Growth of Regional Alliances Can Lead to New Bretton Woods

by Richard Freeman

In late June, ambitious moves, including a trip by French President Jacques Chirac to Germany, and the opening of the Organization of Islamic Conference foreign ministers meeting in Kuala Lumpur, Malaysia, were undertaken by regional groups of nations to defend themselves against worldwide financial collapse. These alliances have the potential to replace the existing bankrupt world monetary and financial system, through Chapter 11-type bankruptcy reorganization. The moves accelerate the process begun by ASEAN-Plus-Three (members of the Association of Southeast Asian Nations plus China, Japan, and South Korea) meeting in Chiang Mai, Thailand, on May 6-8, which set up a currency reserve defense fund; and the Inter-Korean Summit of June 14-16, which put on the table concrete elements of the Eurasian Land-Bridge for implementation.

The nations initiating these policy changes are driven, in general, by a fundamental reality: The world financial system is hopelessly bankrupt. Either they break with the policies of those institutions running the cancerous world monetary system, or, as a result of those policies, these nations will cease to exist. In an attempt to save the bankrupt system, Federal Reserve Board Chairman Alan Greenspan and U.S. Treasury Secretary Lawrence Summers have imposed insane policies of money pump-priming and ferocious austerity throughout the world. For most nations, this has brought economic destruction, lost productive capacity, poverty, and death—i.e., these nations have been written off. Now, they are breaking with the Greenspan-Summers policies, despite bullying and threats, to ensure their populations' survival.

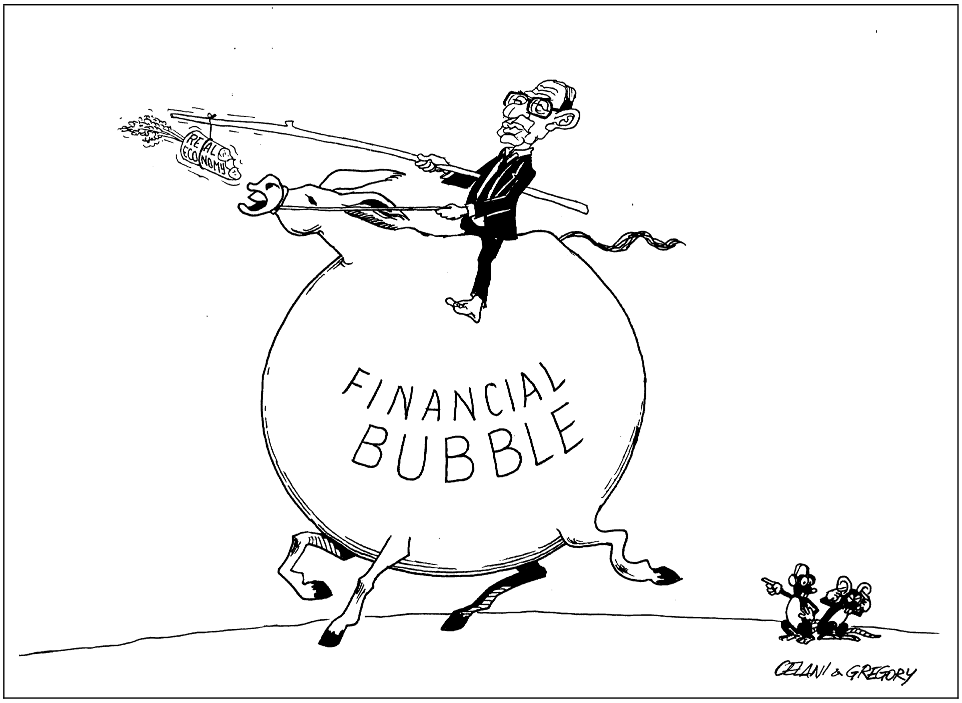
The dynamic toward regional alliances has been growing since late 1997, when then-Japanese Vice Minister for Finance Eisuke Sakakibara proposed an Asian Monetary Fund. At the time, Summers crushed this proposal.

Democratic Party Presidential pre-candidate Lyndon LaRouche examined this dynamic of regional groupings from a higher standpoint, and identified how this might be transformed into a development-based new monetary system—a transformation he is working actively to bring about. In a May 16 memorandum, entitled "Asia Monetary Fund," LaRouche wrote: "In this circumstance, the proposal to implement an Asia Monetary Fund among the ASEAN-Plus-Three partners remains one of the indispensable, new, regional building-blocks toward the New Bretton-Woods-modelled monetary system which must now emerge as the only alternative to the worst financial, monetary, economic catastrophe to be suffered by this planet in more than a hundred years."

