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IMF Demands on Japan Spark 'Asia Crisis II'

by Kathy Wolfe

Newsweek, mouthpiece of Wall Street's Lazard Frères investment bank, renewed demands by the American Enterprise Institute (AEI) and its Wall Street economists last Spring, that Japan implement the same International Monetary Fund (IMF) "shock therapy" imposed on South Korea during 1997-99. *Newsweek Asia*'s Oct. 14 cover story, published Oct. 6 on its Internet site, is entitled "Learning From the Student: If Japan Wants To Stave Off a Banking Crisis, It Should Look at the Path Taken by Its Former Pupil, South Korea." That IMF program shut down 20% of Korea's industrial capacity, including 14 of Korea's 30 largest industrial combines, and 30% of the remaining industrial companies and banks were sold off to foreigners on the cheap.

Newsweek's essay is accompanied by an interview with Japan's Harvard-educated shock therapy expert, Financial Services Minister Heizo Takenaka, whose responsibilities have been increased in the recent Cabinet shuffle. Takenaka pronounced, "No bank [in Japan] is too big to fail." Takenaka also told Japanese TV on Oct. 5 that major industrial companies must close. "It would be in accordance with the rules of capitalist economics if companies that are not viable collapse," said Takenaka. "Companies will not be allowed to remain in business just because they are big."

These weekend statements, dubbed "Takenaka Shock," hit the Japanese and Korean financial markets while already falling, and sent them into a nosedive on Oct. 7-10 as foreign investors heavily sold both markets short. Tokyo stocks, already down 23% by the end of September from 10,200 in July, fell another 8.5% in the first ten days of October to 8,400. Seoul's KOSPI index, having lost one-third since April, dropped another 9% during the first ten days of October. Ironically, just as the IMF's Korean experiment is held up as the model, Korea itself is collapsing violently in what Morgan Stanley called a "hard landing."

These and similar events show that an "Asia Crisis II" is now under way. A run on Asian assets is being organized, as in 1997, as Anglo-American and global speculators attempt to pull out cash, to try to prop up dying Wall Street markets one last time. It's also an attempted "strategic bombing" action, to try to hit another layer of Japanese and Korean heavy industry, reducing their power to build the New Silk Road across East Asia.

The Lazard Angle

EIR has repeatedly warned of Wall Street's proposal to repeat the IMF's Korean "shock" in Japan. The results were destructive enough upon Korea; do the same in Japan, the world's second-largest economy, destroy Japan's national sovereignty, and Wall Street could knock out the industrial linchpin of the entire Eurasian Land-Bridge. As *EIR* reported, Ambassador Steven Bosworth, U.S. envoy to Seoul during the 1997-99 crisis, first made this demand on Japan in a November 2001 Nikkei interview. *EIR* reported on March 29 that Wall Street economists such as John Makin of the Caxton hedge fund, the American Enterprise Institute, Citibank, and the Bush Administration, have been demanding Japan enact a "Korea program" since January.

In 1975, then-Lazard investment bank Managing Director Felix Rohatyn shut down the economy of New York City, in order to bail out J.P. Morgan, Chase, and Citibank. In 1997, the economy and financial system of South Korea, along with most of Southeast Asia, were gutted—to bail out the bad loans of the major creditors: Morgan, Chase, and Citibank. Today, the same Wall Street houses, more bankrupt than before, seek to "cash out" on an even bigger scale. Net investment and credits by these and other Anglo-American houses are already flowing out of Tokyo and Seoul, at $20 billion and $3 billion per quarter, respectively. This flow serves, in effect, to cover losing Wall Street positions.

The Lazard Frères angle explains the otherwise strange fact that a pop magazine, *Newsweek,* has delivered not a news article, but a long, detailed list of policy demands on Japan. The "problem" in Japan and Korea, Lazard says, is the pro-industrial policies of the 19th-Century Meiji Restoration. This, in "Lazard logic," has caused "industrial over-capacity," such that industries cannot pay their loans, leading to exploding non-performing loans at banks. Korea let the IMF shut down a chunk of its industry, but Japan has refused, Lazard concludes, so unless Tokyo adopts this solution, Japan will suffer a major run on all assets.

