British seek replay in Asia of IMF-run crash in Russia

by Kathy Wolfe

The 8.7% collapse of the dollar against the Japanese yen, from Y 125 per dollar late last year to Y 115 on Feb. 22, is bad news not only for Japan's economy but for all of Asia. Wild speculation in the yen was sparked on Feb. 19 by U.S. Treasury Secretary Lloyd Bentsen, who, asked if he'd like to see a weaker dollar, snapped: "I'd like to see a stronger yen."

Within days, a chorus of British System economists urged the Group of Seven industrial nations to formalize an even higher yen rate at their London meeting on Feb. 27. "The G-7 should confirm that they want the yen to strengthen," Robert Hormats, vice chairman of Goldman Sachs, said on Feb. 22. C. Fred Bergsten, the former Carter official who heads the Institute for International Economics, the sister think-tank of Britain's Ditchley Foundation, said on Feb. 23 that the G-7 should target a yen/dollar rate of 100 to 110. "A stronger yen is unambiguously good for the U.S.," he said.

Worse, Japan's NHK TV reports that western economists want such a 20% yen upvaluation versus the dollar to be accompanied by a 20-40% *de*valuation of other Asian currencies versus the dollar. That means a *50% devaluation* of some Asian currencies to the yen.

The line began to circulate shortly after the Feb. 9 speech in Kyoto by Bergsten, entitled "Changes of the World Economic Order in the Postwar Era," which proposed the creation of a Pacific-American Free Trade Agreement modeled upon the North American Free Trade Agreement. This would force all Asian nations to float their currencies on the "free market," where speculators could steal their foreign reserves by promoting flight capital.

On cue, the Chinese yuan and Indian rupee, currencies of the world's two most populous nations, are sliding fast. In the last two months, both currencies, despite wide government controls, have fallen over 9% each against the dollar, for a drop of 18% each against Japan's yen. The International Monetary Fund (IMF), General Agreement on Tariffs and Trade (GATT), and World Bank are demanding on top of this that India and China allow total "free market" convertibility, so speculators can bash these currencies further.

Other Asian currencies have not been hit with such wild shocks, but Thailand, the Philippines, and Japan's other major trading partners could easily become victims. Depending on how far the dollar itself is allowed to crash, many currencies of member states of the Association of Southeast Asian Nations (ASEAN) which are pegged to the dollar could suffer large devaluations against the yen.

British want to recolonialize Asia

The Anglo-Americans, in short, are trying to replay in Asia the IMF's free market "shock therapy" program run for the last few years in Russia. There, a combination of free market currency floats and price liberalization has devalued the ruble by 99.8% since 1991, from one ruble per dollar to 576 official rubles per dollar (660 black market), creating 1,000% annual domestic inflation. This and other IMF reforms have notoriously collapsed the physical industrial and agricultural production of Russia.

The physical devastation the IMF program caused in Russia was no error or byproduct of reform. It was the deliberate consequence of economic warfare to render Russia's economy inferior to the collapsing British and U.S. economies.

The British, since the 18th century, have always considered Asia to be "their turf." London is eager to strangle Japan's development plans for China and other Asian nations, and to soften up Asian economies for Anglo-American "foreign investment." Such "investment" will boil down to demanding the right, as Asian nations go under IMF "conditionality" programs, to speculate in currencies, expand the drug trade, and buy up real estate.

British banks active in Asia have been demanding since the beginning of the year that India and China deregulate their currencies, allowing the "free market" to set whatever rate it wishes—which means allowing the invisible hand to pick their pockets. India should cooperate with the IMF to set up a "Rupee Stabilization Fund," Bank of England sources told *EIR*, to create a free market float for the rupee along the lines of the IMF's "Ruble Stabilization Fund" for Russia—which succeeded in destroying that currency. "In short, they have to do as the IMF says, they have to follow the IMF adjustments to open their markets and there are transition costs to this kind of a transformation process," he said.

India is vulnerable because it is seeking $9 billion in IMF loans for the next three years (the current $2.2 billion IMF loan expires in May). Although the IMF is not demanding a total free float of the rupee immediately, it is encouraging

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removal of as many regulations as possible. "The Gulf war bankrupted India, which drove them to the IMF, and now they must continue their transformation from a regulated to a market economy, under the advice of the IMF," he said.

Since March 1, 1992, when New Delhi announced a partial currency liberalization, the rupee has fallen by 24%, from 25 per dollar to 33 per dollar. Now, India is damned either way, the British banker noted. If they do float the rupee, and "if the markets do not believe India's overall resolve to stick with the rest of the IMF conditions, they may have an escalating problem: You get capital flight, you lose your reserves."