Yet, in the midst of this, Greenspan, Summers, et al. are denying reality. On June 20, the U.S. Department of Commerce announced that during the first quarter of 2000, the United States registered a record $102.3 billion current account deficit. This indicates a deep imports-addictive dependency, and a major strategic vulnerability for the dollar and U.S. financial system. Rational people have been warning about this. Greenspan and Summers issued nary a peep.

French-German Collaboration

On June 27, French President Jacques Chirac addressed the German Bundestag (parliament), at its new home in Berlin. Chirac used the occasion to strengthen a process of German-French collaboration on economic, military, and strategic matters, which proceeds from a standpoint that opposes the policies of the extreme forces of the Anglo-American imperium. Chirac spoke of a European Union (EU), based on sovereign nation-states, and of France and Germany spearheading a "pioneer group" that should march ahead on key issues (see p. 35). Chirac quoted President Charles de Gaulle,



Regional alliances of nations around the world are beginning to take steps to defend themselves against the imminent collapse of the global financial system, and the insanity of Federal Reserve Chairman Alan Greenspan, who is committed to defending the current system at all costs.

from an address de Gaulle delivered to the German parliament in 1963, during a period of collaboration with German Chancellor Konrad Adenauer. De Gaulle said:

"Our rapprochement since our Union [is] among the most striking events of all history. . . . This Union, for which a bulwark exists in the old world, whose power, prosperity, [and] authority will be equal to that of the United States. This Union, again, which, once the time has come, will permit all of Europe to establish its equilibrium, its peace, and its development."

British Foreign Minister Robin Cook expressed extreme concern on June 27 over the newly emerging alliance between France and Germany.

Chirac's visit builds upon French-German discussion of the May 8 proposal by French Finance Minister Laurent Fabius, to establish a Euro-11 Secretariat within the EU. Membership in this group would include only 11 of the 15 nations that attend EU finance ministers meetings—Britain would not be included. Further, the Euro-11 Secretariat would have a political watch-dog function over the European Central Bank. Britain was up in arms over this proposal.

On June 27, French Foreign Minister Hubert Védrine refused to sign the final declaration of the "Toward a Community of Democracy" conference, which was held in Warsaw, Poland. The declaration, which expressed the view of world federalism and attacked national sovereignty, was drafted by U.S. Secretary of State Madeleine Albright and her gang. Védrine's action is another indication of the emerging split among Western policymakers (see *International* lead article).

'The Financial System Almost Made Us Beggars'

Meanwhile, on June 27, the 27th foreign ministers meeting of the Organization of Islamic Conference (OIC) opened in Kuala Lumpur, Malaysia. In his keynote address to the OIC, Malaysian Prime Minister Dr. Mahathir bin Mohamad laid bare the destructive effects of globalization. "The financial system of the globalized world almost bankrupted us, almost made us paupers and beggars, almost placed us under the direction of foreign powers whose agenda is not the same as ours," he said.

Mergers and acquisitions, part of the current speculative boom, he said, have added to raw and abusive economic power: "Mergers and acquisitions have made [companies] so big, that sovereign states are comparable only to a department of these giant corporations. . . . In the end, we will become like the banana republics where the managers of the plantations are more powerful than the Presidents of these countries.

"At this stage, de facto we will no longer be independent. The situation which prevailed in the first half of the last century will return. These are some of the things that can come with globalization. Is Islam or the Muslims prepared to prevent these things from happening? The answer is a resounding no."

Dr. Mahathir then educated his audience, that a major problem is that Muslims spend much time in quarrelling "over who was right and who was wrong . . . [in] the interpretations . . . of Islamic laws," or in turning their backs on the world. Instead, he said, Muslims "must always remember that Islam enjoins us to seek knowledge." He emphasized the benefit to all mankind of the achievements of the Islamic renaissance, and said that this knowledge today will mean the industrialization of the Islamic world.

Dr. Mahathir prepared for the conference, draft proposals on reform of the international financial architecture and on the creation of an Islamic common market. The draft proposals are not yet available, as we go to press, but reportedly include writing off debts for the poorest nations. Speaking on the proposal for an Islamic common market, Morocco's Dr. Azeddine Laraki, outgoing OIC Secretary General, told the conference that the challenges of globalization and economic liberalization make such a common market a necessity. Dr. Laraki said that OIC nations must "achieve economic interdependence."

