

'Staggering Pressure' By U.S. Strains Asia To The Limit

by Kathy Wolfe

Following U.S. Deputy Secretary of State Richard Armitage's Sept. 14 demand to "see the flag of the Rising Sun flying in the Indian Ocean," Japanese Prime Minister Junichiro Koizumi offered to send a Japanese Navy flotilla to join the *USS Kitty Hawk* carrier group, which is operating against Afghanistan. Soon thereafter, President George W. Bush sent a personal memo to Koizumi, Tokyo's *Weekly Post* reports, demanding that Japan rewrite its laws against foreign military action, and Koizumi is doing so. "The pressure from Mr. Bush was staggering," Koizumi's office told the *Post*. Six Japanese Air Force C-130 cargo planes already landed in Pakistan on Oct. 9 for the U.S. "refugee supply" air drop.

While some other Asian nations have also rushed to support the U.S. operation, after heavy Washington pressure, they are also up in arms about the new "Japanese militarism." "Any role that the Japanese government can play in the military field is a very sensitive question and should be dealt with in a prudent manner," China's Foreign Ministry said on Sept. 28. South Korean President Kim Dae-jung, who almost ended the Cold War with his peace summit in North Korea, has lost three-fifths of the National Assembly, and his government hangs by a thread, as students across Seoul demonstrate against Japan, and against Kim's government, which has bowed to International Monetary Fund (IMF) austerity policies.

Meanwhile, Asia's economies are falling off a cliff "much worse than the so-called 'Asia crisis' in 1997," as former Japanese Vice Finance Minister Eisuke Sakakibara put it on Oct. 2. "The world could fall into a simultaneous depression like that seen in the 1930s, something the postwar global economy has never experienced," Tokyo's staid *Nihon Keizai News* (Nikkei) editorialized on Oct. 8. Japan, Korea, and the rest of Asia now suffer a vast collapse in their exports. The "sharp decline in information technology and falling consumption means the U.S. can no longer play the role of 'buyer of last resort,'" Nikkei writes, paraphrasing *EIR's Feature* "Demise Of The Importer Of Last Resort," which has been well-circulated in Tokyo.

The current political situation is a far cry from last November, when leaders of China, Korea, Japan, and the ten Association of Southeast Asian Nations (ASEAN) joined in close cooperation, and threatened to dump the so-called "Washington Consensus" IMF austerity policies. At the May 8-11 Asian Development Bank meeting, one Korean official

said that the "ASEAN-Plus-3" countries (ASEAN plus China, Japan, and South Korea) already had more than \$800 billion in reserves, and should "act like OPEC [Organization of Petroleum Exporting Countries] . . . and use their joint economic power effectively to achieve their own ends." They were about to set up their own Asian Monetary Fund, a step toward kicking over the IMF.

However, the question is, how long can pressure from Washington keep Asian nations within a financial-strategic geometry which is leading to their destruction?

Eurasian Alternative

With the threat of terrorist Armageddon hanging over the world's major cities since Sept. 11, plus a series of demands by President Bush, Japan and South Korea appear to be lining up to try to somehow shore up the current collapsing IMF-centered system. Japan's Koizumi government has bought more than \$30 billion in U.S. dollars during September alone, trying to hold up the dollar on the foreign exchange markets. The U.S. currency would drop like a stone if Japan stopped buying it. "The dollar may fall if we come off guard even momentarily," Japan's Finance Minister Masajuro Shiokawa said on Oct. 2. "There is good reason to sell the dollar: Look at the American economy, look at the safety situation in America," said one Tokyo trader. "Prospects are negative; the dollar is overvalued. The market is increasingly aware that the dollar is losing its status as a safe-haven."

