# Business Briefs

*International Finance*

## Asian Central Banks Prop Up Dollar, for Now

How long will Asian central banks hold up the U.S. dollar? This is the question raised by the Singapore *Business Times,* commenting on the July 12 report by the U.S. Federal Reserve, which documented that it now holds $936 billion of marketable securities "in custody for foreign official and international accounts." This refers to U.S. securities owned by foreign central banks but stored at the Federal Reserve. Most of these securities, $749 billion, are U.S. Treasuries. But on top of this, foreign central banks own $187 billion in agency debt, that is, bonds of the Federally chartered mortgage lenders Fannie Mae and Freddie Mac (see *EIR,* June 20, 2003). An estimated 80-90% of the $936 billion assets are owned by Asian central banks, in particular the Bank of Japan and the Bank of China.

The *Business Times* notes: "A handful of foreign central banks, mostly Asian, are amassing a huge stake in the U.S. economy, not out of any belief that America is an attractive investment but rather as a desperate attempt to shield their countries' exports. Data out last week showed the Federal Reserve now holds a record $936 billion for these, mostly Asian, central banks equivalent to almost 10% of the entire annual output of the U.S. economy. The bulk of this is held in Treasuries giving these banks over 20% of the market for government debt." The holdings of U.S. assets by foreign central banks "have risen around $163 billion in just the last year, with the Bank of Japan buying a record $34 billion in May alone."

The main reason for the Japanese and Chinese central banks buying U.S. assets was to keep down their own currencies, according to the *Business Times.* And there is no easy exit for these central banks, because by liquidating dollar assets, they would themselves suffer heavy losses. And "pulling the plug on the U.S." would aggravate economic problems in the United States, thereby hurting Asian exports.

On the other hand, "just blithely assuming they will never run for the exit is a risky business in such a volatile world."

*Manufacturing*

## U.S. Needs Federal Technology 'Offensive'

The United States must mount a "national offensive" to build a manufacturing technology "infrastructure"—Federally funded—"that would unleash America's ability to build its future," urged Association for Manufacturing Technology (AMT) Chairman Lawrence Rhoades on June 5, in testimony to the House Science Committee. Warning that manufacturing operations define the standard of living for the nation, he noted that U.S. machine-tool consumption has plunged 63% from 1997-2002. Although touted as the world's "strongest" economy, the United States ranks fifth in its investment in manufacturing equipment, he said.

Just purchasing more capital equipment is not enough, he cautioned. The nation "must find new methods, new approaches, new technologies" for manufacturing. "The U.S. is in need of a coordinated national program," large enough to develop a "manufacturing technology 'infrastructure,' " as a "rational and appropriate" response to the massive loss of both manufacturing jobs, exports, and Federal tax revenue.

On the other hand, cutting taxes to encourage investment "does not directly respond to what's happening."

Rhoades emphasized that "the private sector cannot, and will not build the needed manufacturing technology infrastructure alone—any more than they could or would build a road system or a school system."

He called for centering new investment on the usually smaller companies that act as the "technology providers" to the U.S. industrial base. These firms accelerate the transformation of "new science" into "new tools" for America's factory floors.

Such a manufacturing technology "infrastructure," he concluded, "would unleash America's ability to build its future."

*IMF*

## Heavy Pressure Put on Argentina's Government

The International Monetary Fund (IMF) is putting big pressure on Argentina's new government of President Néstor Kirchner to negotiate a long-term agreement, with conditionalities the government is in no position to impose, the daily *Clarín* reported on June 12. Finance Minister Roberto Lavagna has said that the government wants to extend the existing short-term IMF agreement, which expires on Aug. 31, to the end of the year, to reschedule $6.6 billion due during that period, before beginning negotiations on a longer-term agreement.

But both the IMF and the U.S. Treasury Department have made clear that this is not acceptable—they want a long-term agreement, immediate implementation of "structural reforms," and resumed debt payments. The "reform" agenda includes restructuring of the foreign private debt, raising utility rates, restructuring the banking sector, and increasing the primary budget surplus, as Brazil's President Lula da Silva has done, to guarantee debt payment. From the current 2.5% of GDP, the Fund wants the primary surplus increased to 3.5% of GDP next year, and to 4.5% in 2005—which could only be imposed, were state sector wages to be slashed and taxes increased, in a country where 60% of the population is now poor. All of these are politically impossible to implement, and thus the attempt to lobby for a short-term agreement. Kirchner has already announced that utility rates won't be increased for 90 days, which has greatly displeased the IMF.

