

have to do very much like what was done between 1945 and 1958, in terms of emergency agreements, and get this whole business under control, to prevent an economic and social catastrophe. What we'll have to do is freeze and reorganize large parts of the outstanding financial assets and debts.

As a matter of fact, if we do not do precisely that, very soon, in the weeks ahead, this planet is going to go into a New Dark Age for decades to come. If you allow the currencies to blow out and financial systems to break down, without state-to-state agreements to bring this under control, you'll have a chain reaction of chaos which will cause a large-scale depopulation of the planet, for economic reasons.

So this is the time when we need really strong leaders, like Franklin Delano Roosevelt, who can take the kind of actions the situation demands. I don't think that Bill Clinton is an FDR, although he's an intelligent person. But I would hope that he would act like a Roosevelt, at least for the period of this crisis. I think that's the best chance for civilization at this point. That's why I'm fighting to accomplish this.

**Rojas:** Mr. LaRouche, there was recently a summit meeting of the 12 Presidents of South America. In what direction should that process move?

**LaRouche:** I was very happy with that. This coincides with the kind of thing I proposed in 1982, which was named "Operation Juárez." And we also did some special studies of South America and Central America in that period, which were looking in the same direction that Peru's President Fujimori, for example, presented in the Brasilia conference.

My general view is that there should be a regional agreement among the leading states of Central and South America, to form a group not too much different from what was proposed for the ASEAN-Plus-Three group. My objective is to create a situation on this planet where we have a new kind of replacement for the Bretton Woods system. So we need groups of nations which are strong enough as groups, to participate with the authority of a great power, with the other great powers, in running a new kind of Bretton Woods system very much like that of the 1950s, but this time with the developing sector of the world fully represented. And therefore a strong federal agreement among the states of Central and South America, is one of the essential building blocks of that new kind of Bretton Woods.

**Rojas:** Mr. LaRouche, Thank you very much.

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## New Asia Crisis Hits as AMF Talks Delayed

by Kathy Wolfe

Asian stocks and currencies took a deep dive the third week in September, but the "Asia Crisis II" now hitting, as in 1997, is part of a new global financial meltdown, with Europe's euro and South American currencies also in free fall. South Korean, Thai, Indonesian, Hong Kong, Shanghai, and Tokyo stock indices dropped 21%, 20%, 20%, 17%, 10%, and 7% over September, and are down 20-40% for the year. Their currencies are also falling fast against the dollar, with the Japanese yen down almost 3% during September and the Thai, Indonesian, and Filipino currencies down by 10-12% on the month. Multibillion-dollar bankruptcies, such as Kumagai Construction, which announced non-payment of \$4.2 billion in loans to Tokyo banks on Sept. 18, and Seoul's Daewoo Motors, which had \$6.9 billion in stock dumped by Ford Motor Co. on Sept. 15, are reported daily. Non-performing bank loans in Japan, China, and Korea alone now approach \$2 trillion.

Blamed are rocketing oil prices, falling markets for Asian computer chip exports, the same vague charges of "crony capitalism" which triggered the 1997 blowout, and any "excuse *du jour*" which Wall Street and the City of London may provide. In a single day, Sept. 22, the Seoul market plunged 7.1%, Taiwan sank 4.5%, and Tokyo dropped 3% when New York and London investors yanked funds home after reports that Intel Corp. will post only a 3% income rise, rather than 5%, for the third quarter, weakening computer stocks. On Sept. 18, the Seoul market fell 8% when Ford summarily decided to dump the Daewoo stock. On Sept. 10, Moody's downgraded the national bonds of Japan to below the level of IBM paper, an action which even Japan's staid octogenarian Finance Minister Kiichi Miyazawa called "nonsense."

All these explanations, notably the oil price hike (see article, p. 4), are *nonsense*. The physical economies of Japan, Korea, and China have some of the best heavy machinery and machine-tool production on earth. Their shares are enormous bargains at these prices.

In fact, today's "Asia crash," with the new European and South American crisis, is being provoked significantly in order to strengthen the U.S. dollar. Wall Street and the City of London are hysterical about the threat of a dollar meltdown, and are pulling funds from all possible fronts, to increase flows into dollar markets.

Meanwhile, finance ministers from Japan, Korea, and China, meeting Sept. 9-10 in Brunei on the sidelines of the

Asia Pacific Economic Cooperation (APEC) forum, are still “working on” their May 6 “Chiang Mai Initiative (CMI)” to form a joint Asian currency support fund, Asian officials told *EIR*. “We hope to have something by the time of the APEC heads of state meeting in November, but it’s going much too slowly,” one official said. The U.S. Treasury, he said, is “breaking elbows” to stop the formation of an Asian Monetary Fund (AMF) by China, Korea, Japan, and the Association of Southeast Asian Nations (ASEAN-Plus-3). Unless the AMF is formed soon, however, and made completely independent of the International Monetary Fund (IMF), Asia will end up like Europe, whose collapsed currency, the euro, now depends on U.S. Federal Reserve market support to keep it alive.

