Asia Debates the End Of BIS Deregulation

by Kathy Wolfe

As they come to realize that the U.S. "recovery" is a fraud, Asian policymakers have begun a "sea change" debate on how to roll back the last two decades of Anglo-American deregulation. This is part of the recognition that, like it or not, free trade is dead, and government intervention is coming back worldwide.

Asian officials are openly stating that the post-1982 global financial deregulation championed by the U.S. Federal Reserve, Bank of England, and the Basel, Switzerland-based Bank for International Settlements (BIS), is the *cause* of today's physical economic and financial breakdown in the United States, Asia, and the world. Thus the "remedy" is not more deregulation, but rather, a re-examination of the premises of this decayed system.

A May 7 editorial in Tokyo's *Nihon Keizai* news, entitled "Japan Needs To Rethink 'Big Bang' Measures," says that the sweeping financial deregulation called "Big Bang" was the actual cause of Japan's financial system's ruin today. Big Bang was demanded by the Federal Reserve and the then-President George H.W. Bush's Treasury in the 1990s, backed by greedy Japanese financiers. It removed Japanese government guidance from the markets, and turned most regulation over to the BIS. This allowed speculative Enron-style lending, derivatives, and interest-rate swings for the first time in Japan's history.

Nikkei news service reports that Tokyo's recent strong moves to crack down on short-selling by Wall Street of Japanese corporate and bank paper, imply a much broader policy change: A decision has been reached, Nikkei writes, that "Japan may have embarked on its Big Bang financial reforms too quickly." It quotes former Prime Minster Ryutaro Hashimoto saying, "I wouldn't have gone ahead with the Big Bang financial reforms, if I had known banks were in such dire straits." Hashimoto, who as Finance Minister in 1991 coined the term "financial AIDS" to warn Asian elites that the deregulation hitting the United States was a deadly disease, was driven from office in a made-up scandal to discredit his independence of mind. He was later installed as Prime Minister, a broken man, forced to implement the very global deregulation "AIDS" against which he had warned.

Enron: The Last Straw

"This kind of candid remark is not what people expect from a former Prime Minister," Nikkei noted. (It certainly was shocking.) "Japan may have put the cart before the horse," and the banks never should have been deregulated in the first place.

Similarly, Nikkei revealed on May 4 that Finance Minister Masajuro Shiokawa and Bank of Japan (BOJ) Governor Masaru Hayami rejected a proposal by U.S. Treasury Secretary Paul O'Neill and Fed Chairman Alan Greenspan in late April, that Japan introduce a bad-loan resolution system modelled on the U.S. Resolution Trust Corp. The RTC administered free-market "shock therapy" to the $1.2 billion U.S. savings and loan sector after deregulation in 1982, shutting down the S&Ls altogether. It cost taxpayers $800 billion, and thousands of Americans lost their homes when the S&Ls, the home lenders, collapsed.

A former BOJ official told *EIR* on May 25, that it is now generally recognized in Tokyo that non-performing loans "are not the cause of Japan's current deflationary spiral, but the result of deflation," and the deflation in turn was caused by the deregulation. "Japan has been in the midst of deflation and on the brink of depression since the last half of 1997," directly as a result of the action "by the Hashimoto Cabinet and BOJ who allowed the 'market' to push many financial institutions to collapse, in the name of 'Big Bang' deregulation, as demanded by the 'Washington Consensus,' " he said.

"Big Bang," one former Vice Minister of Finance said, "produced the 'Wimbledon effect,' in which the courts are in Tokyo, but most of the players are foreign." Removing government oversight and suddenly allowing broad speculation, so weakened Japanese financial and industrial corporations that major foreign takeovers and other foreign expansion in Japan resulted.

The turning point came, the BOJ man said, "when the Enron scandal was revealed"—a year after U.S. Presidential pre-candidate Lyndon LaRouche had warned that Enron was bankrupt. This "pulled the rug out from under the Bush Administration and Greenspan," who had been demanding that Japan implement a 1982 S&L shock therapy-style cheap sell-off of bad Japanese bank loans. President Bush, in a February speech in Tokyo, recommended this as "letting the loans go free into the markets."

"This would have caused a worse-than-1929 crash and allowed our banks and companies to be sold off cheap to Wall Street," the BOJ man said. "U.S. hedge funds would have enjoyed bulk sales" of Japanese paper. But once it was made public that Enron, Arthur Andersen, and, by extension, numerous U.S. companies had been seriously undermined by this "free-market" deregulation, Tokyo felt able to protest having to do the same.

