

Asian Nations Debate Economic Future

The global financial crisis is hitting Asia again, and diplomacy is focussed on protecting their physical economies. Mary Burdman reports.

As the world financial crash sweeps through Asia, destroying whatever remnants of credibility the free-market, International Monetary Fund-dictated “Washington Consensus,” might have had in the region, tensions are growing between East Asian governments and the United States. A key indication of the cross-Pacific fault line, is that China has been digging in its heels, as Washington and the European Union (EU) demand harsher and harsher conditions — on non-trade issues! — for China to finally join the World Trade Organization (WTO).

The ploys from Washington, including President Bill Clinton sending U.S. Trade Representative Charlene Barshefsky to Beijing on Oct. 12, in a last-minute effort to demand that China knuckle under to the WTO demands just hours before Prime Minister Zhu Rongji left for a ten-day visit to Japan and South Korea, and Secretary of State Madeleine Albright’s barging into the negotiations on the Korean peninsula, demonstrate the desperation at the center of the crashing world system. U.S. Treasury Secretary Lawrence Summers and Federal Reserve Chairman Alan Greenspan will try anything, to keep world funds flowing into Wall Street, until the U.S. elections.

Accession to the WTO is a “flagship” issue for those liberalizing tendencies in Beijing, who consider this as confirmation that China is “joining the world club.” However, the fast pace of the crash will soon mean that the WTO, itself already literally bankrupt, like the rest of the current system, will no longer exist. China’s renewed recalcitrance on WTO demands — Beijing had resisted conceding to the ruinous free-trade demands for 14 years — indicates that even the liberalizers, led by Prime Minister Zhu, are giving much more credibility to those who warn, correctly, that the WTO regime would gravely endanger China’s national economic security.

What is critical at this juncture, is that China’s leaders, like those of Japan, South Korea, and other Asian nations, take measures now to ensure that essential production and trade continue, even as the current world financial system, dominated by the Wall Street-London vast speculative bubble, vaporizes. The regional discussions around creating an Asian Monetary Fund (AMF), which led to the Chiang Mai Initiative (CMI) of May 6-8, could be the basis of creating regional agreements which could sustain national economies in the cataclysm to come.

