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devaluation would have no effect, because, of China's export of manufactured products, imports make up over 50% of the price. Devaluing by 10% would yield a price cut of less than 5%, but would immediately cause a domestic increase in prices and foreign resistance, and, in the end, would just cause severe damage to market confidence."

Liu Mingkang emphasized that China has very large foreign exchange reserves, and has carefully managed its foreign currency investments. Also, he focussed on China's potential for internal development of its huge economy. "There are," he stated, "the huge central and western regions of the country, whose capacity for absorption of investment is huge, and, apart from this, in many sectors of the domestic economy, the adjustment of structure of production can also stimulate the demand for investment. These are important factors determining the decision not to devalue the RMB."

Chinese economists are rapidly learning the lessons of the crisis destroying their Asian neighbors. An article published in the *People's Daily* on Aug. 13, described how currency devaluations had destroyed, rather than increased, other Asian nations' ability to export. Moreover, the real reason for the collapse of their exports was not their currency rates, but the financial crisis and credit crunch which has crippled their capacity to produce.

These policies in Beijing are being closely coordinated with the government of Hong Kong. On Aug. 13, Hong Kong Financial Secretary Tsang Yam-kuen was categorical: "I am certain that if anyone is speculating against the Hong Kong dollar peg, we have the skill and strategies to handle it easily," he said. "If speculators want to attack the Hong Kong dollar, they will be punished as usual." On the renminbi, he said: "There is no reason . . . to devalue. . . . Most of the so-called threat of devaluation speculation has emanated from speculators themselves."

Japan is still the number-one problem

"These are very thin volume markets at this time," said the European central banker. "That always adds to volatility as smaller trades have a magnified impact either up or down. But the most important element of instability now is the uncertainty. No specific steps are being taken, not in Japan, not in Russia, not in the G-7. And that makes financial market investors extremely prone to sell. But in my view, the number-one problem in the world today, is Japan. The entire world central banking community of the BIS [Bank for International Settlements] is pushing Japan finally to move to clean up its banking problems and restart its economic growth. If they do not succeed to make any significant move on this, it is indeed quite possible, as some have suggested, that the yen will go to 200" to the dollar.

Japan is viewed not only by the Clinton administration, but by the rest of Asia, as key to the stabilization of the Asian crisis. It is at this point more likely to become the detonator to the worst global financial crisis in history, if the recent actions of the new Obuchi government are indicative.

Barring some domestic political miracle, or a rapid new election which breaks the present grip of the banks on LDP policy, the world is on a short fuse to a generalized explosion as early as this autumn. Well before then, relevant governments would do well to adopt Lyndon LaRouche's proposal for a New Bretton Woods system.

China makes clear: No devaluation of RMB!

by Jonathan Tennenbaum

In early August, while the world financial press was full of rumors that the fall of the Japanese yen and domestic economic problems would trigger an "inevitable" devaluation of the Chinese renminbi (RMB), leading Chinese officials and economic experts stepped forward to reaffirm China's commitment to maintain the value of its currency, providing very credible reasons to back up their policy.

Commenting on the recent discussion on the RMB, Lyndon LaRouche stated, "The currently widespread, mistaken opinion is, that a continued collapse of the market-price of Japan's yen would oblige China to devalue its own currency. This mistaken opinion is being encouraged by the same powerful, London-centered financial interests which organized the 1997-1998 collapse of the financial systems of Southeast Asia. Contrary to such opinion, the attempt to price China's, or any other currency, in competition with a collapsing yen, would be the worst possible response. The result of such a policy, would be to set off a spiral of competitive price-cutting, and an accompanying spiral of collapse of the total U.S.-dollar-denominated volume of China's net foreign-exchange earnings from exports. The disastrous consequences of the blunders of Japan and the IMF, in both Japan itself, and the recent and continuing spiral of collapse in Southeast Asia, are the result of the same kind of wrong thinking which now proposes that China must devalue its currency to compete with the effects of a falling price of Japan's yen."

