cisely the huge problems which derivatives cause, which forced the Fed to spend over $50 billion to bail out the Long Term Capital Management [LTCM] hedge fund in 1998."

"The world is suffering under global speculation in which the volume of private hot-money capital changing hands in any single day is dwarfing the size of existing government institutions by two orders of magnitude," a former Japanese minister said. "The volume of global foreign exchange trading in a week is larger than the entire amount of world imports and exports combined in a year. Greenspan says they don't need further regulation—he told the House Banking Committee on July 25 that existing U.S. government bank regulatory agencies are already regulating the financial institutions concerned. This is insane. He's simply arguing to let the speculation continue because it's profitable for them—just as more LTCMs are about to occur. We call it the 'cockroach theory' of international finance: Where you see one LTCM-type bankruptcy, there are a dozen other such cases under the floor boards which you don't see, waiting to go bankrupt and explode to the surface."

The LaRouche 'Chess Piece'

ASEAN Plus 3 finance ministries are planning to create a "formal pressure group" of Asian, Ibero-American, and African finance ministers "to step up demands on the U.S. to regulate these hot-money flows," one official said.

In general, officials indicated that they are looking for ways to show that Asia has tried to cooperate with the IMF, but the IMF hasn't played fair, so now it is reasonable for Asian players to create their own chessboard. "We've demanded more disclosure on short-term capital; we can't get it. We've demanded a larger share of IMF quotas and IMF powers for Asia; we didn't get it. We asked for help early in the 1997 crisis; we didn't get it. If this continues, then our only reasonable alternative is to create an Asian Monetary Fund," as one Finance Ministry official put it.

Playing the LaRouche "chess piece" is also coming under consideration. At the Okinawa summit, this author was called on at three different press conferences by the Japanese Foreign Ministry spokesman and given ample time to criticize the IMF, promote LaRouche's proposal for a New Bretton Woods monetary system, and ask what results Japan was getting in raising Asian concerns about a new global financial crisis. "We can't state openly that we're against the IMF, but I must tell you that Mr. LaRouche's ideas are very useful to us," as one Japanese official put it privately.

Seoul's leading conservative daily, *Chosun Ilbo,* ran an interview with this author on Aug. 3, entitled "EIR Visits Korea," featuring a picture caption: "The AMF Must Be Created in Order To Replace the IMF."

"*EIR* is very well known in Korea," a Korean economist commented. "I have asked around, and almost everyone here agrees with Mr. LaRouche's view on the IMF, but they are afraid to say this publicly because the IMF dismisses *EIR*. Look, we've all talked to the IMF about *EIR* and your arguments against their programs. But the IMF complains that *EIR* doesn't have enough recognized name economists with PhDs to prove your case against their programs with proper academic statistical studies."

A former executive director of the Bank of Japan, Japan's former director at the World Bank, and two prominent South Korean government-funded economists have recently signed the call by the Ad Hoc Committee for a New Bretton Woods, initiated by LaRouche's wife, Helga Zepp-LaRouche.

Interview: Yunjong Wang

'The Crisis Is Here'

Dr. Yunjong Wang is Director of the Department of International Macroeconomics and Finance at the Korea Institute for International Economic Policy (KIEP), a quasi-governmental think-tank in Seoul. Dr. Wang is preparing the South Korean proposals for the Chiang Mai Initiative, the Asian Monetary Fund (AMF), and further Asian regional financial and economic agreements. The Chiang Mai Initiative stems from meetings in Chiang Mai, Thailand in early May, between the ten-member Association of Southeast Asian Nations (ASEAN) and Japan, Korea, and China, which has since become known as ASEAN Plus 3.

Dr. Wang spoke on Aug. 3 in Seoul with EIR*'s Kathy Wolfe.*

EIR: Where do the Chiang Mai Initiative and the Asian Monetary Fund stand today?

Dr. Wang: When the 1997 crisis hit Asia, there were many different proposals on what to do, alternatives to the traditional harsh IMF [International Monetary Fund] cure; for example, Japan proposed the Asian Monetary Fund, and Malaysia had some ideas. But these were all flatly turned down by the IMF and the U.S. Treasury, regardless of merit. Unfortunately, Japan did not have enough power in the G-7, the Asian nations were not as strong as the West in the IMF before the crisis, and the crisis made us even weaker. Also, China, at the time, would not support an Asian fund. Pretty soon, Indonesia, Thailand, and South Korea were under IMF programs and could not buck the IMF at all. We had no regional unity at that time, so the Asian nations were powerless, and the IMF did as it pleased.

Now, however, we've pulled ourselves up a bit, so we have a little more leverage, and although the Korean government can't make a frank criticism of the IMF yet, many Korean economists now, as well as social groups such as the labor unions, are demanding independence from the IMF. Whatever recovery we have in Korea and Asia is despite the IMF's programs, not because of it. Actually, the IMF was surprised at how fast we recovered.

