

Asian Leaders: 'The Days of the Washington Consensus Are Over'

by Kathy Wolfe

Government officials and advisers in South Korea, Japan, China, and the Association of Southeast Asian Nations (ASEAN Plus 3) are quietly furious at the rubber-stamping of International Monetary Fund (IMF) policies by the Group of Eight Heads of State Summit in Okinawa, Japan on July 21-23, *EIR* has learned in several post-summit interviews. As a result, they have decided to move as fast as possible to create an independent Asian Monetary Fund (AMF), plus broader Asian capital markets, trading agreements, and even an Asian currency, to protect the region from what they see as a pending new global financial crisis.

In numerous meetings in Tokyo and Seoul, *EIR* also found openness among policymakers to the ideas of Lyndon LaRouche about replacing the existing bankrupt IMF-centered monetary system. As the crisis deepens, the idea of junking the IMF and creating a "New Bretton Woods" world monetary system as proposed by LaRouche, complementary to the new Asian Monetary Fund, should receive greater consideration.

Entire ministry divisions in Tokyo are being reorganized "to better expedite completion of the network of protective currency swaps" proposed at Chiang Mai, Thailand on May 6 by the 13 ASEAN Plus 3 nations' finance ministers, one Japanese official, who estimates that a swap pool of \$200 billion will be needed, told *EIR*. South Korean President Kim Dae-jung's Aug. 6-7 reshuffle of his entire cabinet may be to the same ends, a Seoul official said. "We are deeply worried that a new global financial crisis will come again soon, and Asia must be prepared, no matter what we have to do," the Tokyo official added. If Wall Street crashes, today's IMF system "is not going to protect our region from a new contagion."

Chinese officials are also increasingly expressing support for the Chiang Mai Initiative and the AMF. The head of Beijing's State Council (Cabinet) Development Research Center, the president of the People's Bank of China, and the head of the China Construction Bank have all recently made

speeches calling for increased cooperation with the Asian region and strengthened coordination to protect Asian currencies, according to press reports in Seoul.

"The crisis is here," as Dr. Yunjong Wang of the Korea Institute for International Economic Policy, who is in charge of Seoul's position papers for Chiang Mai and the AMF, told *EIR* (see interview below). The IMF and U.S. Treasury have wrecked Korea's economy, he warned, to the great profit of Western investors, who now control 30% of the Korean equity market, creating an enormous banking crisis in Seoul right now. "We have no choice but to move as fast as we can" to broaden the Chiang Mai Initiative, create a new \$30-50 billion Asian Arrangement to Borrow, set up the AMF, and even create a new Asian currency unit of account to enable trade and production to continue, Dr. Wang said. "Many people thought the AMF was dead, but they were wrong." It must succeed now, "because the region can't stand a second shock. . . . Together, the ASEAN Plus 3 countries have more than \$800 billion in foreign reserves," he stated, and will use them in self-defense.

"The days of the Washington Consensus are now over," as one leading Tokyo policymaker put it bluntly, referring to the free-trade line which the IMF, the Federal Reserve, and U.S. Treasury have been pushing down the throats of the world. "Globalization by the IMF and World Bank, for the IMF and World Bank, is ending, by which I mean the hierarchical globalization under which the IMF and United States have an agenda, and use globalization as a mechanism to further their own objectives and profits," he said.

The term "Washington consensus" referred originally to the globalization, privatization, and market liberalization imposed by the IMF and U.S. Treasury on Latin America after its 1980s debt crisis. The U.S. and IMF later insisted this also be applied to Russia and Eastern Europe, claiming that, with the fall of the Berlin Wall in 1989, such "free market funda-

mentalism” had been proven superior to all other economic theories. The IMF then attempted to impose this on Asia during 1997-99.

Stop the Hedge Funds

Many officials were irate at the July 21 Okinawa Summit Group of Seven (the G-8 less Russia) Statement on the World Economy, which says that “strengthening the international financial architecture” means simply “strengthening the IMF” to make it play more and more of a “central role” as world economic dictator. This is followed by Section 8 of the communiqué, which has no fewer than six points calling for “strengthening IMF surveillance” and the like. Japanese officials privately showed *EIR* phrases in the communiqué where Tokyo had tried to stress the dangers of global hot-money flows “in light of the increasing size and importance of private capital markets.” In the end, however, they complained that their efforts “were hard to notice” under the weight of pro-IMF wording insisted upon by the U.S. and British delegations.

