outspoken Asian leaders, such as Dr. Mahathir or former Japanese International Vice Finance Minister Dr. Eisuke Sakakibara, consistently neglect to mention, began as loans to real estate and

related quasi-speculative ventures in the 1980s, which went sour. It is now snowballing with the accumulating debts of the thousands of legitimate industrial companies bankrupted by the IMF's so-called "Asian crisis" since 1997. To this must be added the worry about the \$15 trillion or more in derivatives held by Japanese banks, most of which are worthless.

"The danger of a deflation shock is still here because Japanese companies still hold such major non-performing assets," former Bank of Japan Executive Director Akira Nambara told *EIR*; he did not dispute *EIR*'s \$1 trillion figure for Japanese bank NPLs and \$15 trillion for derivatives (see interview below). "This balance-sheet problem cannot be solved until there is a long period of growth in the real economy," Nambara said. It's all part of what *EIR* Founding Editor Lyndon LaRouche estimates is \$400 trillion in worthless unpayable derivatives and other bad debts internationally, which so dwarf real trade and production that unless they are reorganized soon, they will trigger an uncontrolled global crash.

Yet, if Asia becomes the first to squarely address the issue, it will have a comparative advantage, because the situation is actually far worse in Europe and the United States. Bad derivatives bets of some \$90 trillion, according to the Bank for International Settlements, are now held by European banks. Despite the "upswing" propaganda, U.S. banks hold more than \$50 trillion in rotten derivatives, and have a massive and growing bad loan problem as well. Right now, rating agencies such as Moody's are using the situation to threaten Asia with bad credit reports, which could trigger another run on Asian markets at any time. If Asian nations dispose of bad loans first, however, and point out the problems in the West, it would be London and New York's turn to panic.

The lone crusader now focussed on this problem, Chung Jae-ryong, head of the Korean Asset Management Co. (KAMCO), the South Korean government bank reorganization agency, recently estimated global NPLs alone at \$4.5 trillion, with China's banks holding \$500 billion, Korean banks perhaps \$250 billion, and the banks of Thailand, Indonesia, and the rest of Asia not far behind. "The IMF is talking about the problem of debts held by the poorest countries, but the bad loan problem is more serious for the world economy as a whole," Chung told Japan's *Nikkei* news on May 17. "I would like to see Japan take leadership in Asia to address the problem. . . . Japan is taking too much time."

Chung is calling for a global conference on NPLs in Seoul in November, trying immediately to bring in Russia, other eastern European countries, and Ibero-America as well. He is spending this Summer "on the road" to China, Japan, Southeast Asia, and other nations, meeting his counterpart agencies to promote the issue.

## Paper Versus Physical Economy

The second elephant on Asia's front lawn is that 20-40% of the exports of any given country in the region are currently

sold in the U.S. market, leaving ASEAN-Plus-3 vulnerable to the serious blackmail of a trade cutoff by Washington if Asia moves openly to break with the IMF. "Without the cooperation of the U.S., it might be too difficult" to form a new monetary system, commented Dr. Nambara. "While the U.S. is the world's largest debtor, still the U.S. is the number-one country which East Asian countries depend on for their exports. That's our big problem." All the Asian countries are trading nations; more than half the economy of each of them depends on their ability to sell exports, so there is substance in this fear. A U.S. trade war, taken by itself, could bankrupt half the industrial companies in any one Asian country overnight.

In fact, China and Southeast Asia constitute just as large a real physical market for exports from Japan and Korea, for example. The fear, however, is that the financial arrangements to shift the mass of credit arrangements which currently finance today's exports to the United States, to a totally new and uncertain credit arrangement to finance exports instead to the Asian market, could not be made in time. "We could not just quickly swallow that loss," Dr. Nambara said.

This, however, brings in the third elephant, which is a mastodon dwarfing the first two: the fact that Asian and all world currencies are right now pretty much worthless, as LaRouche pointed out in "Trade Without Currency." "Any combination of these currencies would be about as sound an investment as the German Reichsmark was at the beginning of July 1923," LaRouche said. "We are presently at the verge of general disintegration of the current global system, including most leading currencies." The size of the world's bad paper debt so overshadows the size of all real world trade and production, by several orders of magnitude, that "the equivalent to \$400 trillions in presently extant nominal financial assets of the world at large, will have to be either wiped from the world's accounts, or reduced, by reorganization in bankruptcy, to a mere fraction of their current nominal hard-commodity valuation," LaRouche wrote.

That is, the threat that Asia might lose hundreds of billions of dollars in export sales to the United States in a given quarter, is minor, compared to the fact that the \$400 trillion bad debt overhang is about to evaporate the dollar and all trading currencies pretty. If all currencies begin incalculable market gyrations, all trade will come to a screeching halt. "James Carville once said, 'It's the economy, stupid.' In Asia's case, 'It's the exchange rate, stupid,'" one Japanese commentator told *EIR*. "Without stable exchange rates, Japanese industry and business can't price production and exports, and could not survive one month."