The OIC conference follows two conferences of import: the Group of 15 summit, which met on June 19-20 in Cairo, Egypt, at which Dr. Mahathir also spoke, and the Rio Group summit of 19 Ibero-American and Caribbean nations, which met on June 16-17 in Cartagena, Colombia. At the latter summit, a proposal was introduced to create a regional Latin American Monetary Fund (although the purpose to which it would be put, is not clear).

Laying the groundwork for the growing density of activities of June, in which a new direction is being discussed, were two events of fundamental importance. On June 13-14, the historic Inter-Korean Summit between South Dae-jung and Kim Jong-il, the leaders of South and North Korea, respectively, occurred in Pyongyang, North Korea. The building of large-scale infrastructure projects in North Korea, ranging from power plants to water management, potentially worth $65 billion over the next decade, was discussed. As Kim Dae-jung attacked speculation of more than $1 trillion per day in the international markets, and called for the study of a "new financial architecture," plans were brought to the table to set up a rail network that would re-link the Koreas, and connect to major rail lines in Russia and China. This puts on the agenda the implementation of several projects of the Eurasian Land-Bridge. This also changes the strategic picture, removing the "rogue state" label from North Korea, and several other countries (a label which the United States has dropped in favor of "states of concern"), and undercutting the rationale for the provocative U.S. National Missile Defense system.

Some of the basis for the Inter-Korean Summit was laid at the ASEAN-Plus-Three Chiang Mai summit. It proposed setting up a mechanism to pool hard-currency reserves, potentially $300-400 billion, to defend Asian currencies from hedge-fund and other speculative attack. That could lead to an Asian Monetary Fund, which could have the positive function of supporting economic and infrastructure development.

Thus, from the Chiang Mai meeting and the Inter-Korean Summit, to the OIC conference, to the growing French-German collaboration, a profound shift in the world strategic geometry is occurring.

Soaring U.S. Current Account Deficit

Meanwhile, the United States insists upon continuing its lunatic policies. Those who have advocated replacing those policies with a rational alternative course, have been attacked. Yet, even in the insane precincts of Washington, an alarm should have gone off when the U.S. Commerce Department reported on June 20 that the U.S. current account deficit for the first quarter of 2000 had reached $102.30 billion, the highest level in history. It followed a deficit of $96.23 billion during the fourth quarter of 1999. For the last several quarters, the current account deficit has set ever new records. Were the trend to continue, the deficit would grow to $440-460 billion for the year 2000. In 1995, the current account deficit was $113.57 billion.

While the government may choose to ignore the current account deficit, the underlying fundamental process which fostered the deficit, representing the degenerated state of the U.S. economy, will not be ignored. This will result in, imminently, an immense dollar crisis, that will further pulverize the U.S. economy, and collapse the financial system.

Rather than face this reality, the Clinton Administration has cranked up the propaganda machine to perpetuate the thread-bare myth of prosperity in a desperate, and futile, attempt to elect Al Gore as President.

The root of the U.S. current account deficit must be sought in the mid-1960s, when the City of London imposed on the United States a "post-industrial" policy, which withered production in manufacturing, agriculture, and infrastructure, and sought to replace it with the "information age" and, especially, financial services, which sucked the physical economy dry, and built up the speculative cancer that plagues us today. Tens of thousands of American factories, producing capital and consumer goods, were shut down. America became addicted to imports to substitute for its production shortfall, in order to survive. This wrecked the trade balance.

The current account balance is the sum of three balances: trade in goods and services, investment income, and net unilateral transfers. The balance on trade in goods and services is clear. The investment income balance represents the income which individuals, firms, and governments earn on their investments abroad, minus the income which foreign individuals, firms, and governments earn on their investments in the United States. The net unilateral transfers balance is the funds that U.S. government agencies (such as the Agency for International Development) and private charities (such as the Red Cross) send abroad in food and humanitarian and other aid, plus the remittances that foreign workers living in the United States send to their home countries, minus the funds that foreign government agencies and private charities send to America in food and humanitarian and other aid, plus the remittances that American workers living abroad send to the United States.

Clearly, trade is the largest element of the current account.

During the first quarter of 2000, U.S. trade had a deficit on goods and services of $90.16 billion (up from a deficit of $76.28 billion in the fourth quarter of 1999). Moreover, during the first quarter of 2000, the U.S. investment account was negative $4.2 billion (i.e., foreigners earned more on their investments in the United States, than Americans earned on their investments abroad), and the net unilateral transfers account was negative $11.93 billion. Thus, the total current account for the first quarter 2000, was $102.30 billion.

