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PAPER TIGER IN WASHINGTON: FIERY DRAGON IN THE PACIFIC

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Resumen: With the end of the cold war in 1989 and the subsequent decline of Russia as a serious immediate contender, as well as the decline during the 1990s of the hype of Japan as 1, two other regions, states and powers came into contention. One is the United States whose fortunes and prospects seemed to have declined after 1970 but recovered in the 1990s; and even so it is a Paper Tiger. The other is East Asia, despite its post 1997 crisis, and especially China -the Fiery Dragon-. This article analyzes the economic and geopolitical keys that orient the strategies of both contenders. The examination of the world economy and of the predominant place in it of the East Asian points to the most fundamental bases of contemporary economic developments in the region and also presages important world economic ones for the foreseeable future.
***Palabras Clave*:** EEUU, fiery dragon, Pacific, paper tiger, Washington.

With the end of the cold war in 1989 and the subsequent decline of Russia as a serious immediate contender, as well as the decline during the 1990s of the hype of Japan as #1[1], two other regions, states and powers came into contention. One is the United States whose fortunes and prospects seemed to have declined after 1970 but recovered in the 1990s; and even so it is a Paper Tiger. The other is East Asia, despite its post 1997 crisis, and especially China -the Fiery Dragon. In global terms, we could regard this as a process of continued shift of the world center of gravity west-ward around the globe, from East Asia/China to Western Europe, then across the Atlantic to the United States, and there then from the eastern to the western seaboard, and now onwards across the Pacific back to East Asia, as observed in my "Around the World in Eighty Years"[2]. Let us inquire further into the so far last part of this historical process.

1. PAPER TIGER. THE UNITED STATES IN THE WORLD

The US still has the world's largest economy, which saw boom times during much of the 1990s, and its has unrivalled military power exceeding the total of the next dozen or more military powers combined. Moreover, the present Bush administration makes use of both of them in unilateral policies to impose its will on the rest of the world, friend and foe alike, to all of which Bush threw down the gauntlet of "you are either with us or against us." With means you do as we say, and against means you are under threat to be destroyed economically and politically, as well as militarily if we wish. In case there be any doubt about our intentions and capabilities, Russia and Argentina are prime examples on the economic front as are Iraq through the boycott, Serbia and Afghanistan are so on the military front as well. The latter -but really both- are what President Bush father called "The New World Order" when he bombed Iraq in 1991. I termed it "Third World War" in two senses, one that it takes place in The Third World and secondly that this war against the Third World constitutes a Third World War[3].

The prosperity and welfare of the American people rests primarily on its position in the world today as Britain's did in the nineteenth century. That observation is fundamentally different from the political and media hype about the sources of American exceptionalism that are supposedly in its genious, morality, productivity, and other characteristics that allegedly differentiate America from the rest of the world. On the contrary, America rests on two -maybe three- pillars:

1. The 'dollar' as the world currency whose monopoly privilege the US has to print at will, and
2. The 'Pentagon' with its unrivalled military capacities.
3. A third pillar perhaps is the government, educational and media fed 'ideology' that obscures these simple facts from public view. Moreover each supports the other: It costs dollars to maintain the Pentagon, its bases in 80 countries around the world, and the deployment of its military forces around the globe. Military expenditures are the prime causes of the twin American deficits, in the federal budget and in the balance of trade. Conversely, Pentagon strength helps sustain global confidence in the dollar.

But this same mutual reliance for strength therefore also constitutes two mutually related American Achilles heels. The dollar is literally a Paper Tiger in that it is printed on paper whose value is based only on its acceptance and confidence in the same around the world. That confidence can decline or be withdrawn altogether almost from one day to the next and cause the dollar to lose half or more of its value. Apart from cutting American consumption and investment as well as dollar-denominated wealth, any decline in the value of the dollar would also compromise US ability to maintain and deploy its military apparatus. Conversely, any military disaster would weaken confidence in and thereby the value of the dollar. Indeed, at the 2003 World Economic Forum in Davos, the assembled world political and business elites expressed very serious fears that the mere deployment of the US military, e.g. against Iraq, would bring on a world depression. *Time Magazine* this week reports on a comprehensive study of the US airline industry, which concludes that a war against Iraq would drive half of it into immediate bankruptcy. If so, what of still weaker non-American airlines? The insecurity that comes with military saber rattling and threats undermine confidence in the dollar and put brakes on investment. And no amount of ideology is sufficient completely to obscure that economic situation.

