Financial collapse in Asia

A crisis of global proportions

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Despite claims by Western governments that the financial collapse in Asia will have minimal impact on the global economy, indications are mounting that the meltdown is part of a wider and deeper crisis.

In recent days forecasts of sharp falls in sales and profits by computer giants such as Intel, IBM, Motorola and Compaq have sent tremors through sharemarkets around the world. Signs of financial distress, overcapacity and glutted markets have emerged in other key industries, from clothing to motor vehicles.

One thing is certain. Assurances by government spokesmen and investment advisers that major economies have been "firewalled" against the disaster are worthless. Only months ago they, together with the International Monetary Fund (IMF) and the World Bank, were praising the "Asian miracle."

In a rare admission of the magnitude of the crisis, the Bank for International Settlements earlier this week revealed that the world financial system came to the brink of collapse two months ago.

"At the turn of the year, the liquidity crisis had reached systemic dimensions, requiring an immediate injection of cash and the rolling over of maturing debt," the BIS said in its quarterly report. The Switzerland-based BIS-known as the central bankers' bank-said the crisis sparked a sharp international credit squeeze for Asian borrowers, with new issues of bonds and other debt falling, in net terms, by almost two-thirds.

While the comments were intended to back the IMF against criticism in some corporate circles that it has deepened the Asian crisis, the BIS revealed something of the panic and perplexity that has gripped world financial markets. The bank expressed "surprise" that the "contagion" had not spread internationally.

The BIS reported that the demand for hedging deals to protect companies against currency gyrations contributed to a near record $US94.2 trillion turnover on derivative exchanges in the fourth quarter of 1997. In other words, banks and companies are spending trillions of dollars a month to cover themselves against currency collapses. Such is the volatility of world capitalism!

From 1991 to 1997 the Asian region accounted for half of the increase in world output. By the latest estimates, it will show negative growth in the next year. By any standard, this is a major turning point in the affairs of world capitalism. The casualties already include Japan, the world's second largest economy, and South Korea, the 11th largest, as well as Thailand, Indonesia, Malaysia, Hong Kong and the Philippines, i.e., most of the Asian "tiger" economies.

Western economists have sought to blame local factors, such as lax lending policies, insufficient oversight and misdirection of investment, but the crisis is rooted in the global financial and economic system, not simply in Asia. One set of figures makes this clear. Over the past decade, investment flooded into East Asia, seeking new sources of cheap labour, resources and markets. By 1996, the inflow had reached $US93 billion. But in the final six months of 1997 there was a massive turnaround, producing a total outflow of $12 billion. These movements were directed by international banks and companies, not local institutions.

The entire East Asian region is undergoing a process of economic devastation. South Korea has entered a deep slump. The largest IMF bailout package in history-$57 billion-followed by an emergency $24 billion rescheduling of foreign debt, only prevented, in the short-term, massive defaults on overseas loans. Internally, the lack of credit has sent interest rates to between 20 and 30 percent. Up to 2 million workers will lose their jobs this year and corporate bankruptcies are running at 150 a day.

In Indonesia, the standoff between the IMF and president Suharto has reached an explosive point. Most Indonesian banks and companies are now insolvent, incapable of meeting debts totalling more than $US60 billion. Moreover, they are unable to engage in international transactions because the rupiah has lost three quarters of its value. The IMF's demands for the abolition of all monopolies and restrictions on transnational operations mean that most Indonesian conglomerates-Suharto's main social base-face ruin. At the same time, several million workers have already lost their jobs, food prices have doubled or trebled and basic medicines, mostly imported, are no longer available.

The situation is equally catastrophic in Thailand, whose prime minister, Chuan Leekpai, is being feted in Washington and on Wall Street as a model of economic rectitude because of his compliance with the IMF's restructuring and austerity measures. Figures released this week show that the 50 percent fall in the value of the baht led to Thailand's 400 listed companies posting their worst losses on record. The biggest company, Siam Cement, lost the equivalent of $US1 billion in 1997. Following the closure of 56 finance companies, the crippling corporate losses are regarded as the "second wave" of the economic meltdown, with worse still to come.

"There is still little idea of where the corporate funds for recapitalisation are to come from. With soaring interest rates and new non-performing loan provisions for banks, corporate Thailand is still in gridlock," commented the *Australian Financial Review*. The same could be said of East Asia as a whole.

According to the investment bank Jardine Fleming, the non-performing loans of South-East Asian banks will peak at some $73 billion. That represents 13 percent of the region's Gross Domestic Product (GDP), compared to 2-3 percent of GDP for the US savings and loans crisis.

Summing up the situation on February 27, the London-based *Economist* concluded: "The danger now, in South Korea and elsewhere in the region, is that a vicious circle of slowing growth, failing banks and contracting credit will cause not merely a brief and shallow recession, but a deep and prolonged slump."

Severe as this crisis is, it is in some ways dwarfed by that gripping Japan. The mounting problems in East Asia have intensified an already protracted recession in Japan, the largest source of investment in the region. Japanese authorities were recently forced to reveal that since the Tokyo stock and property markets crashed in 1989, Japanese banks have accumulated bad debts of about $600 billion, twice the previous estimate. This is a staggering 15 percent of GDP.

A well-known American business commentator has warned that Japan's financial crisis has reached alarming proportions. Japan is "the weakest link in the world economy," wrote Rudi Dornbusch of the Massachusetts Institute of Technology in the February 26 edition of *Far Eastern Economic Review*. "Japan is teetering on the verge of a 1930s-style collapse of financial institutions, confidence and economic activity... If something goes wrong ... Japan will go over the cliff and pull down the Asian region in the process."