On Sept. 21, South Korea sold off its giant \$10 billion Daewoo Motors to General Motors for a nickel on the dollar, and could soon be forced by U.S. government pressure, to allow the shutdown of Hynix Semiconductor, the world's third-largest computer chip maker, which produces 10% of Korea's electronics exports. "We've done *everything* the IMF has demanded since 1997, and gotten absolutely *nothing* out of it" except major bankruptcies, as one Asian diplomat told *EIR* recently.

Yet, with the global IMF system crashing down around their ears, and the dollar and the United States visibly dependent on Asia to an enormous extent, one wonders how long Asian leaders will tolerate the situation. The more the dollar-based IMF system falls apart, and the more it drags Asian economies into the pit with it, the more the reality of mass unemployment will sink in, and the more angry the opponents of the IMF system inside Japan, China, South Korea, and

other nations are likely to become. As this crisis wears on, the alternative of cooperation between the nations of the Eurasian landmass to build an entirely new system becomes a very attractive proposition.

The Russian government's Oct. 4 proposal to build a rail line linking the mainland line of the Trans-Siberian Railway to Russia's Sakhalin Island, and then to Japan's Hokkaido Island, is a good example (see article, p. 14). While Russian President Vladimir Putin has been proposing economic development cooperation between Russia and the ASEAN-Plus-3 nations for some time, official Japanese public response has been muted—partly because any move to combine the strategic weight of Russia to the ASEAN-Plus-3 would set off hysterical alarm bells in Washington. Tokyo is already flooded with complaints from the Pentagon, Wall Street, and U.S. think-tanks, that Russia and China have created the Shanghai Cooperation Organization and related plans for Eurasian Land-Bridge development, solely to “divide America from its allies,” as Constantine Menges of the Hudson Institute has written in widely circulated articles. Russia and China plan “to persuade Japan to begin moving away from the U.S. security alliance,” Menges alleged in a recent *Washington Post* commentary.

Yet, both Russian and Japanese business sources tell *EIR* that Japan's private diplomatic response to the plan to extend the Trans-Siberian Railway to Hokkaido has been very positive, and that a formal contract for the deal has even been drafted. Russian Minister of Railroads Nikolai Aksyonenko said on Oct. 4 that preliminary talks with Japan have taken place and that “heightened interest was expressed by Japanese multinationals such as Mitsui, Sumitomo, and others. They say it is interesting and important to them.”

Cooperation Between Russia and Korea

Meanwhile, the “Third Korean-Russian Forum” in Moscow on Sept. 27-28 discussed a wide range of large-scale projects planned between South Korea and Russia, Korean Foreign Ministry sources report. The forum focussed on new North Korea-Russia relations following North Korean Chairman Kim Jong-il's recent visit to Russia; and South Korea-Russia cooperation in Northeast Asia and on the Korean Peninsula. It was co-hosted by the Korea Foundation and the Diplomatic Academy of the Russian Foreign Ministry. South Korean Deputy Minister for Foreign Affairs Yim Sung-joon met Russian Deputy Minister of Foreign Affairs Aleksandr Prokhorovich Losyukov and discussed plans for another Korea-Russia heads of state summit. Projects discussed included the “linking of the Trans-Korean Railway and Trans-Siberian Railway,” the Korean Foreign Ministry reports, which refers to President Putin and President Kim Dae-jung's plan to help rebuild North Korea's rail network and link it to the South and to the Russian lines. Also discussed was the project to build a natural gas pipeline from Russia's giant Irkutsk gas field, several thousand miles through Siberia and down the Korean Peninsula, with a possible link to Japan.

Russian Minister Aksyonenko also referred to the fact that the Sakhalin-Hokkaido rail link might be in for some competition from a project, already under study in Japan and Korea, to build a bridge and tunnel link between Pusan, at the southern tip of Korea, and Japan. Most of these projects now under discussion first became public in *EIR*'s January 1997 *Special Report*, “The Eurasian Land-Bridge: The ‘New Silk Road’—Locomotive For Worldwide Economic Development” (see **Figure 1**).