In fact, the world already is in depression, from which so far only the United States is substantially and Canada and Western Europe partially exempt. And the latter is so, because of the privileged position of especially the American economy within the global one, from whose mis-fortune Americans have been deriving the benefits of that position, which to repeat is essentially derived from the privilege of printing the world currency with which Americans can first buy up the production of the rest of the world at depressed deflationary prices and then have the same dollars be returned from abroad to be invested in Wall Street and US Treasury certificates for safe-keeping and/or higher earnings than are available elsewhere.

In the mid 1980s James Tobin -the inventor of the Tobin tax on financial transactions- and I were to my knowledge the only ones already to published predictions of *de*-flation as the coming world economic danger. Economic policy makers however ignored these warnings and this risk -not really risk, but necessary consequence- while continuing their policies designed to fight *in*-flation. Nonetheless, since then commodity prices have fallen sharply and consistently and more recently industrial prices have fallen as well. Moreover in World economic terms, high inflation in terms of their national currencies -pesos, rubles, etc.- and their sharp devaluation against the dollar world currency has been an effective de facto major *de*-flation in the rest of the world. That has reduced their prices and made their exports cheaper to those who buy their currencies with dollars, primarily of course consumers, producers and investors in -and from!- the United States. These additionally, which is hardly ever mentioned!, can and do buy up the rest of the world with dollars that 'cost' only their printing and distribution, which for Americans have virtually no cost. (The $100 dollar bill is the world's most used cash currency on which runs the entire Russian economy, and there are two to now three times as many of them circulating outside as inside the US). The American boom and welfare and then 'balanced' federal budget 1992-2000 Clinton administration, contrary to its populist claims, only happened to coincide with this boom. The also same 8 year long prosperity of the United States was entirely built on the backs of the terrible depression, deflation and thus generated marked increase in poverty in the rest of the world. During this one decade, production declined by over half in Russia and Eastern

Europe and life expectancy in Russia declined by 10 -ten- years, infant mortality, drunkenness, crime and suicide increased as never before in peacetime. Since 1997, income in Indonesia declined by half and generated its ongoing political crisis. That is dissipation of entropy generated in the US and its export abroad to those who are obliged to absorb it in ever greater *dis*order. It would be difficult to find better examples -except the destruction of the entire society in Argentina, Rwanda, Congo, Sierra Leone, previously prosperous and stable Ivory Coast- not to mention the countries that have been visited by destruction through American military power

All this has among others the following consequences: in the US it can export inflation that would otherwise be generated by this high supply of currency at home, whose low rate of inflation in the 1990s was therefore no miracle result of domestic 'appropriate' Fed monetary policy. The US has been able to cover its twin balance of trade and budget deficits with cheap money and goods from abroad. The US trade deficit is now running at over 500 billion dollars a year and still growing. Of that, 100 billion are covered by Japanese investment of their own savings in the US that saves nothing and which the Japanese may soon have to repatriate to manage their own banking and economic crisis -especially if an American war against Iraq causes a n even temporary spike the price of oil on whose import Japan is so dependent. Another $100 billion comes from Europe in the form of various kinds of investment, including direct real investment, which could dry up as the European recession continues, the Europeans become exasperated with American policy, or they have any number of other reasons to reduce their dollar reserves and put them into their own Euro currency instead. A third 100 billion is supplied by China, which first sells the US its cheap manufactures for dollars and then accumulates those dollars as foreign exchange reserves -thus in effect giving away its poor producers' goods to rich Americans. China does this to keep its exports flowing and its industries going, but if it decided to devote these goods to expanding its own internal market more, its people would gain in income and wealth, and the United States would be out of luck. The remaining $200 billion of deficit are covered by other capital flows, including debt service from the poor Latin Americans and Africans who have paid off the principal of their debts already several times over and yet keep increasing the total amount owed by rolling it over at higher rates of interest. The idea of declaring US chapter 11 or 9 type insolvency is however finally catching on.

