

the Hong Kong dollar, which is still pegged to the U.S. dollar. In fact, the People's Bank, the central bank of China, has depleted its hard currency reserves during the last eight months by \$40 billion. Any further outlay of funds to defend the Hong Kong dollar could open China up for a hedge fund attack.

Political paralysis

Japan's current crisis is directly related to three main factors. First, the April 1 deregulation of the financial markets led to unprecedented capital flight, and currency speculators were taking short position on the yen; second, the Tokyo Stock Exchange bank stocks were losing value rapidly; and third, the Economic Planning Agency admitted that Japan's real economy was shrinking. Japan became extremely vulnerable. In fact, some observers in China were beginning to think that the Japanese were deliberately allowing the yen to devalue, in order to make Japanese products more competitive.

Japan's problems are far from over, given the extent of the political paralysis that remains a constant feature of Japanese politics. Despite Prime Minister Hashimoto's desire to reform the financial system, there are many factors which might prevent him from carrying out his pledge. One of these is the role of the Bank Tokyo-Mitsubishi and its head, Satoru Kishi, who is also the executive director of the Federation of Japanese Bankers. Kishi issued a statement following Hashimoto's June 18 press conference, saying that private financial institutions should not disclose the full extent of the losses incurred. According to the rules of globalized finance, were Japan not to disclose the extent of such losses, then the hedge funds and currency speculators would start another round of shorting the yen and fostering more capital flight.

Hashimoto, whose popularity is down to 30%, is caught in a very difficult situation. He has to pull together a new consensus, not only within the ruling Liberal Democratic Party, but with the financial and corporate community, which is deeply divided. What the U.S. intervention accomplished was to buy some time for Hashimoto, giving him about a month to build such a new consensus, before the Upper House election occurs. After that timeframe, anything could occur.

U.S. 'crisis managers'

The weakness in the Clinton administration's approach remains its crisis-management mentality. Even though the administration's actions have temporarily stabilized the yen, they are not facing the fact that this is a global, systemic crisis. This crisis management mind-set is underscored by the fact that Deputy Treasury Secretary Lawrence Summers was dispatched to Tokyo to follow up the promises that Hashimoto made about "reforming" the system. Summers is meeting with every leading Japanese political and government official, jawboning them into pushing ahead with various financial and economic stimulus packages. Privately, the administration has unofficially backed the trip of former Federal Deposit Insurance Corp. head William Seidman, who was the overseer

of the savings and loan debacle during the 1980s and 1990s, in the hope that Seidman can "help" the Japanese dispose of their bad bank debt.

But none of these maneuvers will work, unless the Asian nations and the United States recognize that we need a new monetary system, or else we are heading for what World Bank official Jean-Michel Severino described as a "global depression."

Effects of 'Asian crisis' spread to America

by Richard Freeman

The "Asian phase" of the world financial disintegration became more pronounced the week of June 15. While the banking crisis in Japan worsened, the Japanese economy continued to contract: In May, compared to a year ago, machine-tool orders were down 16%, domestic machine-tool orders were down 30%, and car production was down 20%.

If Japan, the world's second-largest economy, and other Asian economies, continue to slide into depression, they will, among other things, slash their intake of imported goods, including those from the United States. This is a fundamental reality, but still, in America, various professional economists and elected officials continue to attempt to filter this reality out, emitting a steady stream of statements that the effect of the Asian crisis is remote. After all, they imply, it's half-way around the world.

That myth is being exploded. The "Asia crisis" is coming home to America.

The most evident manifestation is seen in the Asian airline industry, and the resultant effect this is having on Boeing Corp., America's largest aircraft manufacturer and top exporting company.

Regional airlines bankrupted

The financial crisis in Asia is bankrupting the regional airlines that connect these nations to each other, and to the rest of the world. Figures from the Association of Asia-Pacific Airlines, reported in the June 15 *Aviation Week*, indicate that air traffic dropped 8.3% in March from the previous year, and load factors (the percentage of seats filled on flights) declined throughout the region.

- In Korea, load factors dropped 27.8%. Korea Air posted a loss of \$267 million for 1997. The airline has arranged for "a relaxed payment schedule" for the planes it has already ordered from Boeing.

- In Indonesia, the regional carrier Sempati has been forced out of business, and the situation for the other carriers

is considered “critical.” The two state-owned airlines are expected to survive, but not the private ones.

- Vietnam Airlines has dropped service to Jakarta and Manila, and cut flights to Seoul by 50% and to Hongkong by 30%.

- Thai Airways International wrote off a \$578 million loss in the fourth quarter of 1997 alone.

- Malaysia Airlines has sold off and leased back 11 aircraft, let leases lapse on five more, and has put three planes up for sale. It has deferred delivery on nine Boeing planes.