"An endgame may truly be approaching this time" for Japan's financial systems, and foreigners will stage a run on Japan unless it quickly "fixes its bad banks" as Korea did "after the financial crash of 1997," *Newsweek* stated. Prime Minister Junichiro Koizumi's new economic czar, Takenaka,

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"doesn't hide that fact that he's a student of Seoul's banking reforms. When *Newsweek* asked him last year whether Japan might follow Korea's effort to liquidate debt-burdened industrial corporations, his response was emphatic: 'We can and we should.' "

No More Meiji?

The "problem," *Newsweek*/Lazard went on to pronounce, is that both Japan and Korea used a planned industrial policy. "The roots of both banking systems trace back to 19th-Century Japan, when banks rose up at the center of *zaibatsu,* industrial cliques run by wealthy clans with names like Sumitomo and Mitsui. The banks funneled household savings and government loans into sister companies whose exports sucked foreign exchange into the treasury, building a cash hoard that was cultivated as symbolic of national strength. South Korea copied the blueprint for these banking and manufacturing conglomerates with *chaebol* like Hyundai and Samsung that turned the nation into a major global export power after the Korean War."

This was the ultimate sin against free market fundamentalism. "The logic for both countries was not entirely economic," *Newsweek* complained; instead, they dared preserve national sovereignty. "Japan's decision-makers have run their country for well over a century now with three objectives: the independence of the country from foreign domination, their own survival as a ruling elite, and their continued control of key economic and political levers."

How silly of Japan and Korea, to avoid the fate of China in Britain's "free trade" Opium Wars. Wall Street's demands did not allow mention of the fact that Japanese and Korean economists of the Meiji period based their programs on those of Alexander Hamilton, America's first Treasury Secretary, who fought the American Revolution, too, against British imperial "free trade."

The *Newsweek* statement called Korea "lucky" to have been "forced to accept a $58 billion IMF bailout" in 1998. "Out of the humiliation sprang the will to make radical changes. . . . Prompted by the IMF, Korean President Kim Dae-jung quickly moved to break the cozy ties between leading conglomerates and banks. Fourteen of Korea's 30 largest *chaebol* have been shut, including the third largest, Daewoo. He nationalized all six major banks and closed scores of smaller lenders; he slashed the industry's workforce by 40% and injected a total of $130 billion to shore up the balance sheets of those banks that remained.

"The reforms awakened market forces. 'The biggest single change in the Korean economy has been the end of government control over credit allocation and credit pricing,' a banker says."

But, *Newsweek* complained, Japan had $14 trillion in domestic savings, and so escaped the IMF, "allowing industrial over-capacity [to] continue. . . . But now, Takenaka . . . has declared war on Japan's major banks. He appointed a task force stacked with reformers, including Takeshi Kimura of [Wall Street's] KPMG Consulting, who believes Japan must rapidly shut down its 30 largest debtor companies." Japan has only a few months to implement IMF shock therapy, or it will be destroyed, this Lazard pronouncement concludes.

Harvard-trained Wall Street favorite Heizo Takenaka is now being referred to as "super-Minister" for Japan's economy; his shock policy—imitating what Wall Street has done to Korea since 1998—can easily set off a super-crash.

'Korean Model' Topples

Yet just as Wall Street is touting the IMF's "economic miracle" in Korea, it is falling apart, as has Brazil, Mexico, and every other IMF "success story." In fact, the IMF's shock therapy "success" in Korea was based on the inflow of hot foreign money, which nearly tripled the value of the Korean stock market since 1998, to a peak of over 960 on the KOSPI this past April. But now, foreign hot money is leaving as quickly as it came, exposing the miracle as consumer fraud.

The real story of the IMF in Korea is that "we just imported wholesale the U.S. style of banking and capital markets—and now our markets don't work," one Korean economist who negotiated with the IMF revealed to *EIR,* back at the height of the bubble. "Imposing a U.S.-style banking system on the Korean industrial economy was like mixing *kimche* and Coca Cola. . . . The IMF insisted on liberalizing our banking markets, our capital markets, our labor markets, every market. So we opened up everything, and put interest rates up over 20% as the IMF demanded–and the only result was that the U.S. banks made a terrific profit, buying companies cheaply, making loans at 20% interest!

"Korean banks and companies just kept losing money. The *chaebol*'s biggest sin, in the eyes of the IMF, was that they were expanding production facilities very fast. Take Hanbo Steel: It got killed for the sin of building too-big a steel production capability. . . . Previously, Korean banks used to help

industries in a cash squeeze. Now the Korean banks refuse to provide any lending to the Korean economy—now they are U.S.-style, lending only for profit, avoiding risk. The Korean government would provide funds to the banks, but the banks would just put the money in government bonds at 20%. That's why we had so many small and medium companies go under, not to mention the giant industries we lost, such as Hanbo Steel, Daewoo, and Hyundai. But this was all very profitable for Western investors," he concluded. "Now, foreign hot money controls about 30% of the Korean stock market—whereas before 1997 it was only about 9%."