EIR: Surprised because they hadn't meant you to recover?

Dr. Wang: Who knows? Meanwhile, the Japanese have again proposed the Asian Monetary Fund, which has now been revived again. Many people thought the AMF was dead, but they were wrong. And now, China and Korea would like to cooperate, because the region can't stand a second shock.

The first step is the Chiang Mai Initiative, which is the beginning of the rebirth of the AMF. It is a comprehensive network of bilateral swaps and repurchasing borrowing agreements between the ASEAN countries and the "Plus 3" countries of Korea, Japan, and China. This means that each country has or will have by the end of this year, an agreement with each other country, to swap funds to support their currencies. For example, Korea and Japan have a bilateral agreement to loan each other up to $5 billion for intervention, in case either currency comes under attack. We are trying to build bilateral swaps of $80-200 billion among the 13 countries this year.

To move Chiang Mai forward, next we have to go from a bilateral to a comprehensive agreement for multilateral swaps, which would mean that if any country among ASEAN Plus 3 has its currency come under attack, all the members would be committed to support it. This means a bigger commitment of each member country to the regional strategy. Dr. Yung Chul Park of the Korea University Economics Department and I will be presenting a study on how to do this, to an Asian Development Bank meeting in Manila later this month. The basic principle would be similar to the ASEAN Swap Arrangement signed by the original five ASEAN nations in 1977, under which each participant agreed to provide a credit line to create a joint pool of foreign exchange, to be loaned to any member-nation which needed to support its currency. The sums will have to be much larger this time.

The Chiang Mai Initiative also needs to institutionalize regional economic and financial cooperation, for which my associates and I are proposing to create an "Asian Arrangement to Borrow" (AAB), modeled on the IMF's General Agreement to Borrow (GAB) and New Arrangement to Borrow (NAB). Under the GAB, the top ten industrial countries agreed in 1962 to jointly loan to the IMF an additional [Special Drawing Rights] fund of about 17 billion SDRs ($23 billion), above and beyond normal IMF quotas, for use in emergencies, such as the British sterling crisis of 1964 or the more recent Russia crisis of 1998. As a result of the 1994 Mexico crisis, 25 IMF members also formed the NAB with an additional 17 billion SDRs, so that the total the IMF can now borrow under NAB and GAB is SDR 34 billion (about $46 billion). The NAB was used in the 1998 Brazil crisis.

The AAB would be a similar set of credit lines put together by the ASEAN Plus 3 governments to loan to member-nations in crisis. We could set up a secretariat at the Asian Development Bank to gather the money and loan it to members in need, or just assign one Asian central bank to host it. It would not yet be a fund, just a borrowing arrangement, and how could the Western nations object, since they have been doing it for some time? The appropriate amount of the total credit commitments to secure the effectiveness of the AAB would be about $30-50 billion minimum, considering the current scale of foreign reserves of Asian countries.

Following the demonstrated success of the AAB, ASEAN Plus 3 would then be in a position to make our second step, the creation of the Asian Monetary Fund. This would be an actual standing fund created by quota contributions from each participating nation. It could in addition take over operation of the AAB.

The third step will be the creation of some kind of Asian currency or accounting unit, which would allow us to have a unified method of accounting for financial operations, trade, and investment throughout the Asian region. A major reason why Asia was so vulnerable to external shocks from global finance was due to our currency volatility, which came largely from the extreme fluctuations in the U.S. dollar and yen rates, which were very detrimental to Asian economies, rather than from problems inside Asian nations.

EIR: Our Founding Editor Lyndon LaRouche is expecting a major new global crisis soon, probably starting with a meltdown on Wall Street. Will these measures be ready in time to protect Asian populations from a second shock?

Dr. Wang: We already have a banking crisis going on right now in Korea; there is no cash in our banking system, thanks to the mistakes the IMF has made in Korea since 1997. Our central bank is printing money rapidly, as in Japan, but the financial system is frozen up, and refuses to lend the money to the rest of the economy. We have built up our foreign reserves to $90 billion, and we're aiming to create a pool of $100-120 billion, to protect our currency, which tells you we definitely don't rule out another big global shock. Japan and China are also building up huge reserves.

So, we have no choice but to move as fast as we can. Together, the ASEAN Plus 3 countries have more than $800 billion in foreign reserves; by using only 10% of that in swap arrangements, we can protect almost any currency in the region from speculative attacks. That we know we can do; we already have collaboration to that extent.

EIR: Many worry that China, Korea, and Japan won't be able to work together.