Asian financial officials are especially scrambling to protect the region from clause 13 in the statement, which flatly announces that the G-7 “did not recommend direct regulation” of “highly leveraged institutions (HLIs),” i.e., George Soros-type hedge funds, hot-money capital flows, and offshore financial centers. These are the very speculative global financier mechanisms that caused the 1997 crisis.

“This statement was made entirely on the insistence of the United States,” one Japanese official told *EIR*. “The Asian finance ministers meeting in Fukuoka on July 6 advised the G-7 finance ministers meeting on July 7 that regulation of these speculative funds was urgent, and Japan brought this message into the Okinawa leaders’ summit,” he revealed. “France, Germany, and most of the European leaders agreed, but the U.S. delegation, backed up by the U.K., was violently against any regulation of its hedge funds. The U.S. position was: ‘These funds are on our territory, we do not wish to regulate them, and there is nothing you can do.’”

Korean and Japanese economists were also shocked by Fed Chairman Alan Greenspan’s July 12 speech to the New York Council on Foreign Relations conference on “The Next Financial Crisis,” where he stated that the “new international financial architecture,” which the West has promised Asia it would create since 1997, is already here — and it is based upon expanded use of derivatives and other hot-money hedge fund “financial products.” “The availability of a wider array of financial instruments [which] has allowed the development of more complex hedging strategies” and “the ability of derivatives and other modern financial products to unbundle complex risks,” Greenspan said, “can aptly be described as a new international financial system.” Asia had a crisis in 1997, and the United States did not, Greenspan lied, because U.S. financial institutions hold mountains of derivatives to hedge against global capital gyrations, while backward Asian financial systems had no such “spare tire” to cushion the blow

朝鮮日報

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The Chosun Ilbo

http://www.chosun.co.kr

EIR誌 이코노미스트 울프씨 방한

“한·중·일 3개국과 동남아연합(ASEAN)이 서로 협력한다면 미국과 유럽연합에 버금가는 새로운 수퍼파워(super power)를 탄생시킬 수 있다. 지난 5월 태국 치앙마이에서 열린 아시아개발은행(ADB) 연차총회에서 이들 13개국이 모여 외환위기 발생시 서로 필요한 외환을 지원하는 통화스와프(교환)를 하기로 합의한 것은 그 첫 걸음이다.”



새로운 국제통화기구의 설립 필요성을 홍보하기 위해 한국과 일본 등 아시아 국가들을 방문 중인 케시 울프(Kathy Wolfe)는 2일 조선일보와의 인터뷰에서 이렇게 말했다. 그는 EIR(Executive Intelligence Review·위싱턴에서 발간되는 경제주간지)의 아시아담당 이코노미스트로 한국 말이 통하는 몇 안 되는 한국전문가다.

—아시아통화기금(AMF)의 설립에 대한 견해 및 전망은?

“치앙마이에서의 13개국 합의는 미국과 유럽국가들이 좋아하든 싫어

하든 AMF로 가는 발판을 마련한 것이다. AMF는 아시아적 특성을 살리면서 세계적 통화기구로의 확대를 지향해 나가야 한다.”

— A M F 와

“AMF 만들어 IMF 대체해야”

한국 통일에도 도움될 것

IMF와의 관계는?

“현재 IMF는 위기국가들로부터 신뢰를 잃고 있는 것은 큰 가운데서도 위기기금도 거의 고갈상태다. 따라서 AMF는 IMF의 보완이 아니라 대체기구가 돼야 할 것이다. IMF의 위기를 극복할 수 있는 길은 AMF를 만드는 것이다.”

An interview with EIR correspondent Kathy Wolfe, who attended the Okinawa summit, and had extensive meetings in Tokyo and Seoul in support of the Asian Monetary Fund, appeared in the South Korean daily Chosun Ilbo on Aug. 3 (p. 12). The headline reads, “EIR Visits Korea,” and the blow-up quote from Wolfe reads, “We must create the AMF to replace the IMF.”

when speculators organized a run on Asian currencies. Rather than regulate global hot money and the hedge funds, he concluded, Asian markets must embrace them on a whole new scale.

“I read the speech and it is complete nonsense,” one Korean economist told *EIR*. “He never mentions that it was pre-

cisely the huge problems which derivatives cause, which forced the Fed to spend over \$50 billion to bail out the Long Term Capital Management [LTCM] hedge fund in 1998.”