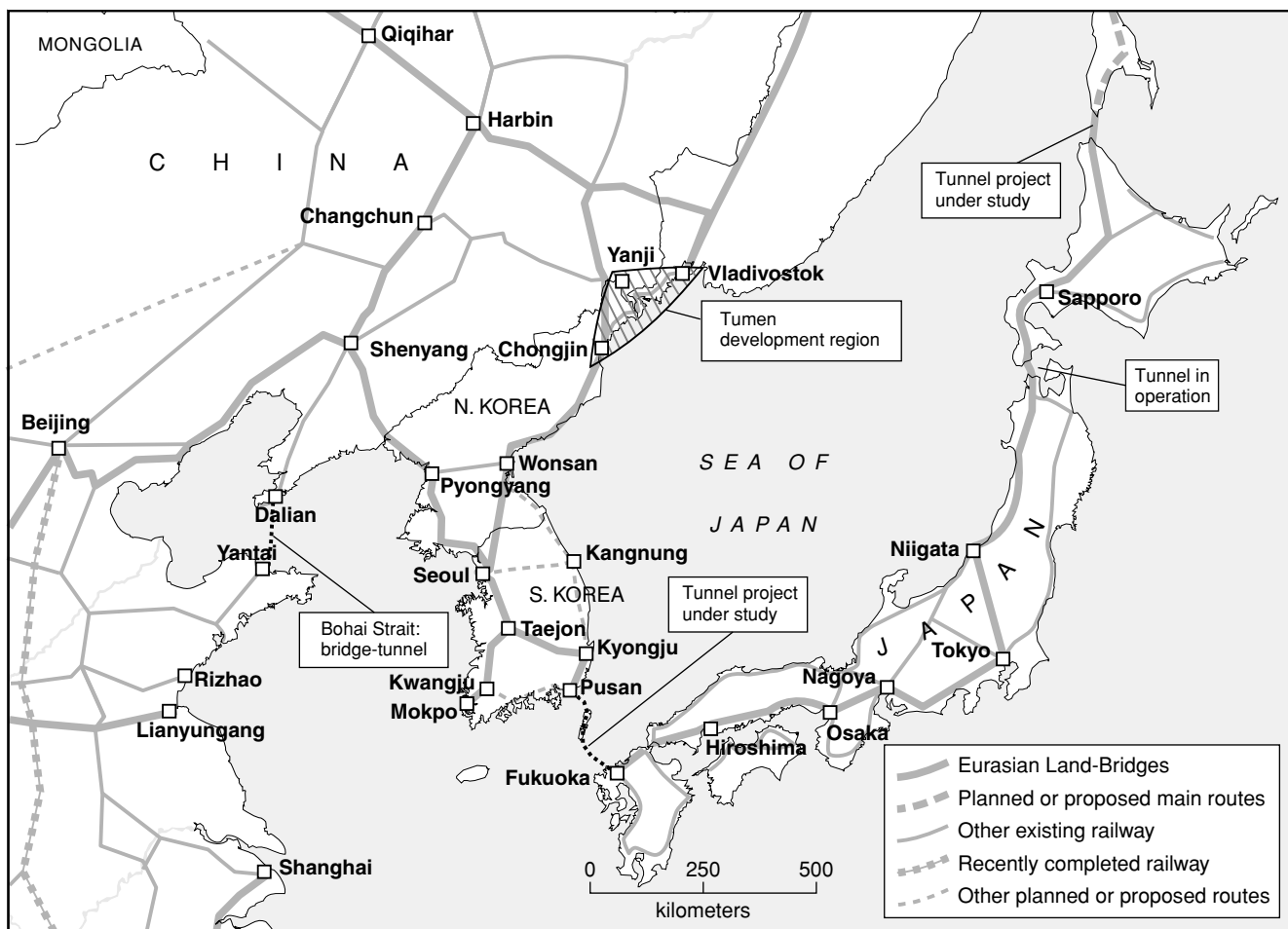
The much-touted Asian “recovery” from the 1997-99 debacle, is an extremely fragile structure, built almost entirely upon exports to the United States, financed by the monstrous American debt bubble and trade deficit. The imminent collapse of this monster poses a dire threat — and critical opportunity — to Asia. When the U.S. market vanishes, Asian nations will have to revive regional trade, which was badly disrupted in 1997-99, or fall into worse chaos themselves. More important, were an economic policy based on construction of the energy and transport infrastructure, and industrial capacity, so urgently needed by China, South Asia, Northeast Asia, and eastern Russia, to be undertaken on the level of Lyndon LaRouche’s “Eurasian Land-Bridge” concept, this would create a market far greater and more valuable than that of the United States.

Asian Meetings

It is in this context, that Zhu Rongji made official visits to Japan and South Korea, with a delegation including Foreign Minister Tang Jiaxuan; Zeng Peiyan, Minister of the State Development Planning Commission; Sheng Huaren, Minister of the State Economic and Trade Commission; Finance Minister Xiang Huaicheng; Minister of Foreign Trade and Economic Cooperation Shi Guangsheng; and Director Gui Shiyong of the Research Office of the State Council. Japan had originally proposed the AMF in 1997, which was crushed by the U.S. Treasury, and South Korea has created, in the peace and reunification drive with the North, the center of a Northeast Asian “Iron Silk Road” great project. On Oct. 19, Zhu Rongji, Japanese Prime Minister Yoshiro Mori, and South Korean President Kim Dae-jung met in Seoul, on the eve of the two-day Asia-Europe Meeting (ASEM) summit. Then, during the first week of November, there will be a heads-of-state summit of the ten members of the Association of Southeast Asian Nations plus China, Japan, and South Korea (“ASEAN-Plus-3”) on the Chiang Mai Initiative and AMF, again, in Chiang Mai, Thailand.