Dornbusch is by no means alone in sounding an alarm. In late February, US Federal Reserve Board Chairman Alan Greenspan warned of "storm clouds massing over the Western Pacific and headed our way." But Greenspan, the world's most powerful central banker, has no more of an explanation than any other capitalist commentator for the gathering storm.

In a speech at Miami on February 27, Greenspan claimed that the currency collapses in East Asia were "neither measured nor rational," but based upon "a visceral engulfing fear." He regretted that financial disturbances are transmitted across nations "far more effectively than ever before" and admitted that "we do not yet fully understand the new system's dynamics." He denied that the currency crashes reflected "a deterioration in the fundamentals." Instead, he spoke of "uncertainties that destroy previous understandings of the way the world works."

His speech amounted to an admission that world capitalism is now lurching out of control, buffetted by contradictions that its own leaders cannot fathom or contain. In reality, the irrational fear to which Greenspan refers is driven by very definite fundamentals.

The most basic factor is the very accumulation of private profit under capitalism. The turn to Asia over the past two decades was a response to a long-term decline in the rate of profit that began to re-emerge in the 1970s, with the end of the post-World War II boom. Beginning with the global recession of 1974-75, major corporations increasingly sought to overcome this tendency by applying new computer technologies and scouring the globe for cheaper labour and new markets.

For a time the resulting technological revolution and globalisation of production enabled transnational corporations to alleviate the profit crisis. However, these processes, combined with the unprecedented integration of financial markets, intensified competition between the transnationals. Faced with growing problems of overcapacity and surfeited markets, they could boost profits only by continually cutting costs, shedding jobs and driving rival firms to the wall.

In this way, the vast advances in technology and productive capacity have come into conflict with the profit system based on private ownership of the means of production. The disintegration of the "Asian miracle" is the explosive yet only initial form in which this deep-rooted and systemic crisis has emerged.

The breakdown is fuelling a fierce struggle between the US, Europe and Japan to resolve the profit crisis at the expense of one another, as well as the under-developed countries. The sharpening external conflict simultaneously compels the capitalists of each country to intensify their attacks on the working class.

In this struggle, whole sections of investment must be wiped out. This is expressed in the IMF's demands for the restructuring of the East Asian economies, so as to break down all barriers to the movement and domination of international capital, even though this entails the destruction of industries and banks.

Intense battles have erupted between the American, European and Japanese capitalists over markets and spheres of influence. Even as Dornbusch and others warn of the danger of Japan triggering a wider financial disaster, they and the rest of corporate America are demanding that Tokyo take the blame for, and bear the brunt of, the Asian crisis.

The latest Japan-bashing editorial from the *Washington Post* on March 10 dismisses as "preposterous" the arguments of Japanese leaders that they cannot afford to do more to overcome the Asian disaster. "Japan needs to open and deregulate its economy, something its politicians repeatedly promise but do not deliver," it states.

Calls for Japan to "stimulate" and "reform" its economy are euphemisms for demanding that the Japanese capitalists surrender domestic markets to their US and European antagonists, end the internal grip of the Japanese banks and finance houses, and take more low-cost imports from the countries of east Asia.

These inter-imperialist antagonisms make impossible any serious approach to managing the world financial crisis. In his Miami speech, Greenspan said "the architecture of the new financial system needs to be reviewed." A senior Japanese minister, Eisuke Sakakibara, has called for a new version of the 1944 Bretton Woods agreement and a reconstitution of institutions such as the IMF and World Bank. While both statements reflect a growing awareness that the existing international framework is being overwhelmed by crises and conflicts, they imply antagonistic agendas, with Japan seeking to weaken the pre-eminent role of the US in the major post-war institutions of world capitalism.

Such tensions are very much behind the growth of US militarism and the ever more public conflicts between the major capitalist powers, including the confrontation between the US, France and Russia over Iraq, and now Kosovo. The increasing acrimony between not only Washington and Tokyo, but also Washington and most of Europe, is expressed in three editorials in the March 9 edition of the US magazine *BusinessWeek.* They are entitled "Japan needs to face the music-now," "The euro makes trade a new game," and "When will France give up Karl Marx?"

The first editorial demands that Japan cut taxes to raise internal consumption, boost domestic-led growth and buy more goods from Korea, Thailand and Indonesia. Among other offenses, it accuses Japan of "an obsession with the care and feeding of its aging population."

The second editorial notes that the planned European single currency, the euro, will soon challenge the US dollar for supremacy as the world's reserve currency. This will occur at the same time that the US trade gap rises rapidly toward the $300 billion level because of the Asian crisis, with the US already owing some $5 trillion to dollar holders abroad after three decades of trade deficits. Indicating the explosive domestic implications of a loss of dollar supremacy on world markets, *BusinessWeek* concludes: "Dollar hegemony has raised America's standard of living beyond what it could otherwise attain."

The final editorial declares that the government and people of France "still believe Karl Marx was right," as shown by the country's relatively high levels of taxation and public sector employment. "The social, political and economic climate in France is hostile to anyone who wants to make a profit," it charges.

By warning of drastic cuts in US living standards and demanding the removal of welfare-type provisions in Japan and France, these editorials point to the devastating consequences of the new stage in the world capitalist crisis for the working class, not just in Asia, but internationally.

On every continent, the ruling classes will seek to place the burden of the economic breakdown on the backs of working people, intensifying the corporate and government onslaught on jobs and living standards. There is not one rule for the workers of East Asia-mass unemployment, pauperisation and repression-and a different one for their fellow workers in the imperialist centres of America, Europe, Japan and Australasia.

Capitalism is increasingly characterised by inter-imperialist antagonisms and brutal attacks on the working class. To defend its interests and prevent itself from being dragged into new wars between rival cliques of corporate billionaires, the working class requires its own independent, revolutionary program-a socialist strategy based on a common international struggle against the profit system.

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