'BIS vs. National Banking'

Numerous similar discussions of this or that bad aspect of deregulation are also taking place in South Korea and China. A May 14 *Asia Times* column by New York investment banker Henry C.K. Liu, entitled "The BIS vs. National

Banks," lays out a detailed theoretical argument against the last two decades' deregulation. "The globalization of finance, accelerated by 'big bangs' in major financial markets," along with the "use of new instruments, such as securitization and derivatives," he writes, have destroyed the national banking systems, the government systems, of most countries, which were based on a certain base of regulation, creating chaos.

"National banking systems are suddenly thrown into the rigid arms of the BIS," whose rules are "designed to serve the needs of highly sophisticated global financial markets, regardless of the developmental needs of their national economies," Liu writes. "Many national banking systems came into existence to support mercantilist or national industrial policy goals, such as rapid industrialization, rural electrification, regional development, flood management, etc. . . . Both the prewar and postwar German and Japan economic miracles were clear examples."

But "with financial globalization, these banking structures of national policy have been forced to transform, into components of a globalized private banking system . . . controlled and directed from the money center banks in New York." The result is to force national banking systems to put all their loans under BIS guidelines. (The BIS is the "central bankers' central bank," owned by the Federal Reserve, Bank of England, and other privately owned central banks. Thus, it is accountable to no government, only to private mega-banks.)

In turn, Liu writes, "BIS regulations serve only the single purpose of strengthening the international private banking system, even at the peril of national economies. . . . They operate to strengthen what U.S. Federal Reserve Chairman Alan Greenspan calls 'U.S. financial hegemony in the name of private profit.'. . . Reversing the logic that a sound banking system should lead to full employment and developmental growth, BIS regulations demand high unemployment and developmental degradation."

Echoing the idea that Enron demonstrates the fraud of the whole system, Liu comments that the deregulated United States is not the fine model it claims to be. "Even blue-chip global giants such as GE, J.P. Morgan Chase, and CitiGroup have overhanging dark clouds of undisclosed off-balance-sheet risk exposure," he writes. Yet, "banks in emerging markets are penalized with disproportionate risk premiums (made to pay 10% and above interest rates) when they fail to meet arbitrary BIS . . . requirements," while CitiGroup-type "Large Complex Bank Organizations" in New York and London "with astronomical risk exposures in derivatives, enjoy exemption" from the BIS requirements.

Echoing Japanese hints that deregulation has been the cause of Japan's ten-year disease, and is no cure, Liu ends by warning that Japan and other nations must not accept the BIS demands to write off all non-performing loans, shock therapy-style. "Japan is singled out" by other Group of Seven nations as being bankrupt, he writes, "yet Japan has the largest savings surplus in the world and the largest foreign-exchange reserves. There is increasing evidence that the Japanese bank system crisis is not the cause, but merely the symptom of its economic malaise, which has resulted from . . . BIS regulations." The BIS and International Monetary Fund, he warns, are creating the "macro-economic conditions" which will turn all non-performing loans "into a total loss."

Morgan, Plaza Accords Criticized

In South Korea and China, speculative activity by the House of Morgan, and even the 1985 Plaza Accords which deregulated the Japanese yen, are also being criticized. "Morgan Stanley Suspected of Misconduct" was the lead item in the May 28 *Korea Times,* reporting that Seoul's Financial Supervisory Service is investigating Morgan Stanley for "dubious practices in the Seoul securities market"—in addition to U.S. Securities and Exchange Commission investigations already made public. Morgan Stanley analysts gave out insider information illegally to foreign fund investors a week earlier, on their plan to downgrade the value of Hyundai Securities stocks by 15%, the *Korea Times* says.

Morgan and other foreign brokerages "have allegedly been using their analysts' stock research to profit illegally via 'pump and dump' schemes," in which securities firms use false publicity to drive up a stock, while Morgan insiders are secretly short-selling the stock (betting it will fall). Afterwards, Morgan urges institutional investors to sell their shares, cashing in on the short-bet. "Most of 18 foreign securities firms have been found to have overlooked their analysts' information-leaking practices," the *Korea Times* reports.