While Chiang Mai remains a defensive monetary fund, which could not withstand the coming financial meltdown, the very discussion process itself is intolerable to Wall Street. Conflicting reports are now coming from Asian capitals, on what this November meeting is to do. This will either result in the successful creation of the CMI as a new regional fund,

FIGURE 1
High-Speed Rail Projects Proposed by EIR, 1996



To protect their economies, Asian nations must put development of the Eurasian Land-Bridge at the center of their deliberations.

independent of the current bankrupt structures; in nothing new; or, in the creation of an AMF linked, or even subordinated, to the International Monetary Fund (IMF). The last would not only surrender the \$700 billion in reserves held by Asian nations to the IMF, but also *politically* destroy the Asian regional discussion.

Enormous pressure is being applied from the United States for the latter option.

President Clinton has made getting China into the WTO a cornerstone of the “new economy”- and “democracy”-obsessed policy of his Administration. Under the U.S.-China WTO agreement, Clinton said on May 10, “China will slash the tariffs that protect its inefficient state-run industries, industries which the Communist Party has long used to exercise day-to-day control over people’s lives.” The key, is his beloved Internet. When, he said, a “critical mass” of Internet

users is reached in China, then “there will be a sea change.” Now, just six months later, Chinese “dot.com” firms are dying like flies.

China made all the concessions, Clinton said. “If you saw the deal, you would ask why they signed it. The deal we negotiated with them does not give them one bit of increased access to our markets, but gives us huge increased access to their markets. . . . It’s necessary to keep our economy going.”

Yet, even while the U.S. pressure increases, what is under discussion in leading circles in Asia, as is also the case among European elites, is, what is to be done *after* the crash. The critical issue is, as LaRouche has emphasized repeatedly, that there can be no accommodation with the current system. Tactical defensive measures can accomplish nothing, because there is nothing to be gained. The political will must be found, to make a clean break with the Wall Street-London IMF sys-

tem. In such times, only new ideas, such as LaRouche's proposal for a New Bretton Woods, can accomplish anything.

Will China 'Just Say No'?

China might not make it into the WTO by the end of 2000, proclaimed Trade Representative Barshefsky in Washington, D.C. on Oct. 7. She made this pronouncement, despite the fact that President Clinton had finally signed legislation that week granting U.S. Permanent Normal Trade Relations to China. "For us to wrap up the negotiations this year, the mainland will have to make very rapid progress in the talks," she said. "If the negotiations conclude this year, great. If they conclude next year, great. It is largely up to China."

Chinese head WTO negotiator Long Yongtu had made clear, as the final WTO documents were being negotiated in Geneva at the end of September, that new, even harsher conditions were being imposed on China, that go beyond anything imposed on the United States or EU nations. On Sept. 29, Geneva WTO representative Pierre Girard said of the talks with China, "The limited nature of progress achieved on these vital issues"—including "reform" of China's legal and judicial system, "intellectual property" rights, and granting access to services trade and other markets—"tends to put into question our target of concluding this accession process this year." Extra rules were demanded from China, as a non-free-market economy.

"It is inappropriate and unnecessary to invent a new set of [WTO] rules specifically for China," stated Long Yongtu in Geneva. Western trade negotiators, he said, "always think China is too big, China is developing too fast. . . . We cannot accept provisions which are detrimental to China's legitimate rights under WTO. What we care mostly is not the specific timing of accession, but the terms of accession."

As Mayor Xu Kuangdi of Shanghai, China's biggest industrial city, told visiting Singapore Deputy Prime Minister Lee Hsien Loong in a "lively discussion" on Oct. 17, China will not be able to accommodate to the additional demands being imposed by the WTO, the Singapore *Business Times* reported. Xu said that China cannot close its doors to the outside world, and has to open up by joining the WTO. However, after initial optimism on the Chinese side early this year, negotiations had to be re-started due to ever-more "non-trade" conditions on China.

"Both leaders quipped that the Americans may be the ones behind those new conditions to apply pressure on Beijing," the *Business Times* reported. Xu noted that the United States is in a "sensitive" period before the elections, and Clinton might not want to do anything to jeopardize Al Gore's election chances. Also, a "weak U.S. President" would give in to the demands of trade unions, human rights groups, and non-governmental organizations.