Thus, deflation/devaluation elsewhere in the world has like a magnet attracted speculative financial capital from the rest of the world -both American owned and foreign owned- into US Treasury certificates -stopping up the US budget deficit- and into Wall Street. That is what fed and supported its 1990s bull market, which in turn has increased, supported and spread wider a speculative and illusory in increase in wealth for American and other stock holders and through this also illusory 'wealth effect' has supported higher consumption and investment. The subsequent and present bear market decline in stock prices nonetheless is a still a profit boon for enterprises who issued and sold their stocks at bull market high and rising stock prices. For they are now buying back their own stocks at what for them are bargain basement low prices, which represent an enormous profit for them at the expense of small stock holders who are now selling these stocks at low and declining prices. The US 'prosperity' now rests on the knife edge also of an unstable enormous domestic corporate and consumer -credit card, mortgage and other-debt.

Moreover, the US is also vastly over-indebted to foreign owners of US Treasury certificates, Wall Street stock and other assets, which can be called in by foreign central banks who have been keeping reserves in US dollars and other foreign owners of US debt. Indeed, it is the very US policy that has contributed so much to destabilization elsewhere in the world -e.g. through the destabilization of Southeast Asia that undermined the Japanese economy and financial system even more than it would otherwise have been- that now threatens and now soon makes much more likely that especially Japanese and European holders of US debt must cash it in to shore up their own ever more unstable instable economic and financial systems. The liabilities of the US to foreigners now equal two thirds of annual US GNP -and therefore can and will never be paid off. However any hick in rolling this debt over and over, can result in foreign attempts to get out as much money as they can -resulting in a crash of the dollar.

Another major consequence is that the US -and world!- economy is now in a bind from which it most probably can not extricate itself by resorting to Keynesian pump priming and much less to full scale macro-economic policy and support of the Us and Western/Japanese economy, as the Carter and Reagan administrations did. Military Keynesianism, disguised as Friedman/Volker Monetarism and Laffer Curve Supply-Sideism, was begun by Carter in 1977 and put into high gear in 1979, when Carter the Fed was run by Carter appointee Paul Volker, who in October 1979 switched Fed monetary policy from high money creation / low interest price thereof to attempted low money creation/high interest -to 20 percent monetary!- to rescue the dollar from its 1970s tumble and attract foreign capital to the poor US. At the same time, Carter began Military Keynesianism in June 1979, which was then escalated further by President Reagan In that they then succeeded.

It is highly unlikely however that analogous policies could succeed again now. The US would need to invoke the same re-flationary policy again for itself and its allies, now. But it can not do so! The Fed has already lowered the interest rate so far that it cannot go much lower and is not likely to stimulate investment by doing so. On the other hand, raising the interest rate to continue to attract funds from abroad would risk choking off all domestic investment and working capital. Brazil tried that, admittedly with extravagant monetary interest rates at 60 percent to attract foreign capital, and ruined its domestic economy.

The US may -should? must??- now attempt a repeat performance of the 1980s to spend itself and its allies -now minus Japan but plus Russia?- out of the present and much deeper world recession and threatening globe encompassing depression. The US would then again have to resort to massive Keyenesian deficit -using September 11 as a pretext for probably military- *re*-flationary spending as the locomotive to pull the rest of the world out of its economic doledrums. However, the US is already the world consumer of last resort, but it can be so with the savings, investments and cheap imports from abroad, which themselves form part of the global economic problem.

Moreover, to settle its now enormous and ever growing foreign debt, the US may chose also to resort to *in*-flationary reduction of the burden to itself of that debt and its also ever growing foreign debt service. But even the latter could -in contrast to the above summarized previous period- NOT avoid generating a further SUPER trade balance particularly if market demand falls further and pressure increases abroad to export to the US demand/er of last resort. But this time, there will be NO capital inflows from abroad to rescue the US economy. On the contrary, the now downward pressure to devalue the US dollar against other currencies would spark a capital flight from the US, both from US Government bonds and from Wall Street where significant stock price declines generate further price declines and deflation in world terms even if the US attempts domestic inflation.

