

contraction is under way. The special index for contract goods of the U.S. economy went down from 48.4 to 42.0.

- LTV Corp., in Cleveland Ohio, the fourth-largest producer of steel in the United States (with 18,000 employees), declared bankruptcy. After the financial crises in Russia, Asia, and Ibero-America, and the collapse of these countries' currencies, their imports of U.S. steel hit a record 20-year low. At the same time, because of rising energy prices, the cost of production is skyrocketing. In November, the amount of steel produced went down by 12.4%. LTV sold 40% less steel in the last month!

- Starting in October, sales in the automobile industry went down. This process accelerated in November and December. In November, Chrysler's sales fell 5%, Ford's 7%, and General Motors' 8%. In December, Ford's sales went down by 14.6%, Chrysler's 14.8%, and General Motors' 18.1%. General Motors wants to fire 15,000 people. Both Ford and DaimlerChrysler announced before Christmas that they would slow down production and at least temporarily close some factories. Also, foreign firms announced a fall in sales: Volvo 24.9%, Land Rover 16.1%, and even sales of Jaguars fell 11%. Overall, sales fell below the rates of November 1998.

- After 128 years, the department store Montgomery Ward closed its doors. About 32,000 employees will lose their jobs and 258 stores will close down. The department store chain Bradlees has also filed for bankruptcy. Its Christmas sales were lower than expected. Whirlpool will lay off 6,000 people, and American Standard (which also produces electronics) will fire 1,200 people. Gillette will fire 2,700, cellular phone-maker Motorola 2,900, health insurance company Aetna 5,000, and the chemical company Solutia 800. Union Pacific, the largest U.S. railroad company, cut 2,000 jobs. Lucent Technologies, formerly the Bell Laboratories division of AT&T, will probably lay off 10,000. And Outboard Marine Corp., the boat-maker that George Soros bought up three years ago, has gone belly up and will lay off 4,000 employees.

- The number of layoffs in the Internet section of the U.S. economy has increased 600% compared to the first half of the year, and that number is rising. In December, the layoffs increased 19% compared to November. For the entire year, 210 Internet companies went bankrupt, with 15,000 losing their jobs!

- The financial sector is also going to lay off a lot of people. The obvious reason being that, because the stock market is crashing, new emissions of credit are slowing and the takeovers of companies is going sour. Prudential Securities wants to separate itself from 175 investment banks. Bear Stearns wants to thin out its IT section. Chase Manhattan and J.P. Morgan are going to lay off 5,000 people when the two banks merge.

The only companies that have good prospects for the times ahead are those law firms specializing in bankruptcy.

U.S. Collapse Threatens Asian Economies

by Mary Burdman

The cracks in the U.S.-centered world economic bubble are extending into Asian economies, shaking down what had been so laboriously built up in the past three years. The devastating 1997-99 crash in Asia left enormous bad debt and took down productive industry; in the Wall Street-dominated globalized "new economy," South Korea, Taiwan, China, and even industrial giant Japan, had to turn to exporting "information technology" to the U.S. market—the current version of Britain at the height of its Empire—in an attempt to avoid total collapse.

Now, the U.S. market is evaporating. There could be no clearer example of the urgent need to create a new world financial system, to reconstruct real industrial economies, than the renewed Asian crisis. The efforts of China, Japan, South Korea, and the nations of Southeast Asia, to form an "Asian Monetary Fund," must rapidly go beyond current efforts at cooperation. The whole "Washington consensus" system of International Monetary Fund (IMF) conditionalities has to go.

The alternative is already obvious in northeast Asia. South Korea's industrial capacity, of worldwide importance, is being shut down to maintain the pile of worthless debt left by the Asian debacle. Japan, whose public sector debt burden from the 1980s bubble is now 130% of its Gross Domestic Product, faces a similar crisis. China, despite the protection of its unconvertible currency and ongoing national construction, is endangering its national economic security with rapidly growing dependence upon the U.S. market.

The virus of the "New Economy" has pervaded not only Asian trade ties with the United States, but also Asian regional economic relations. Japan, China, Taiwan, and South Korea all export heavily to other Asian nations, but, more and more, this trade too has been shifted into the "information technology" sector, ultimately dependent upon the U.S. bubble.

Asia, the center of world population, urgently needs infrastructure, including transport, power, education, and health care. Most urgent, is the need to economically ensure the reunification of the Korean peninsula, with the construction of railroads and industry linking South and North, and the rest of Eurasia. Increasing economic cooperation would also ensure a peaceful reunification of China. The New Economy bubble is imploding; Asian nations must urgently rebuild their industrial capabilities, or implode with it.