Whether or not India goes with a free float when the annual budget is announced on Feb. 27, Citibank's Asia desk told *EIR* Feb. 24, the rupee will fall another 5%.

As for China, British-owned Morgan Guaranty Bank in New York told *EIR* on Feb. 24 that even under current controlled currency rules, the official yuan rate will fall from 5.2 per dollar in 1992 to 9.5 per dollar this year. China will have to allow this whopping 45% drop to gain entry this fall into GATT. On top of that, GATT will then require China as a conditionality to remove controls in stages, ending with a complete free market float for the yuan, which could collapse the currency by up to 100% as happened in Russia, one Morgan economist predicted.

Why would China agree to such insanity? Officials at London's Royal Institute for International Affairs explain that Beijing is being forced into this by the Clinton administration's threat of trade sanctions, under the pretext of a "human rights" campaign. "China must try to get into GATT, because . . . it would be impossible for the U.S. then to use political arguments to remove China's Most Favored Nation trade status," RIIA Asia-Pacific Director Peter Ferdinand told *EIR*. "Because once you're a member of GATT, you automatically confer on each other, MFN status. I don't think GATT *has* a human rights statute. GATT membership means a country commits itself against protection of trade, not to political issues."

Decoupling Japan from Asia

The Anglo-American motive for putting Asia, the only growing part of the world economy, through such a disaster, is clear. "Sustaining Rapid Development: East Asia and the Pacific Region," a report to be released March 1 by the World Bank's East Asian Operations department, warns that Japan is creating an economic power in Asia which Washington and London will not control. "Without much fanfare, Japan is quietly replacing the United States as the key partner in the development of Asian nations—in aid, trade and foreign direct investment," it says. "Lately, this has expanded to include financial flows and economic policy advice."

This Asian currency shock would "decouple" Japan from other Asian economies, by doubling the price of Japanese industrial and technological exports to such nations, crippling Asian development projects. Japan accounts for more than half of the foreign aid now pledged to China, Indonesia, Thailand, Malaysia, the Philippines, and other countries in East Asia, while the U.S. share is less than 10%.

It would also bankrupt many Japanese firms in one blow, as Japan's exports to Asia are now 62% of total exports, far surpassing Japanese exports to the West. Already, the scheme has caused something like the "Nixon shock" in Tokyo, when Nixon devalued the U.S. dollar in 1971. "A strong yen is going to have a big impact on export-oriented industries," Hiroshi Mitsuzuka, top executive of the Liberal Democratic Party (LDP), said on Feb. 23. "It's going to be a very difficult period and we're likely to see unemployment rise." Japan's Shell Oil subsidiary announced on Feb. 22 a huge $1 billion loss for 1992 from foreign currency operations, and Nippon Telegraph and Telephone Corp. (NTT) announced a 70,000 job cutback and major plant closures.

Electronics companies will be hard hit by the yen shock. "If the domestic market is weak, and they can't offset the yen's rise with new products, and the European market is weak, and they are trying to cut costs, then what are the effects of the strong yen?" said Michael Jeremy at Britain's Baring Securities in Tokyo on Feb. 22. " 'Disastrous' is probably a useful word."

Despite this, during February, financial officials in both China and India have begun to sing the British tune, promoting a total free market float of their currencies. On Feb. 5, Indian Finance Ministry Manmohan Singh, architect of India's IMF free market conditionality program, allowed a leak on page one of India's *Economic Times* to the effect that "most of the ministry staff favor a full free market float of the rupee." The rupee began dropping like a stone, as speculators bet that Singh will go for total rupee deregulation when he unveils a new budget on Feb. 27 for the 1993-94 fiscal year.

"I think this budget will be more dramatic than the previous two," one British diplomat said on Feb. 22. "There will be enough there to make the IMF happy." Citibank's Asia desk, however, speculated on Feb. 24 that the rupee has collapsed so severely already that Singh may opt only to continue gradually deregulating the market.

On Feb. 11, top Chinese currency official Yang Gonglin of Beijing's National Foreign Exchange Management Bureau told the press that China "intends to let market forces determine the proper level for the renminbi (yuan) after China enters GATT as expected later this year." Yang was ostensibly reacting to speculators in Hong Kong, who had concluded from China's recent small devaluations, that Beijing had decided to fix the official exchange rate, now at 5.75 yuan per dollar, at 15 yuan to the dollar. "Such talk is extremely irresponsible and totally without foundation," Yang said, because Beijing is not going to fix the rate at all—it is going to let the gods of the free market set whatever rate the Invisible Hand desires.