The price of oil is yet another fly in the political economic ointment, whose dimension and importance is inversely proportional to the health or illness of the ointment itself. And today that is quite sick and deteriorating already. The world price of oil has always been a two edged sword whose double cutting edges can be de-sharpened with the help of successful alternative economic and price policies. On the one hand, oil producing economies and states and their interests need a minimum price floor to produce and sell their oil instead of leaving it underground and also postponing further oil productive investment while waiting for better times. The US is a high cost oil producer. A high oil price is economically and politically essential also for important states like Russia, Iran and especially Saudi Arabia, as well as US oil interests. On the other hand, a low price of oil is good for oil importing countries, their consumers including oil consuming producers of other products, and supports state macro economic policy, eg in the US, where low oil prices are both good politics and good for the economy. These days, the high/low price line between the two seems to be around US$ 20 a barrel -at the present value price of the dollar! But nobody seems to be able to rig the price of oil at that level. The present conflict, long since no longer within OPEC, is primarily between OPEC that now sells only about 30 to 40 percent of the world supply and other producers that supply 60 percent, today especially Russia but also including the US itself as both a significant producer and a major market, although that is increasingly shifting to East Asia. Recession in both and the resultant decline in demand for oil drags its price downward. US strategy and wars against Afghanistan and Iraq. is to gain as much control of oil as it can and for now to share as little of it as it must with Russia in Central Asia, Caspian Sea and Persian Gulf regions. And that control, even if it cannot control the price of oil, is to be used as an important geo-political economic lever to manipulate against US oil import dependent allies in Europe and Japan and ultimately its strategic enemy in China.

For US Keynesian spending re-flation as well as *in*-flation can no longer put the floor under the price of oil needed today and tomorrow. No policy, but only recovery generated world market demand I- and/or limitations in the supply of oil -can now provide a floor to and prevent a further fall in the price of oil- and its deflationary pull on other prices. And further deflation in turn will increase the burden of the already vastly over-indebted US, Russian and East Asian, not to mention some European and Third World, economies.

Thus the political economy of oil is likely to add to further deflationary pressure. That would -indeed already does- again significantly weaken oil export dependent Russia. But this time it would also weaken US oil interests and their partners abroad, especially in Saudi Arabia and the Persian Gulf. Indeed, the low price of oil during the 1990s has already transformed the Saudi economy from erstwhile boom to a bust. That has already generated middle class unemployment and a significant decline in income that has also already generated widespread dissatisfaction and now threatens to do so even more at precisely the time when the Saudi monarchy is already facing destabilizing generational transition problems of its own. Moreover a low oil price would also make new investment unattractive and postpone both new oil production and eliminate potential profits from laying new pipelines in Central Asia.

Indeed, there is an even more immediate urgent need for the US to control Iraqi oil reserves, the second largest in the region and the most under-drilled with a large capacity to increase oil production and drive down prices. But that is not all or even the heart of the matter. Many people were surprised when President Bush added Iran and North Korea to his "axis of evil." Though they may not be so surprised at American efforts to promote a coup and change of regime in Venezuela, which supplies about 15 percent of US imports. So what do these countries have in common, many people ask. Well, three of them have oil, but not North Korea. So what is its threat that puts it in Bush's axis. Surely not geography or alliances -Iraq and Iran were mortal enemies, and North Korea does not play ball in their league. The answer is simple and resolves not only that puzzle but what could otherwise appear as a rather confused and confusing US foreign policy: (1) Iraq changed the pricing of its oil from dollars to Euros in 2000. (2) Iran threatens to do so. (3) North Korea has changed to deal only in Euros. (4) Venezuela has withdrawn some of its oil from dollar pricing and is instead swapping it for goods with other third world countries. Besides an old friend of mine, Venezuela's Fernando Mires at OPEC headquarters in Vienna, proposed that all of OPEC should switch from pricing its oil in dollars to pricing it in Euros! OPEC has recently re- examined his possibility and now Russia has as well. Nothing else, no amount of terrorism, could be more threatening to the US; for any and all of that would pull all support out from under the dollar as oil importers would no longer buy dollars but instead Euros to buy their oil. Indeed they would want also to switch their reserves out of the dollar and into the Euro. Iraq already gained about 15 percent with its switch as the Euro rose against the dollar. And besides, the Arab oil states who now sell their oil for paper dollars would be unlikely to continue turning around and spending them again for US military hardware. It is this horrorific scenario that US occupation of Iraq is designed to prevent, with Iran next in line. Curiously, this oil-dollar-euro 'detail' is never mentioned by the US government or media. No wonder that major European states are opposed to Bush's Iraq policy, which is supported only by the UK, which is a North Sea oil producer itself. Simple how one little piece of incidental information can make the other pieces of the entire jig-saw puzzle fall into place!