Xu stated that it would be China's high-tech businesses which have the most to lose from WTO entry, because they

are financially very vulnerable, and would have big problems facing competition from foreign companies.

Zhu Rongji stated, just before he left Japan for South Korea on Oct. 18: "We are aware of both the pros and cons arising from China's accession to the WTO. We can dive into the international markets, but at the same time, we will be exposed to greater competition and many challenges from abroad. We will make maximum efforts to make the benefits more than offset the drawbacks."

Two Government Reports

More and more reports are emerging, that China is beginning to realize the heavy toll the WTO deals will take on its economy, and in some areas and in some significant ways, they are trying to back away. Two important government reports came out in September. One, from the State Administration of Machinery Industry, documented how China's machinery industry, including its most modern capacity, will suffer "the most and the longest" from joining the WTO. Then, on Sept. 18, Lu Zhiqiang, Deputy Director of the Development Research Center under the State Council, told the *China Daily* that China is inadequately prepared to join the WTO. "As far as I know, few serious studies have ever been conducted about relevant laws on foreign trade, overseas investment, and rules and regulations of the WTO, so that Chinese firms can meet challenges while undertaking their obligations," said Lu. "Solid and down-to-earth preparatory work is scarce, although officials and entrepreneurs have long been crying wolf." He said that the urgent issue for China is economic security, and management of its industries, not by central planning, but by market economy rules.

President Jiang Zemin and Premier Zhu Rongji have repeatedly urged domestic firms to adapt to the international environment of the economic globalization, *China Daily* reported. They are concerned about economic security, due to the fear that extensive links of the world's economies will increase the vulnerability of China's economy to fluctuations.

In a panicked response to all this, President Clinton sent Barshefsky to Beijing without prior notice. Zhu Rongji cleared his calendar, and may even have had to delay his departure for Tokyo, to meet her. On coming out of the meeting, Barshefsky was only "hopeful" that obstacles would be overcome. "There are a large number of issues . . . nothing insurmountable," she said. Zhu reportedly assured Barshefsky that China will honor its WTO concessions.

'Coordinating Korea'

Washington is also trying to reassert control over diplomacy on the Korean peninsula. Following North Korean National Defense Commission Vice Chairman Cho Myongnok's Washington visit on Oct. 9-12, Albright announced that she will visit Pyongyang, likely on Oct. 24, and will also try to arrange for President Clinton to visit North Korea "before

the end of this year.”

On Oct. 19, the South Korean daily *Chosun Ilbo* reported that Albright will meet South Korean Foreign Minister Lee Jong-binn and Japanese Foreign Minister Yohei Kono in Seoul after she leaves Pyongyang, to “coordinate” policies toward North Korea.

Policy-makers in Seoul are not happy. The United States “was not satisfied with the way things were going,” Choi Jin Wook of the Korea Institute of National Unification told the *International Herald Tribune*. “Washington was desperately trying to gain control of the negotiations with the North.”

“Until this June, the United States had the lead in resolving Korean issues,” the *International Herald Tribune* quoted Park Young Ho, director of unification policy at the Institute. “Since Korea took the lead at the summit, the Americans were worried about losing control of the peace process on the Korean peninsula.” However, he said, “the peace treaty [on Korea] is not to be done between the U.S. and North Korea. The peace arrangement is to be made between the two Koreas.”

How much damage can be done, is indicated by the fact that Pyongyang may soon hold talks with the IMF, Fund spokesman Thomas Dawson said on Oct. 13. Dawson spoke of warming relations with North Korea, and said that North Korea has shown much interest in IMF activities. North Korea had been invited to attend the IMF-World Bank conference in Prague in September, although this did not happen.

During the 1997-98 crisis, Summers, then deputy to Treasury Secretary Robert Rubin, forced hard-hit Asian nations, including South Korea and Indonesia, into the jaws of the IMF’s brutal conditionalities. If North Korea is forced on the same route, the potential of the “Iron Silk Road” will be rapidly crushed. This is what sane regional policy must prevent.