While North Korean Chairman Kim has still not agreed to a second Inter-Korean Summit in Seoul—part of the reason South Korean President Kim Dae-jung has lost his ruling majority in the National Assembly—even North-South Korean relations, which had been on hold under hostile pressure by the Bush Administration's Armitage, have begun to move forward.

At a high-level ministerial North-South meeting at North Korea's Mt. Kumgang on Oct. 5-6, Pyongyang took the unusual step of presenting a substantial 11-point agenda, including such new items as the proposed gas pipeline across the peninsula. The two sides also agreed to move forward the road and rail link projects north of Seoul. South Korea has already carried out a lot of construction, unlike the North, which has yet to ratify a protocol on work within the demilitarized zone. South Korea especially wants the main rail and roadway crossing north of Seoul to be finished, in order to expedite the proposed Kaesong industrial complex just across the DMZ in North Korea, which could become a giant investment zone for North-South cooperation. Both sides have now committed themselves to getting on with this rapidly, and the North Korean documents reportedly referred to linking the railway to Russia, reflecting the calls for this in Moscow as well. There will also be a new round of reunions of separated families in Seoul and Pyongyang on Oct. 16-18, an emotional event which should give some popular support to Kim Dae-jung, who sorely needs it.

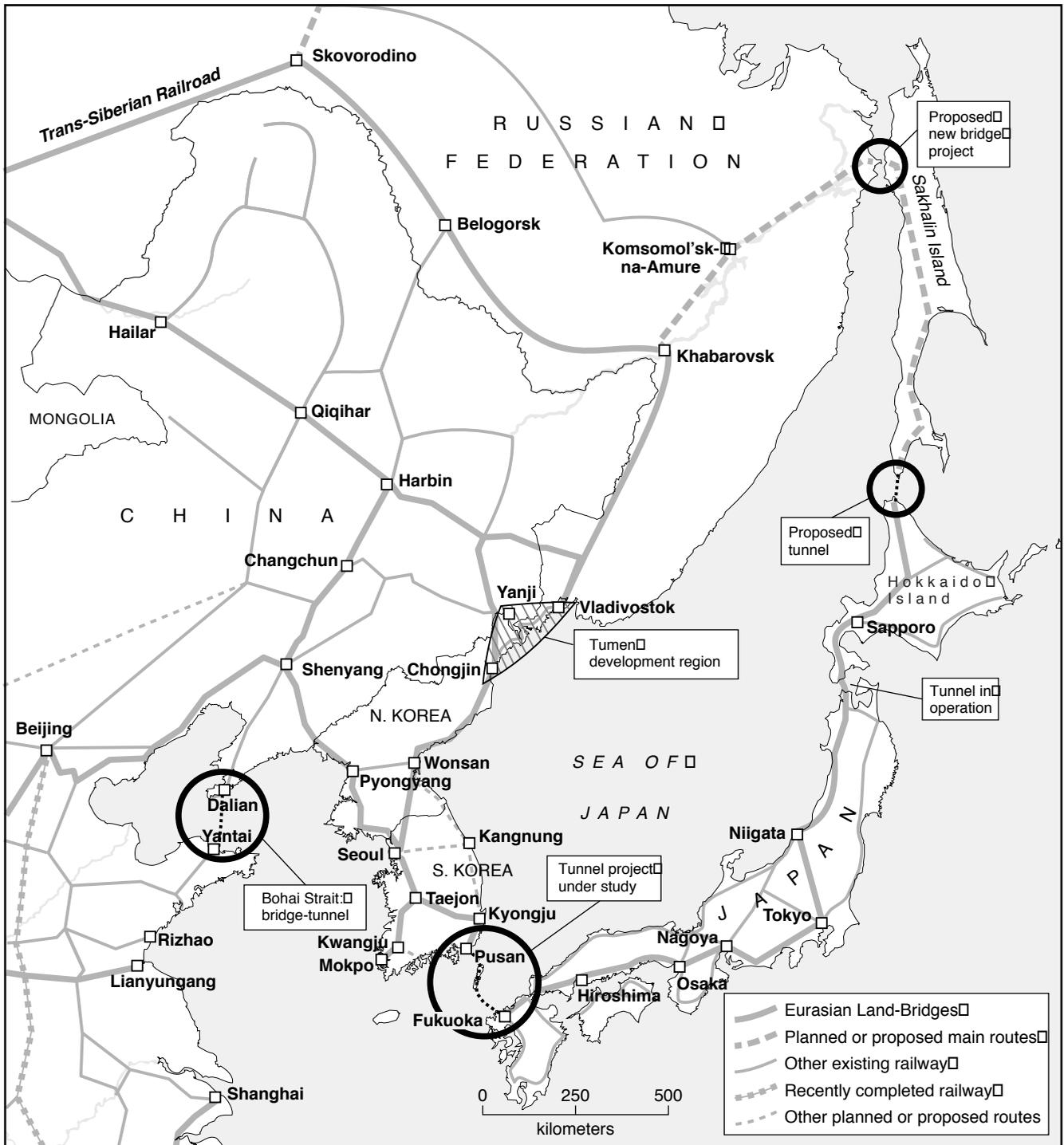
Even Japanese Prime Minister Koizumi, who has angered many Asian neighbors with his kowtowing to Washington, is trying to cover his bets, travelling to Beijing on Oct. 8 and Seoul on Oct. 15, for summits with Chinese President Jiang Zemin and South Korean President Kim. Koizumi visited the Beijing Memorial Hall to China's war against Japan of 1937-45, and apologized for Japan's wartime actions. In Seoul, he was scheduled to visit the Seodaemun Museum, a former Japanese prison where Korean independence fighters were tortured and killed during Japan's occupation of Korea (1895-1945), where he was expected to make a similar apology.