All of these present problems and developments now threaten to -will?- pull the rug out from under US domestic and international political economy and finance. The only protection still available to the United States still derives from its long since and still only two pillars of the 'New World Order' established by President Bush father after 'Bush's Gulf War" against Iraq and the dissolution of the Soviet Union in 1991. President Bush son is now trying to consolidate his father's new world order -no doubt with the latter still as a power behind the throne- beginning with the War Against Afghanistan and threatening once again against Iraq, and the Bush-Putin effort now also to construct a US-Russian Entente -or is it Axis.

The dollar pillar is now threatening to crumble, as it already did after the Vietnam War but has so far remained standing through three decades of remedial patch work. But as we have seen, the US is now running out of further economic remedies to maintain the dollar pillar upright. It's only protection would be to generate serious inflation in the short run by printing still more US dollars to service its debt, which would then undermine its strength and crack the dollar pillar and weaken the support it affords still more.

That would leave only the US military pillar to support US political economy and society. But it and reliance on it also entails dangers of its own. Visibly, that is the case for such as Iraq, Yugoslavia, and Afghanistan and of course all others who are thereby deliberately put on notice to play ball by US rules in its new world order on pain of eliciting the same fate for themselves. But the political blackmail to participate in the new world order on US terms also extends to US -especially NATO- allies and Japan. It was so exercised in the Gulf War -other states paid US expenses so that the US made a net profit from that war-, the US war against Yugoslavia in which NATO and its member states were cajoled to participate, and then by the War against Afghanistan as part of President Bush's new policy pronouncement. He used the early Cold WAR terminology of John Foster Dulles that 'You Are Either With Us Or Against Us". But US reliance on this, the then only remaining, strategy of military political blackmail can also lead the US to bankruptcy as the failing dollar pillar fails to support it as well; and it can come also to entail US 'overstreetch' in Paul Kennedy terms and 'blowback' in CIA and Chalmers Johnson terms.

In summary and plain English, the US has only two assets left to rely on, both admittedly of world importance, but perhaps even so insufficient. They are the dollar and its military political assets. For the first, the economic chickens in the US Ponzi scheme pyramid of cards are now coming home to roost even in the United States itself.

The second pillar is now in use to prop up the new order the world over. Most importantly perhaps is the now proposed US/Russia entente against China instead of -or to achieve?- a US defense against a Russia/China -and India?- entente. The NATO War against Yugoslavia generated moves toward the latter, and the US War against Afghanistan promotes the former. God/Allah forbid that any of these nor their Holy War against Islam blow us all up or provoke others to do so.

However that may be, US imperial political military blackmail may still blowback on the United States also, thus not out of strength but out of the weakness of a truly Paper Tiger. So who shows any strength? The Chinese Dragon! And that is now the primary pre-occupation and preparation of the Pentagon and of far sighted American strategists like Zigniev Brzenski who has taken up the century oild Huntington -not the clash of civilizations one but a previous one!- thesis about the geo/economic political need to control the Inner-Eurasian core. Steps to that are not only the war against and control of Afghanistan and the string of military bases there and in a half dozen former Soviet Caucasus and Central Asian republics that are now converted into US client states under the Orwellian PfP rubric of "Partnership for Peace." Nor is it only controlling Central Asian oil and the pipelines for its export westward to Europe and southward to the Indian Ocean and Asia, but also precluding pipelines eastward in growing competition with China and its growing thirst for oil. It also includes maintaining military presence in the Korean Peninsula and Japan including especially Okinawa, and returning to the Philippines. All under the cover of fighting 'terrorism' and countering 'rouge' states, the overall US strategy is to encircle China militarily and to straight jacket it economically as far as still possible. But how far is that?

