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Business Briefs

Philippines

Economist Blasts Those Who Don't Reject IMF

Philippine nationalist economist Alejandro "Ding" Lichauco has lambasted the country's political opposition for not supporting industrialization, and not rejecting the demands of the International Monetary Fund. As reported by the June 29 *Philippine Daily Tribune,* the Harvard-trained economist who jokes about his Harvard training, cut through the globalization claptrap to note that both China and India, despite the "communist" vs. "democracy" labels, are both economic socialist states, and have succeeded as far as they have only through heavy industrialization.

This required "ignoring the IMF and World Bank, which of course both did in the years that they were laying the foundations of their current achievements."

Lichauco insists that this is true for any nation, and that the disaster in the Philippines is that the opposition have no other program other than to see President Gloria Macapagal Arroyo out. "In fact, the opposition today, particularly the opposition represented by civil society, is led by elements who are on record that they don't believe in the heavy industries."

If Gloria is forced out, he says, it will not be due to the opposition, but due to mass hunger—and the hungry will turn against whoever takes over.

Lichauco follows *EIR* closely, and joined *EIR*'s Mike Billington on the podium of his press conference when Billington visited Manila in 2005.

Derivatives

$115,000,000,000,000 —As System Collapses

Pyramid schemes must either forever expand, or they will collapse. The current derivatives bubble is no different. At the end of 2005, the level of derivatives outstanding at U.S. commercial banks broke the $100 trillion barrier, ending the year with $102 trillion. That number increased to $111 trillion in the first quarter this year.

The derivatives market took off after the crash of 1987, and it took 14 years for the commercial banks to hit the $50 trillion mark, but less than five years to get the next $50 trillion. The level of derivatives, with some fluctuations, has gone up consistently quarter by quarter, with the glaring exception of the post-9/11 fourth quarter of 2001, when the level dropped from $51.7 trillion to $45.5 trillion, suggesting some disasters papered over during the market shutdown after 9/11.

In these days of deregulation, the big banks are organized into holding companies, which engage in activities not permitted to the commercial banks themselves, such as investment banking. Adding the extra derivatives held by these subsidiaries to the total, yields $115 trillion in derivatives at the bank holding companies, 89% of which is held by just three companies. JPMorganChase, the world's top zombie bank, had a whopping $54 trillion in derivatives as of March 31, more than the entire U.S. banking system had in September 2002, and nearly as much as the next two banks combined: Citigroup with $25.6 trillion, and Bank of America with $23 trillion.

The big three are also heavy players in the credit derivatives market: JPMC has $2.8 trillion, more than twice its $1.3 trillion in assets; Citigroup has $1.1 trillion in credit derivatives against $1.6 trillion in assets; and Bank of America has $813 billion versus $1.4 trillion.

Ibero-America

Argentina, Venezuela To Issue Binational Bond

Argentina and Venezuela will issue a binational bond, tentatively called the "Bond of the South," which could represent early steps towards creating a regional bank to finance projects. Announcing this after meeting privately with Venezuelan President Hugo Chávez July 4 and signing a "strategic alliance" between the two nations, Argentine President Néstor Kirchner explained that the details of the new bond would be worked out over the next 60-90 days, but that the idea is to generate income "to consolidate strategic processes of investment," and create a healthy capital market, offering good rates.

This proposal came from the Argentine government and was presented to the Venezuelan Finance Ministry a month ago, where it was warmly received. Argentine government sources told the daily *Clarín* that the proposal is intended to be more than a bilateral arrangement, eventually issuing a bond backed by all Mercosur member nations, which would lower the bonds' cost.

It would create an independent source of financing, and as Kirchner stated in his July 4 speech to the Mercosur heads of state, "It could be the beginning stages of creating a bank, and a financial space for the South, that would also allow us to generate our own chains of financing to provide responses to what our region and our societies are hoping for."

One option under discussion of how the bond would work would be particularly beneficial for Argentina. Venezuela, whose "country risk rating" is lower than Argentina's, would issue the bond and then re-lend the proceeds to Argentina at attractive rates. In this way, Argentina would have access to funds at rates it could not get alone.

Hedge Funds

Now You Almost See 'Em, Then, Up, Up, and Away

While leading bankers were insisting to a European Commission meeting July 5 that hedge funds should be completely free of nations' "legal and regulatory obstacles," reports were coming out that hedge funds across the board lost money again in June.

The most complete report, by Merrill Lynch, estimated that the entire hedge fund "sector" lost 0.65% in June, after "Meltdown May," in which it lost 3% across the board. This means that hedge funds' clients lost a lot more than that, after the managers' fees were paid—but more important, it means that hedge funds kept "blowing up" and disappearing during the month. Any one of these blow-ups could be another LTCM.