The statements by Chinese officials, reaffirming the policy *not* to devalue the RMB, are coherent with LaRouche's points. Contradicting the rumors of "inevitable devaluation," both the Chinese and international press reported that Chinese President Jiang Zemin had told the Japanese Foreign Minister (in Beijing to prepare Jiang's coming visit to Japan), that "China has no intention to, nor will it devalue its cur-

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rency." A Chinese financial expert told *EIR,* that Chinese leaders have recently even hardened their stand on maintaining the RMB. Whereas until recently many spokesmen privately spoke of China "keeping the present value of the RMB fixed *at least* through the present year," the formulation has been changed, "to maintain the RMB's value through the year 2000 and beyond." China's leaders are adopting a wide array of measures in support of this policy, including: 1) returning a portion of export taxes to Chinese producers, thus effectively lowering the cost of exports without devaluation; 2) compensating the corresponding loss in government revenue by cracking down on speculation and rampant smuggling, improving the tax system, and other means; and 3) pushing forward with the policy of greatly expanded infrastructure investment, to stimulate domestic economic growth. This policy, Chinese observers stress, will in no way be changed as a result of the recent flood disaster; rather, it will be intensified.

A reasoned policy decision

At a press conference at the State Council, reported in the official *People's Daily,* Vice-Director of the People's Bank of China (China's Central Bank) Liu Mingkang explained: "Devaluation can be a means to stimulate exports and promote economic recovery, but it is not the best measure. China's long-term strategy to promote exports is to increase the quality of services and the technological content of products. Increased competitiveness should be based on this. A major devaluation could bring temporary results, but cannot provide advantages in the long term." Clearly referring to the disastrous effects an RMB devaluation would have on the Asian-Pacific region and around the world, Liu said: "China is a responsible member of the international community, and her policy must take into account other nations' interests. A big devaluation of the RMB would be a blow to other nations' economies, while a small devaluation would have no advantage" to China. He noted: "Imports [of components and equipment needed for export production] make up over 50% of the price of China's export of manufactured products. Devaluing by 10% would yield a price cut of less than 5%, but would immediately lead to increases in domestic prices and a negative foreign reaction, and in the end would just cause severe damage to market confidence. Thus, for China, devaluation is not a good measure."

Liu emphasized the enormous growth potential of China's central and western regions, and the potential for technological improvements in many sectors of the economy, all of which the government intends to tap in order to stimulate domestic demand and growth, and compensate for the negative effects of the international financial crisis. This, together with the existence of large foreign reserves and the commitment to "careful management of foreign currency investments . . . are important factors determining the decision not to devalue the RMB."

Pragmatic, but otherwise weighty policy considerations, were summarized by economist Lin Yifu, director of the Beijing University China Economic Research Center, in *People's Daily*. Entitled "There Is No Need to Devalue the RMB," Lin debunks the widespread myth, that the massive devaluation of Southeast Asian currencies has increased their competitiveness in international trade, or that China would have to devalue because of a falling yen.

"People who support devaluation are worried about the influence of the Southeast and East Asia crisis on the competitiveness of our exports," Liu writes. "They think that a big devaluation would increase the competitiveness of our products, reverse the tendency for slipping back, and expand the scale of our exports, thereby creating the conditions for realizing our economic growth target [8%, set by Prime Minister Zhu Rongji]. But, the slippage in our exports is not due to the devaluation of East and Southeast Asian nations having increased their export competitiveness, squeezing our export markets. In reality, devaluation has not given a big advantage to the competitiveness of those nations. That is because the absolutely largest part of those nations' exports are based on "importing materials and adding value," the imported component of the export value making up about 60%. That also means that the advantage of devaluation is right away diminished by 60%, by the increase in import prices. Besides, because of the financial crises in these nations, most companies there are suffering from a huge increase in the cost of capital, further reducing the positive effect of devaluation on exports. Most importantly, because of the chaos in the financial system, many firms in those countries are basically unable to find funds, and cannot carry out normal production."

The case of Japan

Turning to the crucial case of Japan, Lin writes: "The Japanese yen-devaluation's impact on our country has positive and negative aspects. Because of the gap in development, our country's exports to Japan are mainly foodstuffs, processed foods, and labor-intensive manufactures, while Japan's main exports to us are relatively technology-intensive and capital-intensive machinery, industrial equipment, and all kinds of apparatus. Thus, on the international market our products and Japan's products are not in direct competition, and so Japan's devaluation does not have a direct effect on the competitiveness of our exports. Japan is our biggest trade partner, our second-biggest export market, and our biggest supplier of imports. The Japanese devaluation increases the difficulty of our exporting to Japan . . . but the devaluation of the Japanese yen also reduces our expenditure for import of machinery and equipment from Japan, thereby reducing the cost of our own exports, and helping to increase our exports to other regions. . . . Since Japan is our country's largest foreign

source of credit, and the portion of these credits calculated in yen is relatively large, the devaluation of the yen also basically reduces the cost of our repaying its loans to us.