2. FIERY DRAGON: CHINA IN EAST ASIA

A financial and economic crisis erupted in East Asia in 1997 and brought evident relief to many observers in the West. As a result and mis-led by day-to-day press media reports and short term business and government analysis and policy, even 'informed' public opinion in the West changed again. Now the former "East Asian Miracle" is said to have been no more than a mirage, a dream for some and a nightmare for others. The previously supposed ëxplanations and sure-fire strategies of success are being abandoned again as quickly as they had come into fashion. We hear less about Asian values or guarantees from the magic of the market and no more security from state capitalism. So much the better I would say, since these supposed explanations and correct policies were never more than ideological shams anyway.

The historical evidence presented in this book shows that no one particular institutional form or political economic policy offers or accounts for success -nor failure!- in the competitive and ever changing world market. The contemporary evidence shows the same. In that respect, Deng Xiao-ping's famous aphorism is correct. The question is not whether cats are institutionally, let alone ideologically, black or white; the real world issue is whether or not they catch economic mice in competition with others in the world market. And that depends much less on the institutional color of the cat than it does on its opportune position in the world economy at each particular place and time. And since the obstacles and opportunities in the competitive world market change over time and in place, to succeed the economic cat, no matter what its color, must adapt to these changes or fail to catch any mice at all. Among these different institutional forms including relations among state-finance- productive and sales organizations, perhaps the most attention and positive evaluation has been devoted abroad to those of Korea and then of Japan but also of Greater China including its vast network of overseas Chinese. But the very fact that they differ, and in Taiwan, Singapore, Malaysia, Indonesia and elsewhere as well, should already forewarn us against privileging one institutional form over all others.

At best and that is already very much, the evidence is that none of these institutional forms is necessarily an impediment or insurmountable obstacle to success on the domestic, regional and world market. Most noteworthy perhaps in view of the widespread Western propaganda about its own alleged virtues is the demonstrated fact that no Western model need or should be followed by Asians in Asia or even elsewhere.

The significance of position and flexible response in the world economy is particularly important during periods of economic crisis B phase that is in Chinese of -negative- danger and -positive- opportunity. In the present economic crisis so far, the focus has been far too predominantly on its undoubtedly serious negative consequences. But the opportunities it poses have received insufficient attention, except perhaps in the United States and China, both of which are seeking to reap competitive advantages from the political economic problems and alleged meltdown of Japan, Korea, and Southeast Asia.

But the dismissal of East Asian and particularly Chinese economic strengths and prospects may be premature and certainly is based on a shortsighted neglect of the historical evidence as presented in my 1998 book *Reorient*[4] and further pursued in my present work on the 19th century, as well as on a serious misreading of the contemporary evidence. I believe that this latest quick dismissal of Asia is mistaken for the following reasons among others:

1. Since Asia and especially China was economically powerful in the world until relatively recently, and new scholarship now dates the decline as really beginning only in the second half of the nineteenth century, it is quite possible that it may soon be so again. Contrary to the Western mythology of the past century, Asian dominance in the world has so far been interrupted by an only relatively short period of only a century or at most a century and a half. The oft-alleged half century or more decline of China is purely mythological.
2. Chinese and other Asian economic success in the past was not based on Western ways; and much recent Asian economic success was not based on the Western model. Therefore, there is also no good reason why Japanese or other Asians need or should copy any Western or other model. Asians can manage their own ways and have no good reason to now replace them by Western ones as the alleged only way to get out of the present economic crisis. On the contrary, Asian reliance on other ways is a strength and not a weakness.
3. The fact that the present crisis visibly spread from the financial sector to the productive one does not mean that the latter is fundamentally weak. On the contrary, the present crisis of overproduction and excess capacity is evidence of the underlying strength of the productive sector, which can recover. Indeed, it was excess capacity and productivity leading to over-production for the world market that initiated the financial crisis to begin with when Asian foreign exchange earnings on commercial account were

no longer able to finance its service of the speculative short run debt.

