Eurocrats Tell Asia at ASEM: Stay on the IMF 'Titanic'

by Kathy Wolfe

The Asia-Europe Meeting (ASEM) in Kobe, Japan, on Jan. 13-14, proved to be another chance for the International Monetary Fund (IMF) to insist on its right to run the world monetary system, even as it sinks like the *Titanic,* with its U.S. economic base collapsing. There were, however, important speeches by Chinese Finance Minister Xiang Huaicheng and Korean Finance Minister Jin Nyum, and an interesting, if weak, paper proposing a move away from the dollar standard by Japan and France.

The theme, however, was set by IMF Managing Director Horst Köhler of Germany, and the other European participants, a Japanese official told *EIR*. They were all "very friendly, not at all harsh," like some Washington officials, he said—a polite reference to thuggish U.S. Treasury Secretary Lawrence Summers. Yet, between smiles, the message was like that of the staff of the *Titanic,* urging passengers to stay on the ship: "Anything Asian nations do is fine—*if you stay within the IMF-controlled global framework*."

For many Asian leaders, who are aware that the IMF has been deliberately wrecking their economies to the profit of U.S. and European financiers, this was just more Western pressure, if in a velvet glove. Given the current renewed collapse of Asian currencies, exports, and production, such pressure is the last thing Asia needs.

The real issue on the table for the ten member-nations of the Association of Southeast Asian Nations plus China, Japan, and South Korea (ASEAN-Plus-3), is: Break with the IMF, as *EIR* Founder Lyndon LaRouche warned on Oct. 30. "Let me speak truthfully, as one warns a friend of danger," he said. "You must break, completely, with the IMF. There can be no debate . . . to demonstrate Asia's political will to survive" (see *EIR,* Nov. 17, 2000, p. 40).

"Unfortunately, we Asian countries are not any closer to your request that we dump the IMF as a result of this ASEM meeting," the Japanese official told *EIR* sarcastically. "Mr. Köhler set the tone with his friendly but firm comments that the Chiang Mai Initiative (CMI) to defend Asian currencies is fine, as long as it stays within the IMF framework. The documents have IMF everywhere. . . . The other European ministers worked closely together with Mr. Köhler, and had a similar tone about the IMF as the center of the system."

The meeting was attended by finance ministers from ten Asian nations and the 15 European Union states, and numerous international bureaucrats.

Asian Initiatives

Chinese Minister of Finance Xiang Huaicheng's Jan. 14 ASEM speech on Asian Regional Cooperation reviewed the way in which the 1997 crisis spurred the creation of ASEAN-Plus-3, which at its November 2000 Singapore meeting announced plans to create a new 13-nation formal Asian organization with its own trade, financial, and industrial agreements (see *EIR,* Dec. 8, 2000).

"The financial and economic cooperation under the '10+3' framework has given a spur to the progress in overall East Asian Cooperation," Xiang said. "In November 2000, the fourth ASEAN-Plus-3 informal leaders meeting in Singapore agreed to designate two task forces to study the possibility of transforming informal meetings into summits and establishing an ASEAN-Plus-Northeast Asia Free Trade Zone. Leaders of China, South Korea, and Japan agreed to meet regularly starting in 2001. In short, thanks to the consensus and political commitment of leaders of ASEAN-Plus-3, the regional financial and economic cooperation has made steady progress."

In "Strengthening the International Financial Architecture: Progress Assessment," South Korean Minister of Finance and Economy Jin Nyum made a strong criticism of the delaying tactics which have prevented any meaningful change. "Most of the reforming efforts so far have not ren-

Thirteen Asian leaders, meeting in Singapore in November 2000, began to establish a new monetary framework for the generation of credits and growth-funds for infrastructure in Asia. Here, from left: Japanese Prime Minister Yoshiro Mori, South Korean President Kim Dae-jung, and Chinese Prime Minister Zhu Rongji at the conclusion of that Singapore summit. German banker Horst Köhler (above) is now Managing Director of the IMF, replacing Michel Camdessus. The face is different, but the message to Asia was the same: Do not challenge the rule of the IMF.

dered tangible results," Jin stated bluntly. "The international community has lost its enthusiasm. . . . "Secondly, and perhaps more importantly, I would like to draw your attention to the fact that main dialogues for reform have been led by the G-7 countries . . . and views of emerging countries have been overlooked." Jin pointed out, "We must remember that the recent crises are not entirely due to the vulnerability within the crisis-hit countries. . . . The shortcomings of the international financial system itself need be held accountable as well."

As to solutions, Jin said that the hedge funds must be reined in. "There must be . . . regulatory measures to address the instability caused by speculative short-term capital flows. Here, special attention should be paid to disruptive investment of hedge funds." He called for "direct regulations on all Highly-Leveraged Institutions, as suggested by [South Korean] President Kim Dae-Jung," including not only hedge funds, but also major Western banks. There is "a growing tendency that speculative investment seeking short-term returns is not confined to hedge funds but is being expanded to other traditional financial institutions," he said.

A Challenge to the Dollar—Almost

A joint paper by the Japanese and French finance ministries, entitled "Exchange Rate Regimes for Emerging Market Economies," made a proposal to dethrone the U.S. dollar as the sole currency of global reference, the first time any G-7 government has proposed this since Nixon smashed the old Bretton Woods system in 1971. "As the Asian crisis has proved, it would be quite unsuitable to choose the U.S. dollar as the sole reference currency" for Asian markets in the future, the paper says. "Basket currency regimes including the dollar, the yen, and the euro would better suit the geographical structure of the balance of payments and would foster stability."

