

the Cenacolo Hall of the Parliament in Rome, on the subject of the New Bretton Woods system. Seventy people were present, including representatives of Italian institutions, industry, trade unions, Members of Parliament, several regions of the country, and foreign embassies.

Documentation

Global Moves Toward a 'New Architecture'

The following is a selection of statements by world leaders emphasizing the need for urgent actions in defense of their national economies, as the financial crisis deepens.

Japan's Sakakibara at Chiang Mai

Among those who played a leading role at the Chiang Mai summit of May 6-8, was economist Eisuke Sakakibara, Japanese former Vice Minister of Finance for International Affairs. He is now a professor at Keio University in Tokyo, but still wields unquestioned influence in Asia and the global financial arena. Sakakibara is known around the world as "Mr. Yen," for the influence his remarks can have on the foreign exchange market. Recently, he was the candidate for the managing director post of the International Monetary Fund.

Prior to the summit, on May 3, he addressed a luncheon in Thailand, hosted by the Nation Multimedia Group. The transcript, published by *The Nation* of Bangkok on May 4, proved that Sakakibara is a fervent booster of "information technologies" and the "New Economy," saying he agreed with Federal Reserve Chairman Alan Greenspan on this. But he has some different twists:

"It would certainly help if emerging countries strengthened banking and financial systems and corporate governance. Industrial countries should devise prudent regulations for, and increase the transparency of, lending institutions. International institutions such as the IMF should improve surveillance. However, we know very well that these efforts and improvements do not change the fundamental nature of globalized and virtualized international financial markets that are prone to herding, panic, contagion, and boom-and-bust cycles."

Sakakibara said that monetarist purists believe that the choice is between either total world free markets with a "world lender of last resort" on the one hand, or else total capital controls with no "world lender of last resort," on the other hand. He favors partial capital controls for nations, with the attempt to move toward regional "lenders of last resort"

like the Asia Monetary Fund.

"Except for the brief period of August 1998 to early 1999," he said, "U.S. financial institutions and the U.S. economy have gained significantly from the Asian crisis.

"It is this skewed system, or bias toward the center, that is the real issue for the countries at the periphery. Being at the periphery, they do not, even collectively, have the political leverage to persuade the countries at the center. They can wait for the next crisis that may really hit the center, for countries at the center to come around. Or, they can adopt some defensive mechanism to protect themselves from recurrent crises in this globalized and virtualized world market.

"What is the proper defence mechanism in a situation where we do not have a global lender of last resort? What we have learned from the East Asian crisis is that so-called 'Washington consensus,' leaving the resolution of the problem completely to free market and proper macro-policies, did not work. In my opinion, an appropriate response would be to either restrict, at least partially, the flow of capital or to create a 'regional' lender of last resort.

"In the context of partial capital controls, we need to recognize that these could be implemented in selected areas and the country could still reap the benefit of free flow of goods and services and capital, such as direct investment. Believers in market fundamentalism often preach that this is an all-or-nothing choice. This is certainly not the case. . . .

"On the negative side of this virtualization and globalization, let me now focus on the creation of a regional fund. The Japanese government, as you may know, in August and September of 1997 had proposed the creation of the Asian Monetary Fund. The idea was essentially the pooling of a part of foreign reserves of countries in the region. If Japan, China, Hong Kong, Korea, and Southeast Asian countries provide, say, a half of their reserves to the fund with specific arrangements for the activation of the fund, it should serve as an effective regional lender of last resort for the next liquidity crisis. The Asian Monetary Fund proposal was strongly opposed by the U.S. and European countries on the ground that it would undermine the discipline imposed by the IMF and may pose a serious moral hazard problem. However, if the function of the AMF is very narrowly defined as provision of necessary liquidity at the time of crisis with specific formula for private sector participation, it could complement the existing function of the IMF."

Sakakibara has an interesting "aside" on U.S. hegemony:

"Asia is well placed in the 21st century to reap positive aspects of the IT [information technology] revolution and globalization and could possibly catch up or even leapfrog the U.S. in due course. Nations rise and fall and American hegemony is by no means permanent."

Dr. Mahathir at the G-15 Summit

After attending the Group of 15 summit in Cairo on June 19-20, Malaysian Prime Minister Dr. Mahathir bin Mohamad

told reporters that he thought the discussion at the G-15 was more meaningful than in the past, because national leaders “are really worried about the possibility of being marginalized by the big powers,” the Bernama news agency reported on June 21. He said the number of countries seeking membership in the G-15 is rising, but he thinks that it should be expanded only on the basis of commitment to its purpose. He also said that there is a continuing lack of understanding of what globalization entails and what its effect will be.