4. Not that economic recessions will or can be prevented in the future. They never have been prevented in the past even under state planning in China or the Soviet Union. More significant is that this is the first time in over a century that a world recession started not in the West and then moved eastward, but that instead it started in the East and then moved around the world from there. And that was precisely because as per #3 East Asian and particularly Japanese, Korean and then Chinese productive and export capacity had grown so MUCH. This recession can therefore be read as evidence not so much of the temporary weakness as of the growing basic economic strength of East Asia to which the center of gravity of the world economy is now shifting back to where it had been before the Rise of the West.
5. The recession in the productive sector was short, especially in Korea., and so far absent in China. But it was also severe, especially in Indonesia. And the shock-waves from the financial sector to the productive, consumer and political ones were visibly -and to all but the totally blind, intentionally- exacerbated by the economic shock policies imposed on Asian governments by the IMF as usual following the dictates of the US Treasury, which systematically represents American financial interests at the expense of popular ones elsewhere around the world. The former World Bank Vice- President, member of the US President's Council of Economic advisers and now Nobel Prize laureate in economics, Joseph Stiglitz, has given us an insider's view of these intentional events in his *Globalization and its discontents*[5]. That also permitted Western interests to take advantage of declines in productive and financial strength in Korea and elsewhere to buy up assets at bargain-basement fire-sale prices. Even so the underlying strength of the Korean economy was such that the foreigners were even then unable to alter the financial, productive, ownership and state structure significantly to their favor. The Korean productive and financial machine soon recovered again to forge ahead, but now with a costly lesson well learned. The lesson must have been learned elsewhere as well by comparing how relatively unscathed China and Malaysia -and as already mentioned for different reasons Korea- emerged from the financial crisis. They maintained controls over capital exports, compared to those countries that succumbed to the IMF and its lethal medicine by permitting a speculative capital outflow, which destroyed their productive apparatus and multiplied unemployment into an unbearable economic, social, and political problem, especially in Indonesia.
6. That underlying political economic strength also puts East Asia, and especially China, Japan and Korea in a much more favorable position than the rest of the Third World and even Russia and Eastern Europe to resist Western blackmail as it is now exercised by the US Treasury Department through the International Monetary Fund, the World Bank, the World Trade Organization, Wall Street and other instruments.
7. The very act and cost of East Asian concessions to this Western pressure during the past recession makes it politically more likely, since it is economically possible, that East Asia will take measures, including especially a new financial bloc and banking institutions, that can prevent a recurrence of the present situation in the future by escaping from the strangle-hold of Western controlled capital markets. Stiglitz observes such efforts already in his recent private discussions with Asian officials as reported in his book.
8. Indeed, one of the present battles, first by the Japanese and now also by the Chinese, is to remodel the world financial and trade institutions that were designed by the United States to work in its favor. Thus, Japan wanted to establish an Asian monetary fund to prevent the East Asian recession from deepening as it has thanks to the International Monetary Fund based in and subservient to Washington. And China wishes to join the World Trade Organization but also seeks to have this Western dominated institution reformed to its advantage.

9. A related political economic struggle is the competition between the United States and China to displace Japan, Korea and Southeast Asia in the market by taking advantage of their bankruptcies. American capital is buying up some East Asian productive facilities at bargain basement prices, while China is waiting for them either to be squeezed out of the competitive market altogether, and if not to engage in joint operations. Indeed it had been the devaluation of the Chinese currency before 1997 that reduced the world market share of other Asian economies and helped generate the financial crisis itself. Only time will tell which strategy will be more successful, but the Chinese and perhaps also some Southeast Asians seem like the better bet over the long term. Moreover, no matter how deep the recession in Japan; it is not for that eliminated as an economic power, especially in Asia. However, there is evidence that China is trying to reconstruct the East Asian trade and tribute system at whose center it was in the eighteenth and that the ern colonial powers dismantled in the nineteenth century.
10. Equally significant is that India and to recently to a lesser extent China have remained substantially immune from the present recession, thanks in part to the inconvertibility of their remin ribao and rupee currencies and the valve in their capital markets that permits the inflow but controls the outflow of capital. The currency devaluations of China's competitors elsewhere in East Asia and the reduced inflow into China of Overseas Chinese and Japanese capital that is negatively affected by the recession in East Asia may oblige China to devalue again as well to remain competitive. Nonetheless and despite their serious economic problems, the Chinese and Japanese economies appear already to have and to continue to be able to become sufficiently productively and competitively strong to resist and overcome these problems. In Southeast Asia, Malaysia has successfully followed the Chinese model of opening its capital market to inflows but restricting especially speculative capital outflows from the same. Korea did not need such emergency measures, since it had received relatively little foreign capital to begin with.
11. Regarding the mainland Chinese economy, the President of the Chinese Society of World Economy, Pu Shan, observed already the in the mid 1990s: Results of the economic reform are remarkable. Real gross national product in 1995 increased 4 times that of 1980, with an average annual growth rate close to 10% during that period. Real income peer capita more than tripled. Exports and imports of merchandize trade in 1995 increased more than 7 times that of 1980 in terms of US dollars, while China's share in world trade more than tripled And China became the largest recipient lf foreign direct investment among developing countries. It is also noteworthy that the large scale transfer of agricultural labor to industry has been accomplished amind unprecedented prosperity in the rural economy, unlike many other countries that went through the painful process of widespread bankruptcy of farmers[6].