De-Industrialization of South Korea

Before Wall Street set off the crisis in 1997-98, South Korea was among the largest industrial economies in the world, a builder of ships, automobiles, and constructor of infrastructure projects all over the world. The Asian crisis forced Korea into the jaws of the IMF, and for the past three years, it has had to shift to madly exporting computer chips to the United States, in an effort to pay off its IMF obligations of \$58 billion. Its domestic economy remained in hock, and now, as the U.S. bubble implodes, Korea's own bad debt bomb is imploding likewise. Worst, this disaster is happening just months after the historic North-South accords, which embody the potential for one of the greatest expansions of infrastructure and industrial development in Asian history. It would be a great tragedy if South Korea's construction and industrial capacities were to be shut down at this time—due only to the rapacity of Wall Street.

On Nov. 3, 2000, Seoul announced the triage of national industry and financial institutions as part of its IMF "reform" program—even as Korea is completing repayment of its obligations! Despite the credit crunch, brought on by the stock market collapse, the government was not willing to let everything go under. In an effort to save essential enterprises and banks, "on Dec. 26, creditor banks discussed the way of giving help to cash-strapped firms. They will continue to buy their maturing bonds," a Ministry of Finance and Economy official said. The debt rollovers began in the new year.

On Jan. 2, the state-financed Korea Deposit Insurance Corp. announced that it had injected 4.13 trillion won (\$3.2 billion) into six banks bankrupted last year by the losses of Korean industry. Before the funds were transferred, striking bank unions agreed to end their action and accept restructuring programs, including job cuts and leaving the Korean Financial Industry Union. Another 3 trillion won will be injected into the banks by March 2001.

Since 1998, the government had spent 110 trillion won (about \$100 billion) to bail out Korea's banking and financial system, to pay off bad loans, cover customers' deposits, and increase capital. However, these efforts were insufficient to deal with the bad debt, which, per GDP, is higher even than Japan's.

Seoul plans to inject another 40 trillion won into the financial sector—but internal financial weakness makes this project tenuous. The total debt load of Korean companies stood at 790 trillion won as of September 2000, 164% of GDP of 1999.

On Jan. 3, another debt rollover was set in motion. The Korea Development Bank announced that it would be buying 300 billion won of the debt of Hyundai Electronics Industries, one of the important industrial firms the government had announced it would try to save. This year, the bank will buy 80% of HEI's maturing corporate bonds, to keep the world's second-largest computer memory chipmaker from debt default. The bank will also refinance the maturing bonds of

Hyundai Engineering and Construction and Ssangyong Cement Corp.—even as these enterprises will have to use the funds to repay other bonds coming due.

In addition, in a meeting with Seoul brokerages on Jan. 2, Finance and Economy Minister Jin Nyum said that 1.8 trillion won would be injected into the investment trust sector in January alone. "Because emergency measures could have the effect of causing volatility, policy measures will be based on mid- to long-term demand," Jin stated.

'The Day the Kosdaq Died'

Along with other Asian markets in the wake of Wall Street's Nasdaq disaster, Korea's markets plunged this Autumn. The main index, the Kospi, lost 50% of its value in 2000; the Kosdaq, Seoul's version of the Nasdaq, which had melted down 75%, unofficially died in December. Market capitalization shrank to 30.79 trillion won, just a third of the amount at the end of 1999.

The won has also taken a beating. By Jan. 2, despite indirect government intervention, the currency fell to 1,276 to the U.S. dollar, a 26-month low, sending up domestic prices for imported raw materials. The cost of oil imports was the highest since 1985, up 78.6% in 2000 from the previous year. Korea's two national airlines are among the victims.

On Dec. 28, Seoul's National Statistical Office reported that national industrial production had fallen to an 18-month low. Year-on-year, industrial output had been rising at double-digit rates through the Summer, but by November, industrial growth was just 6.4%, due to falls in the production of vehicles, office equipment, and computers. The average operating rate in the manufacturing sector was 75.8%, the lowest since May 1999.

Korea's important construction sector is also in serious trouble. Domestic construction orders fell 7.5% year-on-year, due to falls in railroad and home construction. Public sector construction orders were down 30.4%. International construction orders fell 41% in 2000.