While in Egypt, Dr. Mahathir addressed members of the industrial and power committee of the Egyptian Senate during a visit to the 10th of Ramadan City, a new industrial zone about 70 kilometers from Cairo. The meeting included Malaysian International Trade and Industry Minister Rafidah Aziz and Foreign Minister Syed Hamid Albar. Dr. Mahathir underscored his government’s efforts in the industrialization process and the various incentives offered to investors. Today, \$84.5 billion, or 80% of Malaysia’s exports are made up of high-value manufactured goods.

Dr. Mahathir said that Malaysia is still not fully industrialized, although it is no longer dependent on agricultural or mining products. “We are still a developing country and with globalization there is a danger that we may lose control over our industrialization program,” he said. “We have, as you know, recovered from the foreign-induced economic turmoil. We are very vigilant,” he said. “Our experience in industrialization has been very wide. I think I can say we succeeded in our industrialization plan. But, I cannot say whether the next attack will destroy us or not.”

Iranian President Visits China

Iranian President Seyyed Mohammad Khatami arrived in China on June 22 for a six-day state visit. He was accompanied by Foreign Minister Kamal Kharazmi, Defense Minister Ali Shamkhani, Mines and Metals Minister Eshaq Jahangiri, and Culture and Islamic Guidance Minister Ataollah Mohajerani, as well as a large business delegation.

“Chinese participation in development projects in Iran demonstrates the breadth and depth of relations between the two countries,” Deputy Foreign Minister Mohsen Aminzadeh stated. He said that the sale of natural gas and Chinese participation in the construction of power stations in Iran were on the agenda. Bilateral trade reached \$1.3 billion in 1999. Iran wants to increase its exports to China of both petroleum and non-petroleum products.

The 70-member Iranian trade delegation, which includes public and private sector representatives, planned to participate in Shanghai in a seminar on “Trade and Investment Opportunities in Iran and China,” co-sponsored by Iran’s Export Promotion Center and Shanghai’s Council for Foreign Trade Promotion (CCPIT). A CCPIT official termed the visit “unprecedented,” and said that it would be a “turning point in the expansion of economic relations” between the two countries.

Dr. Mahathir: Bretton Woods Worked, Floating Rate System Failed

by Michael O. Billington

The following speech was presented by Datuk Seri Dr. Mahathir bin Mohamad, Prime Minister of Malaysia, to the Sixth Nikkei Shimbun International Conference on “The Future of Asia,” on June 9, in Tokyo. His speech, described as “philosophical” by Thailand’s *The Nation*, made several crucial points of importance to citizens of all nations:

1. Clinging to *fixed ideas*, no matter what the subject matter, will lead inevitably to disaster.
2. To understand history, we must understand *change*.
3. It is the *content and effect* of a policy, not its adherence to orthodoxy, which must instruct us.
4. The Bretton Woods system of fixed exchange rates worked—the floating rate policy imposed after 1971 failed.
5. As the West has refused to reform the failed world financial system, regional alliances of nations must act on their own, for the benefit of the whole world.

This speech comes in the context of two world-historical events in the last month. First, the Chiang Mai Initiative (see “Asia Begin New Arrangements for the Coming Dollar Crash,” *EIR*, May 5, and “Financial Crisis Prompts Asian Chiang Mai Initiative,” *EIR*, May 19, 2000) in which ASEAN Plus Three (the 10 members of the Association of Southeast Asian Nations plus China, Japan, and Korea) declared their commitment to forge joint financial structures to defend against international speculators and to foster real economic development in Asia. Second, with the support of China, Japan, and the ASEAN nations, North and South Korea took steps toward reunification, eliminating a major lever of instability to the Anglo-American geopolitical strategists, and bringing the potential for multinational Eurasian development projects significantly closer.

‘Regional Convergence’

An additional note of introduction is necessary preceding Dr. Mahathir’s speech: Thailand’s Deputy Prime Minister Supachai Panitchpakdi, who is scheduled to take over as Director General of the World Trade Organization (WTO) in 2002, declared the “regional convergence” proposed in the Chiang Mai Initiative would take off this year, and that it is “inevitable” in response to globalization. Dr. Supachai has been the most outspoken supporter within the Thai govern-