### Biggest Bubble of the Century

In reality it is the U.S. dollar which is totally rotten, with \$400 trillion in dollar-denominated global derivatives and financial speculation resting on the tiny U.S. “services only” economy which is, industrially, a junk heap. With America’s current account deficit projected near \$450 billion this year, world leaders point out daily that, on that basis, \$1.3 billion a day in “dollar welfare” must be pulled in from the rest of the world.

A Japanese official told *EIR* on Sept. 18 that it is open talk in Tokyo and Seoul that there would be a 1971-style crash of the U.S. dollar going on now, if not for the obviously manipulated rise of the oil price. Since the Aug. 26-27 Jackson Hole, Wyoming bankers conference, where the dollar’s vast indebtedness was noted, “it has been obvious to most foreign observers that the U.S. dollar is the biggest ‘bubble’ currency of the century, in terms of its total dependence on foreign hot-money inflows into the U.S.,” the official said (see *EIR*, Sept. 8, p. 4).

“Since the 1970s when the dollar first collapsed under Nixon, we have seen the response: have a Mideast war, or have some other oil shock, as in 1974 and 1978,” he went on. “When these things happen, it creates a large artificial demand for dollars, which otherwise would not exist. Countries such as Japan, Korea, China, Brazil—most countries in the world—must buy oil in dollars. A rising oil price means that billions of additional dollars must be bought as the means to buy oil. Importers borrow this money in dollars as trade credits, and then there is interest on that, in dollars. Then we must buy futures contracts, including derivatives, also in dollars, to protect against continued oil price rises. Demand for perhaps hundreds of billions of dollars or more, is being added, just to move the same volume of oil.”

The official added that what is being done to the euro right now, which will greatly worsen as the oil price rises, “reminds me very much of what was done to the Korean won in 1997. There is little economic reason for it, but a great deal of profit for certain Wall Street financial institutions.”

The official was very alarmed by the merger announced on Sept. 13 of the Chase Manhattan and J.P. Morgan banks,

whose combined bank will hold some \$24 trillion in speculative derivatives, some 57% of the \$42 trillion in derivatives held by U.S. banks as of June 30. “Japan has been heavily criticized by the U.S. for our Ministry of Finance ‘convoy system,’ under which we have merged weak banks into stronger ones to avoid letting the weak ones go under. But has the U.S. now secretly adopted the convoy system? Or could it be they face a ‘double LTCM’ now” (in reference to Wall Street’s \$50 billion Long Term Capital Management crash), which they are having to bail out? Any hint of such trouble could also be quite negative for the dollar and so, of course, they have to avoid such hints at all costs.”

### State of Shock

South Korea’s stock, bond, and banking markets meanwhile are in a particular crisis, with newspaper headlines such as “Markets in a State of Shock” appearing daily. The main Seoul stock index fell 8% in one day, Sept. 18, to 580, smashing through the 600-point threshold to the lowest level since March last year, after Ford Motors cancelled its \$6.9 billion takeover bid for Daewoo Motors. “Ford had wanted to bring down the price,” one Samsung Securities analyst said bluntly, noting that since Ford’s action now has collapsed the entire market, Daewoo shares will certainly be far cheaper in a week or so. “This may just be a strategic tactic to get the government back to the negotiating table,” he said.

The government announced on Sept. 22 that it would have to inject \$35 billion into the banks to prevent foreign investors from dumping bank stocks, after the banks were left with so much bad paper from the Daewoo fiasco and the general month-long stock market slide.

The bond markets also collapsed, with interest the government is now forced to pay on bonds rising to 8.03% and interest on corporate bonds rising to 9.01%, despite the fact that the Korean central bank is issuing funds at around 4% to the markets.

Korean companies, including blue chips like Samsung Electronics, are taking a beating across the board, no matter how valuable their underlying plant, equipment, and operations may be. Foreign auto companies generally have been seeking to lower stock prices in order to buy up several auto-makers in Korea, which is the second-largest car market in Asia after Japan. General Motors Corp. and DaimlerChrysler are also interested in Daewoo and Samsung Motors, and have just bought large companies in Japan.

The stock market capitalization value of South Korea’s 30 largest *chaebol* conglomerates has plummeted by \$69 billion this year alone, “which is far, far too oversold,” one Seoul stock analyst said. “Most of these companies are now selling much too cheaply for the true value of their underlying capacity.”