Global Supply Chain Breaks Down

Meanwhile, top Asian government sources told *EIR* at the end of September, even before Sakakibara spoke, that the East Asian economic situation is “already far worse than anything that happened after 1997.” While the United States was already collapsing as the “importer of last resort,” as *EIR* documented much earlier this year, the disaster has snowballed.

FIGURE 1

Far East: Infrastructure Projects



Russia has announced plans for a bridge linking the Eurasian mainland to Sakhalin Island, and hopes that Japan will build a tunnel linking Sakhalin to Hokkaido Island. This and several other projects were outlined in this map of the region, which appeared in EIR's 1997 Special Report, "The Eurasian Land Bridge. The 'New Silk Road' – Locomotive For Worldwide Economic Development."

Normal world trade in an “open global economic system largely fashioned by the U.S. . . . [has been] destroyed,” Japan’s Nikkei wrote in its Oct. 8 editorial, titled “World On Verge Of Depression.” “Trust between nations is a prerequisite for global-scale business and investment. When that trust is shaken, the global supply chain breaks down and the costs and risks of economic activity increase.” More bluntly, no one in Asia knows whether they will ever get paid for exports they may ship to the United States, all of which are normally sold on credit—and so production and investment in Asia are drying up.

The fact is, that Asia is so dependent on the U.S. market, that when it shuts down, Asia shuts down. Nikkei points out that oil prices are down 10%, due entirely to the “collapse in demand for fuel,” mostly involving a general shutdown of factories, transportation, and energy use in Asia. The last time the world oil price dropped like this was when 30% of Asian factory production closed down during the 1997-99 crisis. In Japan, unemployment is up to a staggering official rate of 5%—an equivalent of 10% in the United States—and one in five workers is afraid of imminent layoff, the Japan Institute of Labor reported on Oct. 7. In Korea, there are unemployment riots going on. In Thailand, the impact of 1.4 million unemployed is so severe that the rate of prostitution will rise as a direct result.