On top of all this, the crash of the U.S. market is bringing down South Korean exports. The country has had a significant trade surplus for three consecutive years, with its last trade deficit in the disaster year of 1997. But on Jan. 1, the Commerce Ministry announced that in 2000, South Korea's trade surplus had fallen by almost half, to \$12.13 billion. "This year's trade conditions are expected to worsen due to a slowdown in the U.S. economy and falling chip prices," the Ministry said. Official export growth estimates are already down to 8.1%, from the estimated 20.7% growth in 2000. The global demand for semi-conductors, Korea's chief export, is going to slacken further, the Bank of Korea warned. Exports of machinery, automobiles, and chemicals are also expected to plunge—despite the fact that high-quality Korean cars are being sold abroad at half the price of other automobiles.

All this is hitting the population hard. Unemployment is officially projected to rise to 1 million in early 2001, but

economic research institutes are warning that the numbers could be as high as 1.2 million, a rate of 4.5%. More layoffs, including at Hyundai Engineering and Construction and Daewoo Motor, are being announced daily. Basic social infrastructure is endangered. On Jan. 3, Korea's Ministry of Health and Welfare announced that, after its inception just 13 years ago, Korea's regional medical insurance system is virtually bankrupt, and that the government, "in a desperate need to prop up the regional medical insurance system," had already injected funds and would pay out 70% of its 2001 budget early. Personal debt is rising fast, and, to add to the hardship, many of South Korea's 16 municipal governments are facing bankruptcy.

The Sharks Are Circling

One of the worst results of the Asian crisis, has been the buy-out of Korea's national industry and banking system. Over the past three years, foreign firms have "taken over the leading role" in key Korean industries, including the chemical, paper, auto parts, and pharmaceuticals industries, and made big profits in the process, Seoul's *Chosun Ilbo* reported on Dec. 28. The Korean subsidiary of the world's leading cell-phone maker, Nokia of Finland, made a record 2.7 trillion won in sales—the level usually made by Korea's top 30 enterprises. While foreign direct investment into Korea, especially into manufacturing, was stagnant in 2000, the financial sharks are moving in. "Investment institutions"—man-eaters such as General Electric Capital, Merrill Lynch, Goldman Sachs, and Morgan Stanley, are buying up Korea's "distressed assets market," considered a "high-yield and high-return" market, for 40-60% of its nominal value.

Japan's Construction Industry

Japan's economy, despite its huge industrial base, is in an existential struggle with its massive debt, estimated for the public sector alone at 666 trillion yen. Japan is far stronger than South Korea, and continues to build national infrastructure, but its capabilities for international as well as domestic construction, are endangered.

A case in point is the construction industry, which employs some 6.6 million people, a full 10% of its workforce. At the end of December, 15 Japanese banks agreed to the nation's biggest-ever debt waiver, to save a century-old construction firm. The banks agreed to waive the 450 billion yen loan burden of the middle-sized general contractor, Kumagai Gumi Co. Kumagai Gumi, founded in 1898 by the Kumagai family, specialized in large-scale civil engineering projects, including dams and tunnels, but fell into debt in the 1980s bubble.

The bailout had a price. Kumagai Gumi is to give its creditors a debt-equity swap, the current top management will resign, 2,000 of its 6,500 employees will be laid off, and it will cut its capital by 65 billion yen.

Mitsui Construction Co. also announced on Dec. 30 that it is seeking forgiveness on 163 billion yen in debts from ten

creditors. Its "restructuring" plan includes job cuts, capital reduction, and other cost-cutting measures.

The consolidated debt of Japan's top 73 construction firms, at 15 trillion yen, has been reduced by only 3% as of this September. Already, seven firms have been bailed out; more are facing the same fate.

Other vital economic sectors are being devoured by the debt burden. Minutes of the Nov. 17 Bank of Japan board meeting, warned that small and mid-sized businesses are being squeezed, "accelerating the bipolarization of the economy." As in Korea, health insurers, including the municipal health system, are facing bankruptcy.

Japan, forced into financing the Wall Street bubble by printing yen, has also been pushing more and more into the "New Economy" swindle. The long-drawn-out Japanese "recovery" has been focussed on capital investment into exporters in the semiconductor and other high-technology industries. In an interview with the *Asahi Evening News* published Jan. 3, Yasuo Morimoto, a Toshiba Corp. executive vice president for information technologies, warned that "the United States has literally been the locomotive of the world economy. Now that it is slowing down, we have to brace for a tremendous fallout."