The picture is worse than it appears. The official figures for the current account deficit, used above, *understate* the real current account deficit. The reason is that the dollar is gigantically overvalued, and is actually bringing in far more goods per $1,000 in imports, than it did five years ago.

Covering the Deficit

When the U.S. imports more goods than it exports, it pays for the imbalance with dollar-denominated trade or comparable paper (the same is true for the other two elements of the current account deficit). The U.S. must find a way to get the dollar-denominated trade paper—or its equivalent—back into the United States. It does this by rigging the world financial system, so that rates of return and appreciation of financial paper are relatively higher in the United States than in most industrial countries. This attracts foreigners to invest in U.S. stocks, bonds, real estate, companies, etc.—and that brings those dollars back into this country.

In the first quarter of 2000, foreigners invested and/or acquired assets in the United States worth $215.01 billion. This included foreigners buying $61.3 billion worth of stocks; $42.3 billion worth of U.S. companies, in foreign direct investment; $71.7 billion worth of U.S. corporate, government, and other bonds; and other assets. This means that during the first quarter of 2000, a whopping $2.36 billion worth of foreign money came into the United States every day, to help cover the U.S. current account deficit.

But, with increasing instability caused by the deepening of worldwide financial disintegration, the possibility is that either foreigners will decide that they no longer wish to hold so much of U.S. assets, and begin disinvesting out of the United States, or, several U.S. markets crash, prompting foreigners to get out as quickly as they can.

This would produce two catastrophic consequences: The U.S. physical economy, cut off from imports, would collapse further, and second, it would trigger a huge drop in the dollar, a crisis that would further collapse the markets, causing a steep "reverse leverage" of the financial system.

The rigged game which covers up for the fundamental inadequacies of the U.S. economy cannot be maintained much longer. Yet, to the extent that it is still maintained, it destroys nations, because they must ship goods to the United States, often at underpriced levels, because of the overvalued U.S. dollar, and then ship dollar flows into the United States to cover the U.S. current account deficit. But the deadly maneuvers by Greenspan and Summers to maintain the rigged game, are precisely one element that have convinced nations that Greenspan, Summers, and the Administration are insane on the economy. This is fuelling their split from Anglo-American policy, and accelerating the development of regional alliances.

For the last six months, rational people around the world have warned about the dual problem of the U.S. current account deficit: that it will explode, causing worse than a "hard landing" for the United States, and that to the extent it is maintained, it is a cause for friction among, and destruction of, nations. Among those is Sakakibara, who, in an interview with the Thai newspaper *The Nation* in May, said, "American hegemony is by no means permanent."

The dynamic toward a new Bretton Woods, through the emergence of regional alliances, will go forward; the United States has a huge shock in store.

Beijing Conference Asserts Need for Regional Protection

by Mary Burdman

The growing importance of regional economic integration to protect Asian nations from the "unipolar" world financial system, was the unifying theme of the "hot" discussion about the world financial situation at the international 21st Century Forum on "Economic Globalization—Asia and China." The conference, sponsored by the National Committee of the Chinese People's Political Consultative Conference (CPPCC), was held in Beijing on June 14-16. It was convened, as CPPCC Chairman Li Ruihuan said, because "China is paying close attention to the development of economic globalization. . . . The country is also striving to implement correct policies and measures on economic globalization."

Chinese President Jiang Zemin called on the conference to "help expand common ground and cooperation, and help build a fair, just, and rational new world economic order." Another indication that the conference was to discuss the development of a "Survivors' Club" in Asia, was Jiang Zemin's statement that China now has favorable conditions to participate in the economic cooperation mechanism in the Asia-Pacific region, as well as economic globalization.

Conference participants came from East and Southeast Asia—with the exception of former Botswana President Ketumile Masire, a lineup of the usual globalization mouthpieces of such institutions as the World Bank and World Economic Forum, and a smattering of has-beens such as former U.S. Trade Negotiator Mickey Kantor, who regularly haunt such forums.

While one group, led by Singapore's Senior Minister Lee Kuan Yew, keep pumping for China to "join the world club," other speakers, from China, South Korea, Thailand, and other countries, were blunt, some even passionate, in their denunciations of the disasters that globalization, under the International Monetary Fund (IMF) "Washington Consensus," has brought on their nations.