    In the decade since then, most of these trends have still continued, though the rural economy and agricultural income have lagged. In particular however, the ten percent annual growth rate has still been maintained, which means doubling in size in six years, soon to become the world's second largest after that of the United States. But China now also holds the greatest single share of the huge and ever growing American foreign debt, although it is doubtful that anyone will ever be able to collect on any substantial part of it. Nor does this mean that China's growth does not also pose immense problems, from gaping inequality between the coast and the interior or urban and rural, or its growing demand and import of raw materials and especially oil and soon of foodstuffs, and the menacing shortage of water. Japan's major fiscal and economic crisis of the 1990s has abated and economic performance and prospects have improved again despite the continuing debt overlag. As to India, although its growth has been lagging behind, it has recently increased and shows promise or at least possibility of further acceleration: from 1.5 percent annually during the three decades following independence to 5.5 percent over all and 3.5 percent per capita in the 1980s, and 6 and 4 percent respectively in the 1990s. For the next half decade, projections range from 5 to 7.5 percent annually. That is still less than for East Asia, but sufficient to double in a decade or so. All of these Asian medium term growth rates exceed by far those ever previously achieved anywhere in the West.

12. It is noteworthy that the economically most dynamic regions of East Asia today are also still or again exactly the same ones as before 1800 and which survived into the nineteenth century.
    1. In the South, Lingnan centered on the Hong Kong-Guangzhou corridor,
    2. Fujian, still centered on Amoy/Xiamen and focusing on the Taiwan straits and all of Southeast Asia in the South China Sea; and between them,
    3. the Yangtze Valley, centered on Shanghai and trade with Japan that is already taking the lead away again from the southern and northern regions.
    4. But already then there was also a fourth economic region around the North China Sea, the quadrangular trade relations among Manchuria and elsewhere in Northeast China, Siberia/Russian Far East, -northern?- Japan, and Korea, but also including Mongolia. Although the first three above-named regions are already again undergoing tremendous economic growth -and political power?- in the absolute sense, the fourth one around Korea seems to enjoy the greatest relative boom, and within it that of Korean capital as well. It is helping to develop resources in the Russian Far East and as far west as Central Asian Khazhakstan. The Chinese population on the Russian side of the Amur River has been estimated already to exceed 5 million people as a pool of cheap labor. Probable political change in the DRNK may well add a new source of cheap labor for this growing pool of labor in the Northeast Asian Region and for its Far East Russian also cheap base of ample metallurgical, forestry, agricultural and even petroleum resources. Korean and Japanese capital could make that a very attractive regional growth pole in itself and a highly competitive region on the world market.

All of these in turn were and still or again increasingly are important segments of world trade and of the global economy. In that sense also and although its story ends in 1800, the examination of the world economy and of the predominant place in it of the East Asian including Korean economies points to the most fundamental bases of contemporary economic developments in the region and also presages important world economic ones for the foreseeable future.

NOTES

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[6] Shan, P. et al., *Towards a new Asia*. Malaysia, 1994, 174.