This investigation is remarkably like the Japanese investigations of Goldman Sachs and Morgan Stanley, et al., which began in March, and led to the re-regulation of short-selling in Tokyo, a very large "bear trap" sprung by the Japanese authorities.

Japan's Finance Ministry meanwhile has also officially "expressed dissatisfaction" with the ratings by Moody's, Standard & Poor's, and London's Fitch IBCA of Japanese government bonds. Haruhiko Kuroda, vice minister for international affairs, wrote in April to the raters demanding to know their reasons for prior downgrades. On May 23, Kuroda said he now has responses from the firms, but they "lack specific explanations of the risk that Japan would default on its obligations." "Japan would never default," Nikkei writes, and Kuroda "blasted the three agencies—Moody's, Fitch, and Standard & Poor's—for lack of method in the downgrades they have already made." "Your explanations remain short of specific, quantitative explanations about default risk and international comparisons. . . . You should provide objective reasons," Kuroda said.

In China, meanwhile, Japanese Prof. Mamoru Ishida, teaching at Hannan University, warned Beijing in a May 28 *Japan Times* commentary, to avoid at all costs the currency deregulation which Japan underwent at U.S. insistence in the

1985 Plaza Accords.

"The United States suffers from the largest trade deficit with China among its trading partners," he wrote. "At a session of the U.S. Senate Banking Committee, a senator suggested a Plaza Accords-like agreement with China. I hope that Chinese officials will take note of this episode, which showed the U.S. could apply strong pressure" for China to revalue the renminbi (RMB) currency, just as Japan's yen was nearly doubled in value by the Plaza Accords overnight.

Ishida warned that "China could repeat Japan's mistakes in economic policy," when, during its high-growth years, "the yen became increasingly undervalued . . . [and] Japan's trade surplus grew beyond an internationally tolerable level, leading to the 1985 Plaza Accords."

The increase of value of the yen to the dollar was supposed to reduce Japan's trade surplus, but did not. This has only happened recently—and painfully—"through Japan's deindustrialization and closure of many factories," he wrote.

Now, "it would be enough if U.S. officials whispered suggestive remarks in the market to drive up the RMB as it did with the yen in the late 1980s and the early 1990s. It would be naive to think that China could control market speculation since it regulates capital transactions," Professor Ishida wrote.

Singapore: The 'Recovery' Continues

by Martin Chew Wooi Keat

In April, United Overseas Bank of Singapore laid off another 100 employees. Unlike the last time, when UOB fired 435 employees, giving them until lunchtime to pack and get out, this time the dismissed staff was given a more dignified exit: The bank extended the privilege until the end of the day. Those who had a lot to carry were allowed to return the following day. However, by doing so, they forfeited the free cab ride home.

Singapore's Gross Domestic Product, which was collapsing at a 6% pace in the third quarter of 2001, contracted another 2.6% during the first quarter of 2002. This decline was the best showing in nine months, but it was slightly below market expectations (i.e., did not contract as much as expected). The goods-producing industries contracted by another 6.1% during the same period, largely due to a manufacturing decline as a result of sluggish demand for electronics. Economists now project that the Singapore economy will turn in flat growth at best in the second quarter, but they wishfully add that "stronger numbers" (i.e., "recovery") are expected to emerge in the second half.

As the Singapore economy continues to "recover," 21% of last year's graduates were still jobless after six months, while 53% only received, at most, a single job offer. The unemployment rate is currently around 5-6%, with more than 100,000 unemployed, in a labor force of around 2 million.

Singapore's predicament today is the direct result of allowing its economy to be transformed by foreign investment into an appendage of the "New Economy." While this made Singapore look like the fiercest of the "Asian Tigers" during the hot-money boom of the mid-1990s, it also took a full hit when the bubble burst. In 1980, for instance, computers and data processing equipment contributed to only 1.75% of Singapore's manufacturing employment, and 2.5% in terms of manufacturing value. By 1999, this rose to 13.5% of manufacturing employment and 24.5% of manufacturing value.

Petroleum and textiles moved in the opposite direction. In 1980, oil refining contributed to 1.25% of the manufacturing employment, but 18% of manufacturing value. By 1999, refining provided for just 1% of manufacturing employment, and had shrunk to 4.5% of manufacturing value.

For textiles, in 1980 it was 13% of manufacturing employment, and 5% of manufacturing value. This took a sharp drop