But the most serious effect may come from Boeing’s largest market in Asia: China. China’s Civil Aviation Administration (CAAC) released a report during the second week of June indicating that in 1997, load factors for their airlines went down by 5 to 66.4% compared to 1996, and that first-quarter results this year “indicate that 1998 has started disastrously,” due to the collapse of the economies in the rest of Asia.

China’s top 11 air carriers had a first-quarter loss of \$212.5 million, and none of the 11 airlines made money. Boeing is scheduled to deliver 80 aircraft to China during 1998 and 1999, but analysts are skeptical that the orders will hold. In the past, the Chinese have used state visits to announce new deals, but the timing of the release of the CAAC report indicates that they are preparing the administration of President Bill Clinton, who will visit China to meet President Jiang Zemin in late June, and Boeing, for no new orders to be announced during the summit.

Boeing, America’s 11th largest company in sales, with \$45.8 billion in sales in 1997, is being hit hard by the crisis. Asian countries account for 40% of all of the orders for Boeing’s flagship 747 jumbo jets; the company has claimed that only 60 orders for its 747s by Asian nations have been deferred, but analysts predict that that number will rise substantially. The widebody 747 jets account for nearly half of the operating profit of Boeing’s commercial jet division, which in turn, accounts for much of Boeing’s overall profits. A recent Boeing press release admitted, that “the Asian situation may mean downward pressure on production rates—for the 747 in particular.”

There is a potential spillover impact in store for Boeing: many of the U.S. airlines fly to Asia; as their traffic falls, U.S. airlines may also cut orders for Boeing planes.

Other large U.S. companies are reeling from the “Asian crisis.” On June 5, Motorola, America’s 29th largest corporation in terms of revenues, with \$29.8 billion in sales last year, announced that it will lay off 15,000 people worldwide—10% of its workforce. Motorola makes one-quarter of its global sales in Asia, including mobile phones and other electronic equipment; these sales are falling.

Big blow to U.S. exports

The crisis that is hitting two of America’s Fortune 500 companies is also striking the U.S. economy more generally,

crushing U.S. exports. U.S. Commerce Department figures show that, for the three-month period between December 1997 and March of this year, U.S. exports collapsed by the following percentages to leading Asian nations: Hong Kong, 13.7%; Thailand, 13.8%; South Korea, 24%; Taiwan, 26.8%; and Indonesia, 64.9%. Taking the eight leading developing nation economies—South Korea, Hong Kong, Taiwan, Malaysia, Indonesia, the Philippines, Thailand, and Singapore—as a whole, U.S. exports to the region tumbled by 16.9%.

At the same time, for the three-month period, U.S. exports to China sank by 16%.

The importance of this fall is underscored by the fact that Asia accounts for 30% of all U.S. merchandise (physical goods) exports, and 40% of all agricultural exports. The dependency of U.S. states on exports to Asia is high: 12 U.S. states send 40% or more of their merchandise exports to Asia, and 33 U.S. states ship at least 20% of their exports to Asia.

In toto, U.S. exports are responsible for one in 10 jobs in the U.S. economy, and one in five goods-producing jobs, according to a Commerce Department study. The Commerce Department defines goods-production narrowly as those employed in manufacturing, mining, and construction. Today, there are 24.7 million goods-producing jobs, so defined, and 4.94 million jobs depend on exports.

Losses in agriculture

As the physical economies of Asia contract further, both because of the world financial disintegration and the imposition of draconian International Monetary Fund conditionalities, the countries of Asia have not only cut back on infrastructure projects and industrial production, which would have required American (and other nations’) industrial goods, but have cut back their food consumption.

Last year, for example, the United States and Brazil exported 10.5 million bushels of soybeans to Asia. While soy forms a part of the Asian diet, it is largely used there as a high-protein animal feedgrain for cattle, hogs, and poultry. But, many Asians are sharply cutting back or eliminating meat consumption. America and Brazil will likely export only 8 million bushels of soybeans to Asia this year, a fall of 24%. At the same time, the price of soybeans plummeted from a 14-year high in 1997, of \$9.04 per bushel, to \$6.30 per bushel, and could fall to \$5 per bushel.

Asia is also cutting back oil consumption. The “Oil Market Report” of the International Energy Agency for June 9, reports that Asian oil consumption has fallen by 750,000 barrels per day so far this year, one of the principal causes of the global fall in oil prices.

Meanwhile, the “Asian phase” of the worldwide crisis, which entered a second, more virulent phase in late February, holds in store potentially explosive consequences for the U.S. financial system. This aspect of the crisis could accelerate a physical contraction of the U.S. economy that would be even more pronounced.