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Will China Rise to the Challenges Facing Asia?

by Mary Burdman

The vast region of Asia is standing at a dramatic historic conjuncture. In the midst of the accelerating economic-financial crisis, only being exacerbated by the strategic problems emanating from the incalculable George W. Bush Administration in the United States, Asian nations must make crucial decisions. The most decisive question for the weeks and months ahead, is the policy direction to be taken by China.

The immediate, high-tension phase of the 11-day "Hainan Incident" has been resolved by the letter from U.S. Ambassador Joseph Prueher, which was handed to the Chinese Foreign Ministry on April 11. But broader issues remain. While Beijing has made clear, that, as a developing nation with a population of some 1.26 billion people, it is not prepared to take a "world power role" until it has resolved essential economic needs for its people, the fact is, that fundamental decisions must be taken in Beijing, as to China's role in the Asian region, and beyond. Especially key, is China's relations to Southeast Asia, and its position as the great Eastern pole of the Eurasian Land-Bridge. The question is whether China will decide, in the period ahead, to extend the positive features of its internal economic development policy, to the rest of Asia and Eurasia.

Something that did emerge clearly from the Chinese side's reaction to the "Hainan Incident," was that there are certain points on which Beijing cannot, and will not yield. On April 10, Chinese President Jiang Zemin, during formal talks with Argentine President Fernando de la Rúa in Buenos Aires, stated that China "never gives in to any outside pressure on issues of principle, related to China's state sovereignty and territorial integrity. . . . The essential goal of our foreign policy is to safeguard the independence of state sovereignty, territorial integrity, and national dignity."

'Trilateral' Crisis

The challenge this involves, can only be understood by looking at the vast challenge now facing Asia as a whole.

China urgently needs a peaceful environment, to be able to continue economic development. However, as one regional analyst who knows China very well, stated to *EIR* on April 11, "China has its own interests in the greater Asian region, and will not compromise those to the United States." Some in China have appeared to believe, that relations with the likes of the former U.S. Secretary of State, Sir Henry Kissinger, can be used to "manage" the situation. But this is not a moment for "managing" the problems now erupting; it is a moment for reaching fundamental decisions, toward bringing about the kind of New Bretton Woods global reorganization proposed by Lyndon LaRouche.

As *EIR* has been documenting for years, only hyperinflationary liquidity-pumping, and sucking that liquidity into the huge, Wall Street-centered bubble, has held off the complete implosion of the world financial system. What burst out as crises in Asia, Russia, and Ibero-America three years ago, now is bursting out in the "trilateral" world—the United States, Japan, and Europe. The pressures on the Asian economies are unsustainable, and being made worse by the day, by the "free-trade" fanaticism of the Bush Administration.

In this situation, Malaysia hosted a meeting of finance ministers from the Association of Southeast Asian Nations (ASEAN) Plus Three (Japan, China, and South Korea) in Kuala Lumpur, on April 7-8. The ministers made a stark warning on the "trilateral" financial/economic crisis, in their final Joint Ministerial Statement. In 2001, "the global outlook has become significantly more adverse," the ministers

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warned. "The downside risks for the U.S. economy have increased," at the same time that "growth in the euro zone is expected to moderate," and "the outlook for the Japanese economy remains fragile." The ministers noted "with concern, the recent volatility of financial markets and the major currencies, particularly the depreciation of the Japanese yen."

Asia as a whole is far more dependent upon exports to the "world importer of last resort," the United States, than Europe. Currently, about 22% of Asian exports go to the United States. Japan, itself heavily dependent on the U.S. market, is Asia's second-biggest market. Highest-level financial and trade officials in Tokyo, Beijing, Seoul, and other Asian capitals, have all been publicly warning in the past weeks, that the demise of the United States is bringing everyone else down.