"We are thus, in a condition, in which even many among the world's leading currencies will have to be either simply wiped from the accounts, or put through bankruptcy-reorganization under the authority of a new world system," LaRouche concludes. "In this transition, many presently leading currencies are to be, either, systemically reorganized, or, replaced

by newly defined currencies and related credit-mechanisms. . . . Either we do this rationally, by will, or the presently on-rushing shock-fronts of global financial, economic, political, and social chaos will soon do it for us.”

ASEAN-Plus-3 nations have been discussing how to cut their currencies’ current pegs to the dollar, to link the currencies perhaps to a basket of world currencies, or to form a new Asian monetary unit of account. All such financially focussed discussions, however, miss the point, LaRouche told *EIR* in a discussion on Aug. 15. In “Trade Without Currency,” LaRouche describes a detailed plan for setting up a new unit of accounting to provide credit to continue vital production and trade during a currency collapse. His article is a crucial blueprint for a world economic future, but its focus is on the physical production and trade to be moved, not on the financial mechanism which is its mere servant.

In the Aug. 15 discussion, he said that the whole idea that one can set up any new system based on currencies or financial mechanisms at all is nonsense. First you have to re-define an entire national economy from top to bottom—based on *physical* production principles, not based on accounting principles. Define a “full-set economy” (an Asian term for an economy which contains every industry it needs to be self-sufficient) the way it should be defined: Anyone who had experience in large-scale industrial development prior to the 1960s would understand this immediately. It’s not based on building this or that railroad.

He continued: If you’re an industrial manager, you make an overall plan based on what should be the subsumed feature of the technologies changing in an economy over 25 years, as he defined it in “Trade Without Currency.” That’s how they actually did do it, whether they know it or not. Those who did it may have some other idea of what they did; but, Japan or Korea after the war, for example, developed an economy as a unit—they thought out the overall structure of industry, of infrastructure; the structure of imports, structure of exports; and more importantly, the structure of technological change, of science, of education, of health care. LaRouche said, they just have to remember what they already know, and get out of their heads the Anglo-American monetarist garbage left over from the last 30 years.

## Cultural Warfare

In discussing this with Korean and Japanese leaders, as the author did in several interviews in Tokyo and Seoul this Summer, what appears to be the biggest fear of all is eventually brought out: Can ASEAN-Plus-3 nations cooperate in the face of such “big issues,” or will the historical enmities amongst these countries allow the Anglo-American financial elite to blow them away like so many disconnected straws in the wind?

Perhaps best understood by Western audiences is the “Rape of Nanjing” problem, the anger which still burns in the hearts of most Chinese, South Koreans, and many Southeast

Asian people after Japan’s military actions during World War II and its occupations before that. Chinese leaders and citizens alike often repeat that, while Japanese leaders have formally apologized for wartime acts, Japan’s education system does not teach the reality of the 1905-45 period. As a result, much of the Japanese population is unaware why the Chinese are so angry, and therefore, the Japanese public doesn’t seem to actually be sorry about what happened. No matter how many times Japan’s leaders formally apologize, other Japanese politicians complain about the apologies, because such complaints seem to be popular. “Japan’s apologies just don’t ring true emotionally,” is how one Asian diplomat put it.

Many Japanese conservatives and just plain patriots, for their part, are upset by being constantly reminded of the past, as if Japan were to be forever dragged through the mud in order to keep the country in its place, just as Britain tags Germany with the “Nazi” label to keep German leaders from exercising world leadership. Japan’s noisy right wing, led by outright *agents provocateurs* of Anglo-American intelligence, such as Tokyo Mayor Shintaro Ishihara, makes matters worse by denying that much happened in Nanjing in 1937.

One Korean diplomat in his 30s, who is in full support of collaboration with Japan and the rest of ASEAN-Plus-3 to forge an Asian Monetary Fund, was kind enough to spend two hours discussing every aspect of the Anglo-American IMF rape of Korea for the past few years with me, and the urgent issues involved in creating the AMF. Later, over dinner, he exploded with rage about Japan’s 50-year occupation of Korea and its actions there, all of which were over more than a decade before he was born. “You must understand,” he said, “that Korean and Chinese people for thousands of years have helped Japan, which was relatively backward. We helped Japan with our writing systems, our language, philosophy, culture, science, shipbuilding, trade, religion, and everything that we have. So it is doubly dishonorable to us, that Japan would turn around and repay what should be a debt, with these atrocities.

“I just don’t see how we can manage the cooperation necessary to succeed with the AMF,” he concluded sadly. “I support total cooperation with Japan, for Asia to survive, but I can’t even talk about the AMF with Koreans my age, let alone those in their 50s or older, because I’m afraid of their reaction. Most Koreans would rather be occupied by the U.S. today, just as we are now, than to cooperate with the Japanese. Imagine you have a poor relation who, after you have helped him your whole life, would suddenly occupy your house, rape your wife, and take your children into slavery. It is highly dishonorable to ignore the crimes of such an ingrate. We would rather be occupied by some new person we don’t know from another neighborhood, such as the U.S., who owes us nothing; this would not make us feel as bad.”