Dr. Wang: Today is different from 1997; actually, it was China which initiated the ASEAN Plus 3 idea, so if this group remains at the center of it, China and Korea will both agree now with Japan to put significant funding into creating an Asian Monetary Fund. We have to find a way, such as the idea of an Asian currency unit, in which China and Japan could have equal power in the region, to promote trust and cooperation, especially among the Plus 3 countries. If we can do that, then we will be able to create a new superpower in Asia. We have learned a lot from the 1997 crisis.

The 1997 crisis was not just an "Asian" crisis, but a global financial crisis which also included Latin America, Russia, OPEC [Organization of Petroleum Exporting Countries], and the U.S. itself, with the collapse of the highly leveraged Long Term Capital Management (LTCM) [hedge fund] group, threatening the entire U.S. capital market. Western academics and media insisted that the cause of the crisis was "Asian cronyism," as if corruption were some genetic inferiority here in Asia, but the bailout by the Federal Reserve of its own cronies at LTCM was the largest case of crony capitalism during this time.

The real cause of the 1997 crisis was the panic behavior of global investors. They had put large-scale capital flows into the region, looking for high rates of return, and so they knew this was a high-risk situation. Western hedge funds were prominent, looking for very fast high returns. Interest rates were falling in Western markets, and investors were getting out of low-rate traditional savings accounts into mutual funds, creating a large pool of funds looking for higher rates of return. Meanwhile, all the countries I just mentioned were being heavily encouraged by the U.S. and the IMF to implement financial deregulation, with the direct result that this foreign money came rushing in. This created a kind of euphoria, meaning it was not realistic. But no one in the West warned against this "irrational exuberance."

It was largely hot money, going into stock markets, real estate, and other short-term situations. These were largely dollar funds being converted into local currencies, largely ignoring the risk that the local currencies might experience fluctuations. So, where the local currencies did experience fluctuations, which threatened their peg to the dollar, the global investors panicked in a kind of herd behavior and caused a much more severe crisis.

EIR: Not to mention deliberate targetting of countries by George Soros et al.

Dr. Wang: Not to mention. Then came the IMF, and the real problem was that the IMF policy prescriptions were totally wrong. Take Korea. The IMF didn't know anything about the Korean economy! They sent some nice guys over here, good academically, but we were holed up with them down at the Ministry of Finance and Economy in December 1997, freezing in this one room because we didn't have the cash for fuel, and they just didn't know what they were talking about.

First of all, the job of the IMF supposedly is simply to make short-term balance of payments loans. Korea was just experiencing a short-term cash crisis—our reserves were down to $3 billion—but our exports and production were fundamentally sound, so their job was just to make a simple bridge loan, to get us short-term cash to weather the short-term crisis, then we pay them back, and that is that. But instead, they began making detailed prescriptions for redoing every sector of the Korean economy, areas which were none of their business, according to the IMF's own charter.

For example, it was none of the IMF's business to restructure Korea's foreign trade market; this had nothing to do with our problems in the short-term financial markets. But they insisted—even though they didn't know the Korean trade system. We already had a WTO [World Trade Organization] program with a formal WTO schedule to phase out over the next six months, certain tariffs we had to protect our auto and electronics industries from Japanese imports into Korea. But the IMF guys found this one thing, and they jumped on it and said, "You have to remove these tariffs right now!" It could not wait just six months. I tried to explain to them that we were all there because Korea was having a balance of payments crisis, and that the worst part of our trade deficit already is too many imports of Japanese autos and electronics—so why do you insist on doing this, it will just make the trade deficit worse? But they refused to wait; they forced us to implement a blanket removal of all tariffs. So, things got even worse.

Another stupid thing the IMF did was to insist on major long-term structural changes to liberalize our banking markets, our capital markets, our labor markets, every market. So we opened up everything, and put interest rates up over 20%, as the IMF demanded—and the only result was that the U.S. banks made a terrific profit, buying companies cheaply, making loans at 20% interest! The Korean banks and companies just kept losing money; that didn't change. Well, actually, things got worse for Korean companies. Before, the Korean banks used to help the companies out in a cash squeeze. Now, the Korean banks refuse to provide any lending to the Korean economy, because now they are U.S.-style, lending only for profit, avoiding risk. So the Korean government would provide funds to the banks, but the banks would just put the money in the bond market or somewhere else to earn the 20%-plus.

That's why we had so many small and medium-sized companies go under, not to mention Hanbo Steel, Daewoo, and Hyundai—because our banks refuse to provide funds. Rates are lower today, but the same thing is still going on; our central bank provides cash to the commercial banks at, say, 5.5%, but they refuse to loan it to industry; they just buy government bonds at 7%, and take the cash profit. No matter how the government tries to push money into the economy, the banks refuse to lend it.

EIR: In the Great Depression, we called that "pushing a string." No result.

Dr. Wang: We just imported wholesale the U.S. style of banking and capital markets—and now our markets don't work!