It is not just Japanese direct exports to the United States which are affected. More and more of Japan's trade with Asia has been shifted to the high-tech sector. While, as the Japan Research Institute reports, 80% of Japan's microchip exports go to Asia, the majority of these are eventually built into U.S.-bound components and products. Japan's other alleged economic "motor," consumer spending, considered 60% of GDP, is stagnating—for good reason. Unlike Americans, Japanese refuse to give up their savings.

The situation is such, that even the highly discreet Governor of the Bank of Japan, Masaru Hayami, warned on Dec. 21 of the impending U.S. crash. In language most unusual for a central banker, Hayami said: "It is necessary to pay attention to whether a slowdown in the U.S. economy will have an adverse effect on the global economy." On the rest of Asia, he said, "Exports of info-tech products must be down. We have to see what [slowing exports] means. With changes in Asia, things will be changing in Japan, too."

Greater China

There is no doubt that attention is being paid to these developments in Beijing. The Central Economic Working Conference, which met at the beginning of December, noted that "China's advantage lies in its huge domestic market. . . . Basing growth on an increase in domestic demand will . . . enhance the ability to face intensifying competition in the international market and changes in the world economy." China is relatively protected by its unconvertible currency, and other financial controls, and the focus on developing its vast internal market based on great infrastructure construction.

But, China has serious weaknesses. One, is its huge and

impoverished agriculture sector—80% of 1.26 billion population—which has stagnated since 1995. Any illusions that export-based production will provide the means to bring the hundreds of millions of surplus rural labor into other work, will soon vanish in the U.S. crash. In addition, prices of oil and steel products are rising sharply, giving rise to warnings of the danger of the “ripple effect” of international inflation, despite the prolonged deflation of prices in China. Two recent disasters—the collapse of a shopping center in Dongguan, and a dance hall fire on Christmas Day—have become national issues in China. Both were due to “rotten tofu” construction—the underside of China’s development policy.

China is also vulnerable to the implosion of the high-tech bubble. Already last year, foreign direct investment into China, while still the highest among developing countries, fell 2.3% from 1999, to \$36.24 billion. Contracted investment is rising—but has yet to materialize. Telecommunications and electronics equipment have become the biggest sector for foreign investment, with output at about \$5 billion in 1999, nearly three times the size of the second-largest foreign-funded sector, transport equipment. In December, the National Bureau of Statistics proclaimed “information technology” a “driving force”—for the moment.

Reality is striking, however. Export growth, while overall at record levels, up 30.1% in the first 11 months of 2000, slowed significantly. By November, growth was a much more

modest 13.8%. Another casualty is the “dot.com winter”: Chinese dot.com firms, which had been lavishly funded by U.S. and Hong Kong investors, and used to buy up talented young people—including leaders of the anti-U.S. protests after the bombing of China’s Belgrade Embassy—are falling fast.

The economy of Taiwan is also facing full-blown economic and financial crisis. Bad debt has ballooned as property prices fell and the stock market crashed, despite repeated government bailouts. The Taiex fell 44% in 2000, and market capitalization contracted 31%, despite urgent “liberalizing” measures introduced in November. The government is urgently trying to reorganize its banks, in an effort to cut down bad loans, which are at 8.4% of total lending.

The Taiwan dollar fell 6% against the U.S. dollar in just the past three months. On Dec. 28, anticipating Alan Greenspan’s desperate move, Taiwan’s Central Bank of China cut its rediscount rate for the first time in two years by 0.125%. “The rate cuts are due to a slower economy, a rising unemployment rate, and manageable inflation,” stated bank Governor Perng Fai-Nan. In November, unemployment was at a near-15-year high of 3.23%.

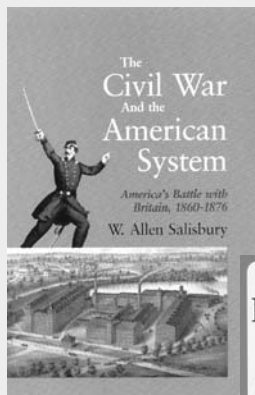
Amidst this situation, Taipei is cautiously extending a hand toward the mainland. The initiation of direct ferries from the offshore islands on Jan. 1, although a tiny and reluctant step, is an example of the only direction that can be taken. A journey of 1,000 *li* begins with one step.

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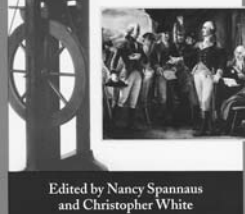


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