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.

Lee Kuan Yew would appear to be making an insidious appeal to China, to be drawn into a world system that, as is widely acknowledged in Asia as well as Europe, is already disintegrating. Joining "the global grid" would make China "one of the most important players in the global exchange of goods, services, capital, talent, and ideas in the 21st century," Lee asserted. "When China decided to join the WTO [World Trade Organization] and reached agreement with the United States in November 1999, China signalled to the world that it was taking a major step to plug its economy into the global grid—although this system is at present still dominated by America, western Europe, and Japan." This decision, he said, will have "profound economic and geopolitical implications for China and the world."

Ignoring the arrogant, brutal operations being run by U.S. Treasury Secretary Lawrence Summers, U.S. Secretary of State Madeleine Albright, and the rest of the Anglo-American ruling junta, to try to prolong their world hegemony, Lee claimed that dangers such as volatile capital flows "can be minimized by restructuring and strengthening the financial system before opening up its capital accounts."

Prime Minister Zhu Rongji would also appear to be too sanguine, or, at least, too diplomatic, about the real state of the current world financial system. He said that now China had "shaken off the impact of the financial crisis in Asia and is moving forward in the direction of a benign cycle." While describing China's active financial policy and infrastructure construction, he also focussed on the "strategic readjustment" to be made "in the economic structure," referring to promotion of "the information-based development of the national economy." Zhu said that "opening up to the outside world will be expanded in all directions. With the quickened process of China's accession to the WTO, we shall take a more enthusiastic attitude to take part in economic globalization in a more extensive scope."

Support for Chiang Mai

Other speakers at the conference, however, more directly reflected the shift in Chinese government policy, toward developing strategic relations with China's Asian neighbors, including Japan, and away from the earlier emphasis on the primacy of U.S.-China relations.

Dai Xianglong, governor of the People's Bank of China, was cautious, but did assert that China will strengthen its cooperation with other central banks in Asia and other parts of the world to develop regional monetary and financial stability. The international community, Dai said, "should establish necessary rules and standards as soon as possible to restrain the irregular flow of capital, and strengthen supervision over highly leveraged institutions and offshore centers. . . . The violent movements of exchange values among the major currencies bring along huge risks for BOPs [balance of payments] and the stability of currencies in developing countries."

Dai called regional integration the foundation for economic globalization: "We hope that the U.S. dollar would stay stable. We welcome the launch of the euro and support the agreement signed by ASEAN [Association of Southeast Asian Nations] members, China, Japan, and the Republic of Korea to initiate currency swaps."

While giving undeserved tribute to the "dialogues" of such groups as the G-20—a permutation of the G-22 group of advanced and developing nations which last met for approximately a half-hour in Washington in October 1998, to "study" international financial crises, and then vanished from the international scene—Dai said that China will contribute to the establishment of a new international monetary and financial system.

Multi-Polar System Needed

The charged atmosphere at the conference was reflected in a *China Daily* commentary on June 26, which said that a key issue for discussion was: "What if economic globalization challenged a country's economic security? The threat is real."

The financial and psychological problems brought on by the 1997-98 financial crisis have not been forgotten, *China Daily* reported. As one Thai economist said, "The streets were pot-holed, the banks were forced to be closed down, the city became a graveyard of redundant factories. You can never imagine how my country was ravaged by the financial crisis."

Virabongsa Ramangkura, former Thai Deputy Prime Minister, told the Beijing conference that "capital-heavy" developed countries had pressured capital-weak developing countries to open their capital markets, exposing them to the flood of international capital flows and causing the Asian financial crisis. Developing countries should reserve stable policy tools such as exchange rates, interest rates, and prices, or "instability will be the result." Ramangkura also called for the establishment of an Asian Monetary Fund, which would have a better understanding of Asian economies than the IMF. The World Bank and IMF "have lost their credibility. The search for a new and better system, or modifications of the existing system, is badly needed," he said. Ramangkura also criticized the "minimal" effectiveness of the Asian Development Bank in the crisis.

Il Sakong, chairman of the Institute for Global Economics, from the Republic of Korea, was also direct. He blamed financial globalization for the rapid spread of the Asian financial crisis worldwide, reporting that the daily exchange trading volume in the globalized financial market is nearly $2 trillion, while "only a small portion of the total is directly related to real economic activities, and the rest are purely financial."

"The global economy today is still under the hold of the old international financial structure, based on an institutional foundation laid more than half a century ago. Naturally, the world today needs a new global financial structure to deal appropriately with new challenges posed by the financial globalization," Sakong said.

The current "unipolar" world complicates global decision-making, Sakong said; special efforts must be made to set up a closer regional cooperation, to help reduce potential financial systemic risks. These measures should include regional macro-economic policy coordination, collaborative monitoring of volatile financial flows, and the better use of regional monetary institutions supplementing the role of the IMF.

Chinese participants were also outspoken. Chen Jinhua, vice-chairman of the CPPCC National Committee, while calling for efforts "to seek benefits from economic globalization," warned that some multinationals and governments would use the process to interfere in the internal affairs of other countries. "Special attention," he said, "should be given to the interests of developing countries. Support should be given to the economically backward countries by opening markets to them and training skilled personnel for them."

Lu Zhongwei, president of the China Institute of Contemporary International Relations, said: "Globalization is a double-edged sword. . . . If we are not prudent enough, our economic security will be at risk as in some crisis-stricken Southeast nations." He said that a country's ability to stop a financial crisis is critical to its economic security.

Lu said that economic globalization will weaken a country's economic sovereignty. The birth of the euro has made Germany lose some control over its currency. But the challenge globalization presents to a country's economic security is greater. Developing countries are at risk due to their outdated technology and immature market awareness, and inability to reduce financial risk.

The Southeast Asian countries' banking systems could not regulate the international investment capital that precipitated the Asian crisis, and their foreign-exchange-rate systems were subject to wild speculation. China escaped the Southeast Asian financial crisis in 1997, in part because of its macro-control policy, and because China has not fully adopted economic globalization, Lu said. However, China should not slam its door to the outside as globalization intensifies.

The Moral Issue

The underlying issue, as stated by Yuan Ming, director of the Institute of International Relations at Beijing University, is that "moral guidelines" must be strictly adhered to in the process of economic globalization. Moral principles are being ignored in the pursuit of money, which, he warned, might lead to disaster for mankind in an increasingly interdependent society. Yuan pointed to the operations of the international hedge funds during the Asia financial crisis, and the deep concern for moral issues shown by some people, especially those from developing countries, at the WTO meeting in Seattle last December.

Yuan Ming quoted the 1999 annual report of the UN Development Program, which warned, he said, that if the market's big players get out of control, moral standards would be severely threatened, and world justice and human rights would be sacrificed. "The trends of globalization have raised a great obligation for all of us. A moral guideline should be set to accompany the economic interactions," he said.

An interesting note, perhaps indicative of the fissures within the "Anglo-Saxon" nations, was the contribution of former Australian Prime Minister John Malcolm Fraser, who said that the Asia-Pacific region needs to give greater attention to its regional interests and concerns. Fraser noted that the Asia-Pacific region is less structured and organized than other areas. The Asia-Pacific Economic Cooperation Forum (APEC) had been set up to move the region toward free trade more rapidly than the WTO could; however, Fraser said, the involvement of the United States and other Pacific Rim countries had prevented this. "The membership is so large and diverse that it is difficult to advance the specific interests of East and Southeast Asia adequately or effectively. Our own region needs to give greater attention to regional interests and regional concerns," he said, adding that this could be best promoted by a political conference of leaders of all East and Southeast Asian countries.