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As for the current month, the funds are probably continuing to lose, because in June they started short-selling commodities futures. But late in the month, commodity hyperinflation was stoked up again, when "the central banks got scared, and went back to liquidity pumping," as Lyndon LaRouche noted in a discussion July 6.

When, on June 30, the Federal Reserve failed either to raise rates half a percent, or to forecast any further rate increases, the commodity hyperinflation curve immediately bent upward again. By July 6, oil had reached an all-time record $75.40 a barrel; gasoline a near-record $2.30/gallon wholesale; and gold, copper, silver, zinc, and aluminum had resumed their 1-2% per day upward habit.

So the short-selling hedge funds are bound to be losing some more in July.

The European Commission report which demanded that the funds be left completely unregulated, came from their bank sponsors: Goldman Sachs, Morgan Stanley, Allianz, Man Group, and so on.

While the Commission took no decision, financial wires report that it is likely the "light touch"—no regulation, no registration—will be maintained, slapping down the proposals European Central Bank head Claude Trichet made during June.

Deregulation

EU Wants To Abolish Regs on Hedge Funds

European Union rules that restricted access by small investors to hedge funds should be abolished, says a report released by the European Commission. The July 4 *Financial Times* notes that the report was commissioned last year by Charlie McCreevy, the EU internal market commissioner, a rabid free-marketeer and deregulator, who has been warning against over-regulating the $325 billion European hedge fund "industry." "Retail investor access to appropriately marketed hedge fund-based investments should no longer be taboo," the report says.

The *Financial Times* observes that the report's stance is in sharp contrast to the statements by former German Chancellor Gerhard Schröder, who has called for more restrictions. And just last month, the European Central Bank warned that hedge funds constitute a major risk to global financial stability.

Globalization

U.S. Industry Nearing 'Point of No Return'

U.S. industry, under attack from free trade and globalization, is nearing the "point of no return" in its collapse, according to researchers at the U.S. Business and Industry Council Educational Foundation.

Writing in an op-ed in the *Washington Times* July 2, Alan Tonelson and Peter Kim noted, that economic figures not tracked by the government show that the nation has been steadily losing home market to products from overseas. "Unless this rising import penetration is reversed, the nation's long-time global industrial leadership and all the benefits it has generated will be irretrievably lost."

The U.S. Business and Industry Council found that of 112 industries examined, import penetration fell in only four between 1997 and 2004. "Among the losers were industries critical to the fate of any modern industrialized economy," including aircraft, machine tools, and turbines for power plants. Import penetration rates more than doubled in 19 of the 112 industries.

This means that imports have seized control of numerous industries that long fueled U.S. economic growth, productivity gains, technological progess, and high-wage jobs. In 7 of 112 industries, imports now represent at least 70% of the U.S. market—including machine tools.

Unlike financial indicators, import penetration rates focus on activity that contributes directly to domestic economic growth. A country whose manufacturing sector keeps losing its share of a growing national market is a country with weakening fundamentals. Without fundamental change, they warn, U.S. industry's decline will be pushed closer to "the point of no return."

Briefly

YEMEN WANTS NUCLEAR energy. Yemeni President Ali Abdullah Saleh announced July 4 that he would seek to produce nuclear energy. "My future tasks include the huge development file . . . and that of the energy production required to meet growing needs, including producing electricity through nuclear energy," he said, as he registered his candidacy for a new term in ofice.

LAZARD IS ADVISOR in megabid by Veolia—the world's largest water company, for Vinci SA, the world's largest builder, both based in France. Lazard Ltd. was hired by Veolia in Summer 2005, along with Morgan Stanley, to advise Veolia on its hostile takeover plans, according to *Le Figaro* and Reuters.

Veolia was set up by imperial decree of Napoleon III in 1853; it first supplied water to Lyons, then by the 1880s had water concessions for Venice, Istanbul, and many other cities. Vinci's building projects include the Channel Tunnel; it also owns Autoroutes du Sud.

AN ASIA-STYLE CRISIS in southeastern Europe, is the subject of a warning by the European Central Bank. In a special report presented in Frankfurt July 4, the Bank sounded a surprise alarm over the risks involved in the excessive borrowings abroad, by Eastern and, especially, Southeastern countries such as Romania and Bulgaria. There, about 50% or more of new borrowings are denominated in foreign currencies, which the Bank says pose the risk of "an Asia-style financial crisis."

CHINA NATIONAL NUCLEAR Corp. has announced plans to build the country's first inland nuclear power plant within three to five years, the July 4 *China Daily* reports. China Nuclear set up an office in Hunan to conduct preparatory work. "The multi-billion-dollar nuclear project will fuel the economy of inland regions," said an official, "where development lags behind the east."