Japan’s situation is indicative of what’s going wrong in every Asian country dependent on the U.S. market. Almost all the economic yardsticks were weakening rapidly, even before the Sept. 11 attacks in New York and on the Pentagon. Industrial production in August posted the largest-ever year-on-year decline, of 11.7% compared to August 2000. The business confidence index for the electronic machinery industry fell 25%, while those for other export-oriented industries also fell sharply. Firms surveyed by the Bank of Japan said that their inventories were ballooning, because they could not cut production fast enough to keep pace with the fall in demand for their exports to the United States and the rest of Asia.

Despite the central bank’s money-printing binge, Japan is experiencing a 1929-style *deflation* in industrial prices, as many blue-chip export companies cut thousands of jobs, bringing the unemployment rate to a record 5% in August. The problem is, that no matter how much *monetary inflation* the central bank creates by printing yen at 0.25%, consumers, fearing job loss any moment, are cutting all but urgent purchases, and corporations, fearful of bankruptcy, are refusing to borrow any more funds. No matter how large the supply of money, there is just no demand for it; neither consumers nor producers are willing to borrow. In fact, most corporations are using all available funds to pay down debt. As a result, producer and consumer prices in Tokyo fell by the largest margin on record in September, for the 24th consecutive month of year-on-year decline.

As the Nikkei stock index collapsed below 9,500 on Sept. 20, the capital of most Japanese banks (which hold stocks as capital) fell below Bank for International Settlements standards for solvency. Weak share prices, which are now at 17-year lows, are triggering a vicious cycle, by weakening corporate earnings and spooking consumers into even less spending as their portfolios drop—which just causes stocks to slide even further. Since Prime Minister Koizumi took office in March, stocks are down 25% and the elite companies on the Tokyo Stock Exchange’s First Section have lost more than \$1 trillion in capital.

‘Vulture Funds’ Circling

Worse, the *Weekly Post* reported on Oct. 8, President Bush put enormous pressure on Koizumi at their Sept. 26 White House meeting to go along with the IMF’s plan to write off huge chunks of bad bank loans, which will bankrupt Japanese banks’ borrower companies, allowing U.S. corporations to buy them up cheaply, as has already happened in Korea. The *Post* reports that Goldman Sachs and other Wall Street investment bank “vulture funds,” as they are called in Tokyo, have already bought up \$250 billion in bankrupt Japanese companies a nickel on the dollar, and are demanding more carrion to feed on.

The bankruptcy of major Tokyo retailer Mycal Corp. on Sept. 17 was an indicator of the IMF policy being implemented, without announcement, by Tokyo regulators, one official told *EIR*. Mycal collapsed with \$14.6 billion in bad debt after its main creditor, Mizuho Holdings, the world’s largest bank, took the rare action of cutting off all financial support, incurring a \$2.5 billion bank loss. What is new, is that Mizuho’s loans to Mycal had not been categorized by the regulators as “at risk” bad loans, but rather as “gray-zone” loans, classed as corporate loans simply “requiring caution,” but not deemed likely to go into default. The official “bad” loans figure in Japan totals \$343 billion, but official “gray” loans are more than \$1 trillion.

Officials believe that regulators told the bank to cut off Mycal as part of a new policy demanded by the IMF, squeezing banks to cut off both “bad” and “gray” loans. Since the true figure for “bad” loans is known to be more than \$1 trillion, the total “bad plus gray” figure is more than \$2 trillion and probably closer to \$3 trillion. If all such loans are to be called in, this would mean numerous bank bankruptcies, and a doubling of Japan’s current 5% unemployment rate, throwing 2-3 million more people out of work.

So much bad debt has now piled up in the banks, that Standard and Poors and Moody’s rating services are predicting the government will have to spend trillions of dollars to bail out the banks. They threatened Sept. 27 to downgrade Japan’s national government credit rating from AA, to the single A category, which would make Japan the lowest-rated member of the G-8 industrial nations.