In Japan, whose economy is the size of all other East Asian nations' combined, Finance Minister Kiichi Miyazawa announced dramatically on March 8 that Japan is financially "quite close to collapse." The government then returned to the "zero interest rate" policy, which it had temporarily abandoned. The declaration of that policy coincided, to the day, with Prime Minister Yoshiro Mori's visit to Washington. Since Mori's visit, the yen has spiralled downward, while the loose credit is feeding hyperinflation in the United States and elsewhere.

Japan's economy is overwhelmed with public and private sector debt, which some analysts are estimating at *five times* the GDP—or $25 trillion. It is facing the biggest decline in industrial output in five years, post-World War II record-high unemployment, falling exports, and sharply falling investment. The situation is exacerbated by political uncertainties, as Prime Minister Mori, on April 6, finally announced his intention to resign in the near future.

There are a number of voices, Japanese and other, warning of the dangers. On April 10, the outspoken former vice minister of finance for international affairs, Eisuke Sakakibara, said that the yen could plunge further. "I don't think the U.S is in a position to change the strong dollar policy because their economy and stock market are in a very precarious condition," he said. In this context, it is "possible" that the yen "will soon reach 130 to the dollar." Earlier, Sakakibara had predicted that Japan is "about to enter a period of confusion, out of which major structural changes in the economic and political sphere will take place."

As Japan Policy Research Institute head Chalmers Johnson wrote in a commentary in the March 27 *International Herald Tribune,* Japan's current regime, operates "under U.S. military and economic hegemony," to its own national detriment. "What is needed for Japan and for all of East Asia is an end to U.S. hegemony, the development of a political system in Japan that actually brings genuine leaders to power, and the restoration of industrial policy to its proper place in the society that originated and perfected its use."

Regional Fissures

Other Asian currencies are falling rapidly with the yen. Regional currencies have all fallen to levels not seen since the depths of the 1997-98 regional crisis. The ongoing currency "fire sale" of the Thai baht, South Korean won, Philippines peso, and Indonesian rupiah, however, is doing nothing to expand exports. Pressure is growing on Malaysia to break its fixed currency peg, although Kuala Lumpur is adamant that it will not devalue the ringgit. Even more serious, is the effect of the low yen on the Chinese yuan. China has always maintained exchange and financial controls, including throughout the 1997-99 period, but as senior Bank of China official Liu Mingkang told Japanese counterparts at a financial meeting in Tokyo on April 6, "If the yen falls below 130, it will have a big impact on China's ability to maintain the yuan's peg to the dollar."

South Korea is particularly hard-hit by this situation. The Bank of Korea released a report on April 10 stating that the fluctuations in the yen are hitting the won the hardest, since the won has been more closely linked with the yen starting in November 2000. Rising import and export prices are threating to set off inflation inside Korea.

What Now Must Be Done

The fundamental issue is whether or not there will be any role for the International Monetary Fund (IMF) in any new financial institution in the region—such as the proposals now under discussion for an Asian Monetary Fund (AMF). Thus far, the public stance of China, Japan, and South Korea is that their loans to other Asian nations must fall under the conditionalities of the IMF. Malaysia, which avoided striking a deal with the IMF in the 1997-98 crisis, strongly objects to any role for the IMF.

The only solution lies in the proposal presented by Lyndon LaRouche in his July 2000 paper, "Trade Without Currency," addressed to the Asian region as a whole. LaRouche addressed the vital question: "How to replace the present global system, and with exactly what?"

"Regional systems of economic cooperation . . . could serve as building-blocks of the new world monetary and financial system," LaRouche wrote, but the current world system is so rotten, that the dollar, yen, or euro are more a "trap" than a resource. Nations and regions must begin to shift towards constructing economic relations around a "basket of *hard commodities,*" whose international value would be determined, based on the contribution each nation can make to the construction of each others' real physical economic growth. Such a system, LaRouche wrote, "is thus to be understood as a shared commitment to do good."

If China truly wants to take the lead among Asian nations, in protecting national sovereignty, China must do this on the basis of regional cooperation to build the real economies essential for the future of Asia's billions of human beings.