The point is: The IMF should have just done their job and made a bridge loan, and that's all. This sort of major overhaul has nothing to do with a simple, financial, short-term balance of payments crisis. They had no business demanding this kind of major economic change.

Then the IMF made its big push to reform the *chaebol* [industrial conglomerates]. The new government coming in [under President Kim Dae-jung] also wanted to get power over the powerful *chaebol*. Unlike the Japanese, who are moving very slowly with this, to preserve social stability, the Korean style is the opposite—hot blooded, we have to just shut down the *chaebol,* and every Korean economist repeated together with the IMF: The *chaebol* are the cause of our problems.

But this was nonsense. Sure, the *chaebol* had problems, they had very high debt-to-equity ratios, they had corruption, but they were not the cause of the crisis. The cause of the crisis was the global panic, and the IMF took the excuse to demand *chaebol* restructuring, which, again, was none of their business. The *chaebol*'s biggest sin in the eyes of the IMF was that they were expanding production facilities very fast—take Hanbo steel: In the pre-crisis period, it got killed for the sin of building too big a steel-production capability.

EIR: I thought that for years, but everyone said the opposite, and I was beginning to think I was crazy; I am so glad you said that. Friedrich List said, there is good debt and bad debt; debt which goes to expand production of goods people need is good debt; you make a profit, you pay it back.
Dr. Wang: You are right: They are the crazy ones. Take a company like Daewoo, which did have a high debt structure, selling a lot of commercial paper in a lower-interest market; then you hit it with the IMF's 20% interest rates—it's the kiss of death. The kiss of death for a lot of Korean companies.

Hyundai is now getting hit because they refused to sell off parts to foreign investors. First the high IMF rates hit them, then there were rumors floated by foreign financiers in Hong Kong that Hyundai was going under, which caused foreign bank credit lines to dry up, which is critical for construction companies. Hyundai Construction is their core, and with the Korean market and all the LDCs [lesser developed countries] cancelling almost every construction project, they were hurt badly. Daewoo has been basically taken apart; we don't know yet exactly what will happen with Hyundai. Samsung, SG, and Lucky Goldstar were able to sell off parts of their conglomerates to foreign investors, and so they may have raised enough cash to survive.

But this was all very profitable for Western investors. Today, global foreign hot-money investment controls about 30% of the Korean stock market, whereas before the crisis it was only about 9%. Now the foreign investment firms are not only the market-makers in the global market, but they also have become the market-makers domestically here in the Seoul market.

EIR: You mean the big Wall Street firms, Goldman et al.?
Dr. Wang: Goldman, Salomon, the usual Wall Street giants—that's the key thing now: Who's going to control the Seoul capital market itself? Not to mention the other capital markets in Asia, unless we protect ourselves? So, as I said earlier, the banking crisis, the crisis is here. What comes next depends on Asian regional cooperation to protect ourselves. I believe we can do it.

Billions at the Poker Table for UMTS

by Lothar Komp

It's just what millions of consumers have been waiting for: the ultimate in Internet surfing with mobile telephones. And this is not just a matter of transferring a few lines of text, like today's SMS technology. Consumers will be able to download videos and music clips wherever they happen to be. According to the "New Economy" experts, this will boost employee productivity, as well as enrich their recreational hours in previously unheard-of ways. The "third generation of mobile telephones," called UMTS, will be set to go in about three years—if everything works out.

Before UMTS gets under way, large telecommunications firms will have to cough up hundreds of billions in money. First, they have to bid for the limited number of licenses for available UMTS frequencies, which has already begun in Germany, accompanied by media fanfare. Similar auctions will take place in other European countries over the summer. According to estimates by the U.S. rating agency, Moody's, UMTS licenses alone could well dump some 300 billion deutschemarks (roughly $195 billion) into European national treasuries. In addition, these firms will have to invest another DM 300 billion into needed infrastructure. Because UMTS will work over different frequencies from today's mobile telephones, all existing transmitter stations (40,000 in Germany alone) will have to be retrofitted or replaced.

That means that telecommunications firms will begin to make a profit in four to five years, at best, or maybe only in ten years. That's assuming, of course, that every European over the age of 12 buys a UMTS mobile phone, and runs up more than a four-digit bill in annual user charges. More than a few serious observers have cast some doubt on such calculations, and so, the stock prices of these firms have gone into a tailspin in the past few weeks. Deutsche Telekom dropped to 45 euros per share in early August, compared to 73 at the beginning of June and 105 at the beginning of March. That amounts to a collapse of 60% in five months. The competition, such as France Telecom, hardly did any better.

The immense expenditures for an uncertain UMTS come at a time of ruthless acquisition battles on the international telecommunications market, and these battles are just heating up. In July, Deutsche Telekom bought up the American