The document makes an exhaustive study of why neither pegging to the dollar, as most Asian currencies were doing when the 1997 crisis hit, nor currency boards, nor today's free-for-all float, can possibly work. Speculators today can dominate markets with "self-fulfilling prophesies which cause excessive exchange rate volatility,"

All this is true, but a basket of currencies in which all the currencies, the euro, dollar, and yen alike, are becoming more and more worthless, is about as useful as a basket of dead flowers, as LaRouche put it in his proposal "Trade Without Currency" (*EIR,* Aug. 4, 2000).

What is needed, LaRouche pointed out, is total top-down debt reorganization in each country, which must write off so much of non-performing bank loans and other bad debt, that it will require most countries to undergo an internal currency reorganization to reform their worthless currency paper. Meanwhile, he said, ASEAN-Plus-3 should create regional agreements and focus all energy on promotion of trade in real physical goods. They should, he advised, create a new unit of account based upon a basket of hard commodities, to settle the trade books.

The Franco-Japan proposal, in the end, however, is weakest, because it gives so much lip service to the power of the

IMF, that it seems to lose all backbone. Both the European regional framework, and the Asian Chiang Mai Initiative, may only function "in a way which is supportive of the IMF's objectives and responsibilities in the global economy," it says. Any new Asian currency arrangement should adopt the suicidal Maastricht Treaty economic shock therapy policies, because "sustainable macroeconomic policies are vital to exchange rate stability." In general, it concludes, "regional cooperation frameworks should provide a supplementary role to existing international monetary arrangements. The IMF, as the only global monetary institution, should maintain a key role."

Welcome, Little Fishes

Are China, Korea, Japan, and their ASEAN allies prepared to break with this foolishness, and to defend their nations from the current renewed market attacks on their currencies? Has this meeting opened their eyes to the fact that real help will never come from the IMF? The question is open.

But there is no question that the European Maastricht bureaucracy and the ASEM organization have played the role of Lewis Carroll's crocodile on the Nile, "who welcomes little fishes in/With gently smiling jaws."

The IMF's Köhler, EU president and Sweden's Minister of Finance Bosse Ringholm, German Finance Minister Hans Eichel, numerous other European speakers, and the final communiqué, all praised the ASEAN-Plus-3 November summit and the Chiang Mai Initiative. Yet, each ended with a condition, as in item 15 of the communiqué: "The swap arrangements under the Chiang Mai Initiative . . . shall supplement existing international financing facilities including those provided by the IMF."

"Eichel and [French Finance Minister] Fabius made it their central point to promote the euro and the good recovery they are having in Europe," the Japanese official noted. "Of course, they'd like us to make the euro more prominent in some currency basket. They need euro support." Eichel and Fabius gave a whole symposium on the euro in Tokyo on Jan. 15 to drum up investors. The Europeans also heavily promoted the need for free trade, insisting on a new World Trade Organization round soon.

As item 23 of the ASEM communiqué states, the group did not even endorse the Korean call for regulation of hedge funds. Korea's Jin was repeating a resolution made unanimously by Asian finance ministers in Fukuoka, Japan last July, which Japan, for the group, brought to the G-7 Industrial Nation's heads of state summit in Okinawa. At Okinawa, the Asian proposal was rejected out of hand by the U.S. and Britain. The ASEM communiqué simply repeats the Okinawa G-7 communiqué, that "if Highly-Leveraged Institutions continue to be a problem in future," then regulation should be "considered," i.e., after the damage is done. It's clear from Fukuoka where the Asians stand; that leaves only one source for this rotten formulation.

China Endorses Asian Economic Integration

by Mary Burdman

The Chinese government has given its full public backing to "integration among Asian economies," not only those of East Asia—Japan, China, Korea, and the ten members of the Association of Southeast Asian Nations (ASEAN)—but also including the nations of the Indian Subcontinent. This was the essence of a speech, titled "China's Role in Thailand's and Asia's Prosperity in the 21st Century," which Chinese Finance Minister Xiang Huaicheng gave in Bangkok, Thailand on Jan. 10.

Xiang Huaicheng said that the May 2000 "Chiang Mai Initiative," of Japan, China, South Korea, and ASEAN, was "epoch-making," an important step toward financial cooperation among Asian countries, and "a good starting point for further integration." At the Chiang Mai summit, the "ASEAN-Plus-3" agreed to expand financial-support agreements already established among the ASEAN nations, to include the much bigger economies of Japan, China, and South Korea, potentially creating a regional bloc, which could contribute to generating a new global financial system.

Warning that Asia is still under the threat of renewed financial crisis, Xiang said that the Chiang Mai accord "has reflected the worldwide trend of economic regionalization, demonstrating the confidence and shared desire of Asian nations to strengthen cooperation for common prosperity. . . . China, like other countries in the region, is willing to see an integration among Asian economies, which, in our opinion, should not only include Southeast Asian countries plus China, Japan, and South Korea, but the South Asian countries as well."

Xiang Huaicheng spoke in Bangkok on the eve of the third Asia-Europe Meeting (ASEM) of finance ministers, in Kobe, Japan, on Jan. 13-14. Speaking later in Kobe, he emphasized the importance of the "strong political commitment" that the Chiang Mai accord represents, which is "creating a solid foundation and impetus for further development."

Xiang's proposal in Bangkok, to expand Asian economic cooperation, was made as China's number-two leader, Li Peng, was making an historic nine-day goodwill visit to India (see accompanying article). China and India have been taking separate, but congruent, and mutually reinforcing, economic and political initiatives toward the nations of Southeast Asia in the recent period.

Both China and India, despite their own position as developing nations with many impoverished people, also have