"Our reserves of $140 billion are the second largest in the world; we have surpluses both on current and capital account, and our reserves are gradually increasing. From the standpoint of the foreign currency market's supply and demand, there is hardly any reason to devalue the RMB. The main cost of not devaluing the RMB is in not being able to thereby stimulate our exports to the U.S., Europe, and Africa. But there are many other methods to accomplish that." According to Lin, an increase of eight percentage points, for example, in the export taxes reimbursed to Chinese producers, would have a corresponding stimulating effect on exports equivalent to devaluing the RMB by 16%.

"Summing up, the drawbacks of devaluation are large, the benefits small, and the advantages of devaluations can be obtained by other methods. Therefore, in terms of the present situation, it is not necessary to devalue the RMB and we should not give up the policy of not devaluing the RMB."

Defensive measures are not enough

There now appears to be a strong consensus among leading circles in China, on the policy of non-devaluation. While quite rational in and of themselves, the reasons given so far in public do not adequately take account of the reality of a world on the edge of the greatest financial cataclysm in modern history. Thus, the danger which China and the world's other nations really face today, is orders of magnitude more serious than anything which the so-called Asian crisis has produced so far.

LaRouche stressed that only "sudden, and very radical changes in international and national financial, monetary, and economic policies" could avert an otherwise impending, total disintegration of the world economy. In order to survive the crisis, LaRouche said, "the monetary and trade policies of China, the U.S.A., and other relevant nations, should be: 1) to establish, as early as possible, a new international monetary order, eliminating the present 'floating-exchange-rate' system, and establishing a set of adjustable, but approximately fixed parities, similar to the pre-1959 form of the Bretton Woods agreements; 2) to establish forms of regulation of international trade which are consistent with a return to a system of relatively fixed exchange-rates among leading currencies; 3) to orient financial, monetary, and trade policies to promoting long-term flows of development of basic economic infrastructure and advanced technologies of agriculture and industry from the already industrialized to the so-called developing nations."

China's current resolve, not to give in on the issue of the RMB, is a crucial factor holding the world back from the abyss. It is urgent now to push beyond mere defensive measures, to forge a strategic alliance for radical reform of the world financial and economic order.

IMF package is no solution for Ukraine

by Konstantin George

An agreement between the International Monetary Fund and Ukraine on July 31, if it sticks, may narrowly avert a state default on foreign debt obligations that had been projected for September. The IMF loan is a three-year Extended Fund Facility of $2.2 billion, to be paid out in quarterly tranches of up to $250 million. The agreement, which was reached with an IMF delegation in Kiev, Ukraine's capital, on the last day of its five-day stay, has to be ratified by the IMF Board. That decision, according to Ukraine's Economics Minister Vasyl Rohovy and the IMF, will be taken at the end of August or the beginning of September.

As always concerning the IMF, Board approval will be contingent on the recipient country complying with horrendous conditions. Indeed, Ukraine will pay a very high price: The main requirement is that the 1998 budget be cut 30% across the board. Parliament recessed in the last week of July without approving these draconian cuts. However, the Parliament voted Ukraine President Leonid Kuchma the authority to slash the budget by decree. This occurred after a statement to the visiting IMF delegation on July 27, by Speaker of the Parliament Oleksandr Tkachenko of the Socialist Party, that President Kuchma and the cabinet have the right, under Ukrainian law, to slash the 1998 budget. Tkachenko's statement meant the de facto end of Parliamentary resistance to IMF demands. A budget-cutting decree was prepared by July 31, and signed by Kuchma during the week of Aug. 3. These cuts will come on top of an already bare-bones austerity budget.

The demographic catastrophe

The primary indicator of what IMF shock therapy has done to Ukraine since 1992, is the demographic catastrophe. For the third time this century, Ukraine's population is experiencing a sharp fall (the first was Stalin's genocide of 1932-33, in which up to 8 million Ukrainians were killed during a famine; the second, was World War II and the Nazi occupation). In an article in the July 14 *Vechirniy Kiyyiv,* titled "There Are Fewer of Us by 1.7 Million People," Halina Balbut reported, based on data recently released by the Ukraine National Academy of Sciences Institute of Economy, that Ukraine's population has fallen from 52.2 million in 1992, to 50.5 million people today. Every year, she wrote, it's as