IMF Managing Director Horst Köhler was scheduled to travel to Buenos Aires June 23-24, to try to twist arms, and demand that Kirchner provide evidence of a "sustainable" economic program. When U.S. Secretary of State Colin Powell visited Kirchner on June 10, his deputy Curtis Strubble annoyed the Finance Ministry with undiplomatic remarks that "Argentina needs a credible program." U.S. Treasury Undersecretary John Taylor said, "There is



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still time to negotiate a long-term agreement. . . . I hope that happens." Lavagna had his spokesman issue a statement saying he agreed with Taylor, but adding that the possibility of a long-term agreement would "naturally" depend on what conditionalities the Fund demanded.

*Great Britain*

## Government Tries To Avert Pension Panic

The British government has enacted emergency measures "To Calm £100 Billion Pension Panic," wrote the *Times* in a banner headline on June 12. As "millions of workers worried about their dwindling pensions," the government announced "unprecedented emergency measures to shore up confidence in company schemes. A 'lifeboat' fund will be set up to rescue final-salary occupational pensions in firms that go bust."

As a consequence of the recent three years' stock market crash, the pension schemes of top British corporations have been devastated. The pensions "black hole" among the companies on FTSE-100 stock index officially amounted to £65 billion at the end of last year, and for all British corporations totals about £100 billion. This means that in recent bankruptcies, such as the Welsh steel company ASW, the pension schemes could just cover the pensions of those workers who had already retired, while those who are about to retire often lose their entire pension and also have no chance of finding a new job.

The government will now oblige the corporations to pay into the new "lifeboat" fund, which will be activated for corporations that go bankrupt. Corporate pension fund managers immediately came out claiming that this emergency measure will make matters much worse, because it puts additional financial pressure on the companies, and "would sound alarm bells" with credit-rating agencies already concerned at the size of pension deficits in British companies. Downgradings by the rating agencies would lead to further stock losses, thereby aggravating the pension crisis, ballooning the deficit to £300 billion.

*Equity Markets*

## Singapore Economist Warns of Hyperinflation

Singapore economist Lim Say Boon warned, in the *Straits Times* on June 16, that the United States is on a hyperinflationary binge, theatening the entire world economy. Lim is the head of research at Overseas Chinese Bank Corp. (OCBC) Securities in Singapore, and has warned before of the New Economy bubble. He refers to the current "Rubbish Rally" in the equity markets, warning that investors should "consider the suspect nature of the drivers behind this recent market surge. The bottom line is that the United States authorities are putting at risk the global system of 'fiat money' by flooding their economy with cheap money and by arm-twisting other major economies to do the same. . . . If they fail, confidence is likely to plummet globally as the 'Emperor' would have been seen walking around stark naked."

At best, he writes, such a policy will create "another asset bubble or two," since the real economy is still declining. The "solution" of tax cuts and negative interest rates to sustain the housing bubble makes people "wonder why the U.S. government would 'commit suicide' by dramatically weakening its people's spending power." The answer, he thinks, is that Washington wants to force Europe and Japan to also hyperinflate, transferring the pain abroad—but it won't work, since it will only create "more pain from the bursting of an even larger asset bubble down the line." Money supply measures, M1, M2 and M3 have surged since March, he says, and "aggressive printing of money usually results in hyperinflation. So while we are still talking about deflation, the U.S. may already be sowing the seeds for hyperinflation."

# *Briefly*

**THE BANK OF JAPAN** announced on June 11 that it will, for the first time, purchase corporate asset-backed securities, including those with "junk" rating, to increase liquidity. Previously, the central bank bought less-risky government bonds. The BOJ plans to buy from private banks up to 1 trillion yen ($8.5 billion) of securities backed by loans or receivables of small companies.

**THIRTY ASIAN** countries met in Abu Dhabi, United Arab Emirates early in June to discuss measures to combat desertification. The UN estimates that $42 billion in income and 6 million hectares of productive land are being lost annually to desertification, land degradation, and declining agricultural productivity, and 135 million people who depend primarily on the land for their livelihood are at risk of being displaced.

**SOUTH AFRICA'S** unemployed will be given work with state programs to build dams, roads, and railways, according to an agreement reached by government, labor, and business on June 7. Other projects planned are the construction of schools, clinics, harbors, and renovation and maintenance of public buildings.

**GOV. RICK PERRY** of Texas is proposing construction of a large-scale ocean desalination plant, to be located near Brownsville. Perry said such desalination is inevitable as a solution to the state's water shortages. He declared that $1 billion, out of the projected $2.2 billion in the Private Activity Bond program already enacted for the next five years, would fund the plant and other needed water projects.

**THAILAND AND INDIA** will sign a free trade agreement in July, starting with a list of 87 products that will be subject to tariff cuts, mostly from the agricultural and industrial sectors. The Thai Trade Negotiations Department said that the value of both countries' trade reached only $28 million last year.