What Role for Japan?

Japan, as by far the leading economy, and with the strongest military, will have to play a leading role. One eminent Chinese economist, who knows Japan very well, told *EIR* that the critical issue, is what role Japan is going to play in Asia. On a recent visit to Tokyo for discussions of Asia-Pacific economic cooperation, he had asked leading Japanese officials, whether they were going to play the role which Germany plays in Europe, or the role which Britain plays? If Japan still wants to retain its “special relationship” to the United States, which he likened to the British “special relationship” to the United States, it could not play a central role in Asia.

The Chinese economist said, that while he could not get any definitive answer from his Japanese counterparts, one leading official did indicate that Japan would soon take important action. What that is, remains to be seen.

Singapore’s Senior Minister Lee Kuan Yew, who is close to both China and Japan, told the London *Financial Times* on Oct. 10 that Japan is moving away from the multilateral trade

system for the first time. Since the WTO Seattle summit failed last November, East Asia has become restive, and Japan has begun to move away from reliance on the multilateral trading system, and is instead conducting bilateral discussions on forming free-trade agreements with countries including South Korea and Singapore.

Japan has “got to face the U.S. dollar. They’ve got to face the euro. If they can carve out a special economic relationship with East Asia, then the yen will automatically play a key role,” said Lee Kuan Yew. “After Seattle, the Japanese must be redoing their sums. They can see that U.S. interests do not always coincide with their interests, their needs, and they cannot make all their initiatives compatible with the U.S. grand design.”

However, Lee told the *Financial Times*, “the Asian Monetary Fund, which the Japanese are proposing, has received some encouraging response from the new director of the IMF—providing it is an additional arm of the IMF for dealing with crisis, not acting independently.”

An insight into the views of certain circles in Japan, was provided by the *Australian Financial Review*’s account of the sparks flying at the annual International Conference on Financial Markets and Policies in East Asia, held in Canberra by the Reserve Bank of Australia. There, former Japanese Finance Minister Eisuke Sakakibara (a.k.a. “Mr. Yen”) “cross[ed] swords with Uncle Sam,” and the usual conference “jargon” broke down, “to expose high international finance for what it really is—hard geopolitics between great powers,” the *Review* wrote. Sakakibara clashed with San Francisco Federal Reserve Vice President Reuven Glick, while Australian Reserve Bank Deputy Governor S.A. Grenville discussed Australian financial cooperation with East Asia, the ASEAN-Plus-3 group, and the AMF—and the conflicts among Asian nations, Australia, and the United States on these questions.

Sakakibara asserted that “the U.S. has this mentality of using the crisis. Trying to use or even create a crisis to change a country’s political regime is intervention—unlawful intervention. When I say these things to my Western counterparts, they say, ‘Well, isn’t it good that a corrupt government collapsed?’ ” Indonesia was the government in question, he said. The terms of the financial package for Indonesia were designed to bring “intolerable pressure to bear on the Suharto regime. I tried, Japan tried, to modify the policy, but against the coalition of the U.S., the IMF, and Germany, I was powerless,” he said.

All this, however, was challenged by the Fed’s Glick. “I think it’s a little far-fetched to say that it is only Western countries” that act in accordance with their self-interest in the international financial system, he asserted. He defended the U.S. failure to join the emergency rescue package for Thailand, while committing itself to “support” for South Korea: “You have to pick and choose where you will spend your resources.”

Sakakibara shot back: “Even in Korea, the U.S. never spent any bilateral money — that’s a detail you should know.” The Congress did not allow the Treasury to pay the money that it had announced for South Korea. That was why Asia could not rely “even on a great country like the U.S.,” Sakakibara said. “Even if the U.S. Treasury wants to act globally, the U.S. Congress and the Federal Reserve wouldn’t let them.”

Soon thereafter, the City of London’s *Financial Times* launched an absurd scandal against Sakakibara, for alleged ties to a banker imprisoned for fraud.