This anecdote regarding only one bilateral relationship in the region, does not even begin to describe the intricate historical and cultural problems inside Asia itself. Despite the

ignorance of most Americans, who imagine these countries all seem alike, the 13 ASEAN-Plus-3 partners are in fact completely culturally dissimilar. Issues such as these are boiling to the surface, country by country, in each of the bilateral relationships among the 13.

## Cooperation Is Possible

Cooperation, however, is not, in fact, impossible. Several others of the two dozen Korean leaders whom I met, did worry that cooperation with Japan “will take a lot of time,” and feared therefore that a functional Asian monetary system will not be able to be created in time to ward off the next currency crisis. But most top Korean negotiators insisted on balance that the cultural hurdles could be overcome, because they must be overcome. “We can cooperate, we must let the past be the past and cooperate, in order to save our children,” one key financial planner told me firmly. “Don’t let anybody think we can’t do it. We can do it, because we must, to survive.”

At a certain level, the anger constitutes an emotional block which arises due to the understandable fear of those enormous elephants on the region’s front lawn. What leader would not experience fear when faced with the threat of losing his nation’s banking system, foreign trade, or currency itself? Fears, however, must be faced squarely if the region is to survive. The AMF can be created and the IMF can be junked if Asia’s leadership can summon the necessary courage. History has presented them with a unique opportunity to change the course of all human events, and this concept has often inspired men to surprise themselves.

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## Interview: Akira Nambara

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# ‘Elect LaRouche President To Improve World Economy’

*Dr. Nambara, now a private corporate official, is the former Executive Director of the Bank of Japan (BOJ), and is well known in international circles for his outspoken views. Dr. Nambara has signed the call of the Ad Hoc Committee for a New Bretton Woods System. He was interviewed by EIR’s Kathy Wolfe in Tokyo on July 27, and again by telephone on Aug. 15.*

**EIR:** You are well-known in Japan for critical views on the current post-Bretton Woods global financial situation, and your concern for deflation.

**Nambara:** What we have now is a world financial non-system where hot money and speculators can ruin nations. I was particularly disappointed at Clause 13 in the G-7 communiqué

you showed me, on the refusal to regulate the hedge funds and other Highly Leveraged Institutions. Why is only *EIR* reporting that this was caused by the U.S. and U.K.? The real story’s been blacked out of the Japanese press.

Regarding deflation, during the 1997-99 crisis, up till the LTCM [Long Term Capital Management] rescue in New York by the Fed [U.S. Federal Reserve], I was terribly worried about a global deflationary collapse, because the “Washington Consensus” being imposed on the world was nothing but “original capitalism,” as in the neo-classical Chicago School. The IMF [International Monetary Fund], [former Treasury Secretary Robert] Rubin, [Federal Reserve Board Chairman Alan] Greenspan, and so on, simply tried to apply pure Chicago capitalism, forcing banks and firms to close, bank deposits to be deregulated, everything opened up to be sold or shut. Even Adam Smith, in *The Wealth of Nations*, was opposed to deregulation of banking deposits. But, I’m less worried now that global deflation will be imposed, after the LTCM rescue, because they had to admit it was wrong and change their methods

**EIR:** You mean after they had to bail themselves out with LTCM, they couldn’t afford to preach the Chicago starvation diet to others?

**Nambara:** Yes. But as far as Japan is concerned, we still have a huge risk of deflation due to our large debt hangover.

Yet, the foolish Japanese mass media still think that Chicago capitalism is correct, and that’s why they trashed the Sogo bailout plan this summer—and what’s the result? Now the Japanese government has to spend more taxpayers’ money on the Sogo disaster than it would have spent before.

In fact, Japan shouldn’t have let the Long Term Credit Bank or Nippon Credit Bank go under in 1998; we should have pumped in Bank of Japan money, that was easy enough. But before the LTCM crisis on Wall Street, Rubin was pushing Japan to let Yamaichi Securities, and Long Term Credit Bank, and other banks, go. The credit crunch actually started when the Japanese government forced the Yamaichi brokerage and Hokkaido Takushoku Bank to close—all based on this Washington Consensus. Of course, I can’t blame the U.S.; as a Japanese, I have to blame then-Prime Minister [Ryutaro] Hashimoto for bowing to the great pressure by the Washington Consensus.

Also, there was an Asia-wide credit crunch, which damaged the plus-sum “virtuous circle” of income between Japan and East Asia, which was totally destroyed.

In 1965, Yamaichi also had a problem, and the BOJ made the owner resign, but saved the company, in order to save the life savings of the clients—and it’s my belief that if Yamaichi had been allowed to go under, Japan would have gone over to the Soviet bloc. Japan’s situation in 1965 was similar to that of Indonesia today, so a closing of Yamaichi at that time would have ruined the lives of too many people, caused a terrible credit crunch, and probably a socialist revolution.