In Japan, major contractor Kumagai Construction on Sept. 18 asked creditor banks to simply forgive the enormous sum of \$4.2 billion in debt, out of a total of \$10 billion in bank

loans it has, as the \$4.2 billion simply cannot be paid, the company said in a release. In return, they offered to cut 30% of the workforce, or 2,000 employees, and have senior management resign. Japan's construction sector has been devastated by cancellation of projects all over Asia. Kumagai's main banker, Sumitomo Bank, is being asked to waive \$2.3 billion and Shinsei Bank \$1 billion, with the rest to be forgiven by 13 other creditors. Shinsei recently lost \$1 billion in the \$6.3 billion crash of Sogo Department Stores.

### War over the AMF

Most of the 20-40% declines in Asian stock markets this year have occurred since the July 31 Okinawa Group of Eight summit, at which the U.S. Treasury and the British Exchequer flatly denied Asian finance ministers' demands, mediated by Japan, for regulation of "hot-money" dollar speculation and hedge funds. As *EIR* reported on Aug. 18 (p. 5), the Okinawa G-8 communiqué instead endorsed the current speculative IMF-centered system.

The Sept. 10 communiqué issued by finance ministers from the APEC forum similarly endorsed the IMF again, but reflected more of the fight which has been coming from the Asian side, one official told *EIR*. "The Okinawa Communiqué read like a surrender document, but the APEC Communiqué reads like a war report, so you know there are two sides in the fight," he said. The 37-point APEC communiqué has "some of our language," he noted, including a critique of globalization which "may also increase economies' susceptibility to external shocks and social dislocation." Item 13 also emphasizes that "regulation should be considered" for hedge funds and hot-money speculation if it becomes clear "that the Okinawa result of no regulation isn't working," he added. The official also pointed out that item 18 welcomes the Chiang Mai Initiative by name, although placing the idea within the context of continued world dominance by the IMF.

The U.S. Treasury, however, has delayed creation of the CMI's proposed \$200 billion pooling of foreign exchange by Japan, China, Korea, and the ASEAN allies. The pool was to be used independently by Asian nations to support each other's currencies in case of attacks just like those now in process. The United States, however, is demanding that the CMI cash be put under IMF control, such that any country needing to defend its currency would first have to go to the IMF for cash, and get an IMF "conditionalities" regimen. After that, the country could then go to its CMI allies and get cash from the CMI pool as a "second line of defense," in Treasury's terminology. "This would mean we would have to submit to IMF economic dictats as part of Chiang Mai—when our whole purpose was to get away from the IMF," one irate official told *EIR*. The United States has put so much pressure on Japan in particular, one source told *EIR*, that the Japanese Finance Ministry is considering supporting the "IMF second line of defense" folly. Meanwhile, the region's currencies are burning down again.

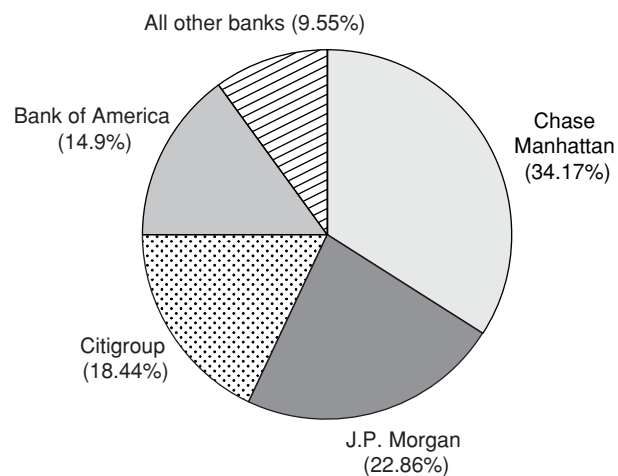
# Chase-Morgan Merger Is a Derivatives Disaster

by John Hoefle

Lyndon LaRouche once observed of a major financial merger, that it was like two staggering drunks attempting to remain upright by leaning on each other. That image comes quickly to mind with the blockbuster—or, perhaps, bubblebuster—announcement on Sept. 13, that Chase Manhattan Corp., already the largest derivatives institution in the world, was buying J.P. Morgan & Co., the second-largest U.S. derivatives holder. While presented to the public as the combination of two strong banks to create an even stronger one, the likelihood is that both banks are using the merger to hide some of their dirty derivatives laundry. This deal is damage control, of the sort which itself does more damage than good.

The derivatives exposure of J.P. Morgan Chase & Co., as Chase will be known after the purchase, is extraordinary. As of June 30, 2000, Chase had \$14.4 trillion in off-balance-sheet derivatives, while Morgan had \$9.6 trillion in derivatives. Combined, the new Morgan Chase will have a whopping \$24 trillion in derivatives, or 57% of the \$42 trillion in derivatives officially held by U.S. bank holding companies (**Figure 1**), and more than one-third of the derivatives held by all U.S.

FIGURE 1  
Concentration of Derivatives at U.S. Bank Holding Companies



Source: Comptroller of the Currency.