Based on the stock bubble, the Korean government and banks issued a large, additional consumer credit bubble. On advice from the IMF, Korean banks and companies began handing out credit cards on almost every corner, even house to house. Since 1997, Korea has gone from a nation with no credit cards, where spending was based almost entirely on saved-up cash, to an average of four cards per capita. Total household debt has been rising at 34% per year, to almost $400 billion.

But as *EIR*'s source foretold, the IMF's Seoul bubble did not last. This Summer, when Wall Street tanked and Japan's Nikkei index followed, the bottom fell out in Seoul. KOSPI stocks have dropped almost 30% since April, as foreign hot money leaves as quickly as it came. With the stock collapse, the consumer bubble is popping, too. The Bank of Korea (central bank) issued a report on Oct. 8 entitled "Household Debt Feared To Spur Mass Bankruptcies." It concludes: "Households are increasingly exposed to credit risks by taking out more loans from financial institutions, causing worries over a possible massive number of household bankruptcies." One official told the *Korea Times* that "the increase in loans to the retail sector accelerated last month due to a hike in housing mortgage loans caused by real estate price increases"; but he said that these mortgages were taken out to be sold in real estate speculation, he said.

Worse, the ratio of household debt against the GDP reached 70%, which is "fast approaching the U.S. level of 80% of GDP," Bank of Korea warned. "Having a credit expansion when real estate prices are in a bubble, is a dangerous signal for the economy."

"Anxiety Over Hard Landing" was the *Korea Times* Oct. 9 editorial. "Besides Morgan Stanley's warning of a hard landing for Korea's economy, omens of deflation are visible throughout our society, while a series of negative economic factors overseas, like the crashing U.S. stock markets and the persistent risk of a U.S. war against Iraq, are adding to the concern. The nation's household debts are quickly approaching U.S. levels, with the average debt per household expected to reach 30 million won ($25,000) by the end of this year. This trend, needless to say, is causing worries over a massive number of household bankruptcies."

Korea will be back in the dark days of 1997, and worse, unless Asia dumps the IMF policy for good.

Trouble Hits Elite Insurance Sector

by John Hoefle

The global economic meltdown, of which the stock market collapse is just the tip of the iceberg, is now visibly hitting the heart of the global financial system, the interlocked network of giant insurance companies, reinsurance companies, investment banks, and commercial banks which dominate the imperial "casino mondiale." The almost daily reports of layoffs at the big banks, and recapitalization attempts by the insurers and reinsurers, reflect the relentless process expressed by Lyndon LaRouche's "Triple Curve" collapse function. The financial system is caught between hyperinflationary increases in money supply and derivatives, and a worsening deflation of financial assets such as stock market values, all on top of a collapsing physical economy.

Insuring the Collapse

The halving of world stock market valuations since early 2000 has devastated the insurance sector, which invests much of the premiums it collects in stocks, bonds, and related financial assets. As stock markets vaporize, so does the insurers' ability to pay future claims, throwing the entire insurance chain into jeopardy.

Analysts estimate that European insurers alone have lost more than $98 billion in capital over the past year—half from stock-market drops and half from claims related to the attacks of Sept. 11, 2001; with another few billion in claims from the European floods of August 2002. To try to offset this, according to A.M. Best, the reinsurers have raised some $30 billion in new capital.

Scor, the big French reinsurer, recently announced plans to raise nearly $400 million in new capital, a move which would roughly double its capital base, and insurers Aegon NV and Zurich Financial Services have also sought capital increases. Prudential Financial, parent of Prudential Insurance Co. of America, is seeking bids for its property and casualty business, and Standard & Poor's recently downgraded Swiss Re, the world's second-largest insurer, stripping it of its coveted triple-A rating.

Some of these infusions have come from parent companies. For example, Munich Re, the world's largest reinsurer, recently injected $1.4 billion into its American Re subsidiary, and General Electric has boosted the capital of its Global Insurance Group and its Employers Re subsidiary. Crédit Suisse Group, the giant and very troubled Swiss bank, recently made a second $1 billion infusion into its Winterthur