“The world is suffering under global speculation in which the volume of private hot-money capital changing hands in any single day is dwarfing the size of existing government institutions by two orders of magnitude,” a former Japanese minister said. “The volume of global foreign exchange trading in a week is larger than the entire amount of world imports and exports combined in a year. Greenspan says they don’t need further regulation—he told the House Banking Committee on July 25 that existing U.S. government bank regulatory agencies are already regulating the financial institutions concerned. This is insane. He’s simply arguing to let the speculation continue because it’s profitable for them—just as more LTCMs are about to occur. We call it the ‘cockroach theory’ of international finance: Where you see one LTCM-type bankruptcy, there are a dozen other such cases under the floor boards which you don’t see, waiting to go bankrupt and explode to the surface.”

The LaRouche ‘Chess Piece’

ASEAN Plus 3 finance ministries are planning to create a “formal pressure group” of Asian, Ibero-American, and African finance ministers “to step up demands on the U.S. to regulate these hot-money flows,” one official said.

In general, officials indicated that they are looking for ways to show that Asia has tried to cooperate with the IMF, but the IMF hasn’t played fair, so now it is reasonable for Asian players to create their own chessboard. “We’ve demanded more disclosure on short-term capital; we can’t get it. We’ve demanded a larger share of IMF quotas and IMF powers for Asia; we didn’t get it. We asked for help early in the 1997 crisis; we didn’t get it. If this continues, then our only reasonable alternative is to create an Asian Monetary Fund,” as one Finance Ministry official put it.

Playing the LaRouche “chess piece” is also coming under consideration. At the Okinawa summit, this author was called on at three different press conferences by the Japanese Foreign Ministry spokesman and given ample time to criticize the IMF, promote LaRouche’s proposal for a New Bretton Woods monetary system, and ask what results Japan was getting in raising Asian concerns about a new global financial crisis. “We can’t state openly that we’re against the IMF, but I must tell you that Mr. LaRouche’s ideas are very useful to us,” as one Japanese official put it privately.

Seoul’s leading conservative daily, *Chosun Ilbo*, ran an interview with this author on Aug. 3, entitled “EIR Visits Korea,” featuring a picture caption: “The AMF Must Be Created in Order To Replace the IMF.”

“EIR is very well known in Korea,” a Korean economist commented. “I have asked around, and almost everyone here agrees with Mr. LaRouche’s view on the IMF, but they are afraid to say this publicly because the IMF dismisses EIR. Look, we’ve all talked to the IMF about EIR and your argu-

ments against their programs. But the IMF complains that EIR doesn’t have enough recognized name economists with PhDs to prove your case against their programs with proper academic statistical studies.”

A former executive director of the Bank of Japan, Japan’s former director at the World Bank, and two prominent South Korean government-funded economists have recently signed the call by the Ad Hoc Committee for a New Bretton Woods, initiated by LaRouche’s wife, Helga Zepp-LaRouche.

Interview: Yunjong Wang

‘The Crisis Is Here’

Dr. Yunjong Wang is Director of the Department of International Macroeconomics and Finance at the Korea Institute for International Economic Policy (KIEP), a quasi-governmental think-tank in Seoul. Dr. Wang is preparing the South Korean proposals for the Chiang Mai Initiative, the Asian Monetary Fund (AMF), and further Asian regional financial and economic agreements. The Chiang Mai Initiative stems from meetings in Chiang Mai, Thailand in early May, between the ten-member Association of Southeast Asian Nations (ASEAN) and Japan, Korea, and China, which has since become known as ASEAN Plus 3.

Dr. Wang spoke on Aug. 3 in Seoul with EIR’s Kathy Wolfe.

EIR: Where do the Chiang Mai Initiative and the Asian Monetary Fund stand today?

Dr. Wang: When the 1997 crisis hit Asia, there were many different proposals on what to do, alternatives to the traditional harsh IMF [International Monetary Fund] cure; for example, Japan proposed the Asian Monetary Fund, and Malaysia had some ideas. But these were all flatly turned down by the IMF and the U.S. Treasury, regardless of merit. Unfortunately, Japan did not have enough power in the G-7, the Asian nations were not as strong as the West in the IMF before the crisis, and the crisis made us even weaker. Also, China, at the time, would not support an Asian fund. Pretty soon, Indonesia, Thailand, and South Korea were under IMF programs and could not buck the IMF at all. We had no regional unity at that time, so the Asian nations were powerless, and the IMF did as it pleased.

Now, however, we’ve pulled ourselves up a bit, so we have a little more leverage, and although the Korean government can’t make a frank criticism of the IMF yet, many Korean economists now, as well as social groups such as the labor unions, are demanding independence from the IMF. Whatever recovery we have in Korea and Asia is despite the IMF’s programs, not because of it. Actually, the IMF was surprised at how fast we recovered.