Chinese-Japanese Discussions

In this situation, the six-day visit of Zhu Rongji to Japan was productive. Despite a lack — at least publicly — of any agreements on the AMF, or the Eurasian Land-Bridge, mutual relations have improved. One concrete accomplishment was that a special-technology hotline, which had been agreed to during President Jiang Zemin’s visit to Japan in November 1998, was opened — and could be very useful in the near future.

Most important, is that the Zhu-Mori discussions were apparently able to lay the basis taking the sting out of the vexing issues unresolved since the end of World War II. These questions were given relatively less importance, than during Jiang Zemin’s earlier visit. Zhu brought up the “huge damage” inflicted by Japanese militarism, but acknowledged that the Japanese people were also victims, and are “not responsible. With history as a mirror, we want to move towards the future. I hope history will never repeat itself.” Prime Minister Mori agreed with this perspective.

At the end of their first meeting on Oct. 13, Zhu said, “We need to turn a new page via the friendship of the two countries. . . . China is ready to actively discuss regional cooperation between China and Japan, among China, Japan, and South Korea, as well as among” ASEAN and ASEAN-Plus-3. “China wants to see Japan play a positive role in promoting the balanced development of the regional economy, as well as raising the economic strength of Asia as a whole.”

Mori responded that Japan wants to strengthen coordination and cooperation with Beijing, to promote regional cooperation under the ASEAN-Plus-3 framework. Both praised the détente on the Korean peninsula.

While a central issue was Japanese participation in developing western China, a priority of Beijing, lacking was the explicit call for Chinese-Japanese cooperation to construct the Eurasian Land-Bridge. The Land-Bridge had been noted, both in the communiqué of Jiang’s 1998 visit, and in the speech delivered by Foreign Minister Kono when he made a four-day preparatory visit to Beijing. In a speech to the Party School of the Central Committee of the Chinese Communist Party on Aug. 31, Kono not only called for a multilateral dialogue to ensure peace and stability in Northeast Asia, but also proposed economic cooperation, including to develop the Mekong River basin, and to improve transport and distri-

bution infrastructure between East and Central Asia under the Eurasia Land-Bridge initiative.

Zhu Rongji did call for Japanese investment in the development of western China over the next 30-50 years, including construction of railroads, freeways, airports, and other infrastructure, as well as four east-west gas pipelines. In the context of making a “strategic readjustment” of its economy, China is, for the first time, allowing foreign investors to take a controlling share in strategic projects, such as the new pipelines. This is part of a special policy to encourage foreign investment into China’s western regions.

Mori answered that Japan will send a joint government-business inspection mission in the first half of 2001. Mori called on China to ensure that the environment for foreign investment is improved, by improving debt repayment, and easing restraints on foreign steel and insurance.

Much of the discussion was focussed on the private sector. Takashi Imai, chairman of Japan’s Federation of Economic Organizations, which Zhu Rongji addressed, said, “We want to continue to ask the Chinese government to improve the country’s legal and tax systems, and promote deregulation and improve the investment environment.” Imai said that China should “more actively accept direct [private] foreign investment” from Japan. However, Japanese firms are known in China for their reluctance to transfer more advanced technology, in contrast to German firms. Official Japanese aid to China is also under pressure, from some circles in the ruling Liberal Democratic Party which are making China’s “military buildup” an issue. Japan, however, has the second-highest defense budget in the world, second only to the United States, and much higher than China’s.

The Zhu-Mori statement, also said that “the Japanese side promised to work to provide further cooperation in terms of technology and expertise for the purpose of China’s participation in the WTO. We share the view that it is important to improve China’s domestic legal system.”

Asian leaders should look again, to LaRouche’s recommendations in his policy paper, “Trade Without Currency” (see *EIR*, Aug. 4, 2000). There, he called for creation of a system based on a basket of hard commodities, not currencies, as the only means to generate productive trade and economic relations. These hard commodities must be defined on the basis of the Hamiltonian principles, which had been the foundation of the 18th- and 19th-Century “American System.” Nothing else will do.

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