Business Briefs

Banking

Fight in Japan over discount rate cut

Despite growing business pressure for an immediate discount rate cut in Japan, the new chief of the Ministry of International Trade and Industry (MITI), Sosuke Uno, is taking a cautious approach. He warned June 16 that a cut of 0.75 or 1 percent from the current 5.5 percent level "could prompt an outflow of capital, resulting in a further depreciation of the yen against the U.S. dollar," according to Kyodo News' *Japan Economic Daily*.

Uno, a close political associate of Prime Minister Yasuhiro Nakasone, took over MITI when Sadanori Yamanaka was forced to resign shortly after the Williamsburg summit for health reasons.

For weeks business has been urging a discount rate cut to spur recovery, a call renewed June 16 by Japan Chamber of Commerce and Industry president Shigeo Nagano, and joined by Foreign Minister Shintaro Abe and Economic Planning Director Jun Shiozaki.

A cut had been seriously considered for mid-May. However, when the American interest rates began to rise again, the yen depreciated from 233 per dollar to its current level of 243, the cut was shelved.

With Japan under heavy criticism from the United States for its undervalued yen, Bank of Japan Governor Haruo Maekawa and others have been reluctant to risk further criticism by taking a move such as lowering interest rates that could lead to further yen depreciation.

Military Policy

Business Week features beam weapons at last

The June 20 issue of *Business Week*, the most widely read weekly magazine in the United States, carries an analysis of President Reagan's program for space-based laser and beam weapons development as its feature story. Headlined "The U.S. Returns to Space," the article cites the program as "the most radical strategic policy change since World War II."

Business Week is primarily a mouthpiece of Boston-based "Brahmin" banking interests, who with this article, have finally confirmed the massive investment opportunities opening up to U.S. business as an outcome of the President's strategic doctrine.

These investment opportunities are presented in a narrow framework, emphasizing the specific research and development projects which are occurring on the shuttle launches, for example, rather than the broader, in-depth productivity spinoffs which the new technologies offer. Nevertheless, this is the first major mass-media effort by a segment of the financial community to influence the outlook of U.S. corporations away from anti-technology kookery, toward a high-technology industrial program.

EIR published a cover story on the effects of the development of beam weapons on the economy in its Nov. 30, 1982 issue.

International Credit

Nigerian loan agreement reached

A loan package to refinance about $2 billion of Nigeria's huge backlog of trade debts is reportedly near completion. The nation depends on oil sales for over 90 percent of its foreign exchange, and the big drop in oil sales over the last two years has hit Nigeria very hard financially. The government has officially admitted to $3.3 billion in trade debt arrears, while some banking sources claim the total is over $5 billion.

The package includes rolling over part of these arrears into a three-year loan, with a six-month grace period. Interest is to be 1.5 percent above the London Eurodollar rates.

Barclay's International and North American banks, reportedly with Bankers Trust in the lead, arranged the package for the creditor banks. After initial difficulties, including demands from the banks that Nigeria would first have to go to the IMF and meet demands for a devaluation of the naira, the package was worked out more easily than had been expected.

Banks had begun refusing to confirm letters of credit for Nigerian imports. If this package goes through, international banks are expected to soon again resume honoring letters of credit opened by Nigerian banks.

Agriculture

The Humpty-Dumpty world of PIK

The U.S. Department of Agriculture is now devising plans to deal with the critical shortcoming of its Payment In Kind (PIK) program: it is proposing that farmers be given federal loans to grow the necessary wheat and cotton for the program. USDA does not own enough surplus grain or commodities to hand over to farmers, who entered the program by agreeing not to plant some of their land in exchange for grants of surplus grain.

Not only is PIK thus failing to cut overall production and reduce the so-called surplus, but in order to obtain supplies to meet current commitments to farmers, USDA may have to loan farmers up to $500 million to grow the comodities needed for PIK. The proposed program will be called "Plant for PIK."

Government wheat supplies, which are running almost 80 million bushels short, are being supplemented by farmers defaulting on government loans for which their stored grain was held as collateral. USDA is now promoting exactly such a situation to increase its cotton supplies: As a short-term measure, the USDA is offering farmers incentives to cancel on goverment loans and abandon the cotton held as collateral. However, even this measure, which expired June 16, left USDA some 700,000 bales of cotton short.

Deputy Agriculture Secretary Richard Lyng proposed in a speech the first week of June that the government might have to buy cotton on the cash market; that initiative was immediately replaced with "Plant for PIK."

Under this plan, according to Lyng, certain cotton farmers will be required to take out a federal loan on the cotton they produce this year. The loan will then be cancelled, leaving the farmer with both his crop and the funds. The loans are expected to total some $200 million.

However, due to serious flooding, cotton prices are expected to rise and relatively few farmers are expected to turn their product over to PIK rather than sell it on the market. The PIK program, by attempting to reduce supplies, has contributed to the price rise.

World Debt

Brazil and banks in holding pattern

As time runs out on the June 30 deadline for Brazil to pay $400 million it owes the Swiss-run Bank for International Settlements, negotiations are in a stalemate.

On the external front, there has been no agreement reached by Brazil with the banks, the IMF, or the Treasury. Inside Brazil, Delfim Netto's planning ministry announced that state sector investments would be cut by 24 percent in real terms from last year's level, but the presidential palace replied that this did not yet have presidential approval. These measures were expected in May, then June 8, and then June 13, but keep being put off.

Brazil's president João Figueiredo pronounced June 14: "The most the bankers could do is not loan the money. Negotiating the debt, negotiating the form of payment does not mean that we are going to start obeying the international bankers, nor the IMF."

Central bank chief Geraldo Langoni admitted in a New York press conference June 16, "it is a very difficult task politically to control the public sector. . . . We now have to deal with Congress, even if this creates some difficulties." Langoni is facing difficulties, not only for his failures and the growth of nationalism in Brazil, but because Morgan Guaranty, with which Langoni had close ties, has lost control over Brazil's foreign debt.

The banks have formed a new structure, to deal with "the added needs of 1983 and 1984 and start on 1985," Langoni stated. This group of banks will be headed by Citibank, with Morgan and Lloyds in a second circle, 11 other banks from around the world in a third circle, and 26 additional banks in a fourth circle. Langoni agreed to permit a subcommittee headed by Citibank to permanently monitor Brazil's internal bookkeeping, a concession of sovereignty that may well be vetoed by Brazil.

Langoni admitted for the first time, "There is no doubt that Brazil will need more money in 1983," and gave a $3.5 billion figure. However, he conceded that neither private nor central banks will provide any money until the IMF clears Brazil.

Domestic Credit

Fed sets new minimum capital standards

Based on a proposal of Switzerland's Bank for International Settlements, the Federal Reserve adopted unanimously new minimum capital standards for U.S. multinational banks June 13 which could result in serious reductions of both commercial and consumer lending, including lending to developing nations.

The new rules, which take effect immediately, will require these banks, which until now did not have to meet any minimum captial standard, to maintain primary capital at 5 percent or more of total assets. The 17 banks affected by the rule change will probably be given 12 to 18 months to comply with the standard.

Community banks have been required to keep primary capital at 5 percent, and regional banks at 6 percent of total assets, since 1981.

The rule would require BankAmerica, Citicorp, Chase Manhattan, Bankers Trust, and Irving Bank Corporation to raise some $800 million in new capital funds, if they are not to cut back on lending.

The Fed's move may be in part an attempt to forestall Congress from creating more severe restrictions on overseas lending.

Briefly

● **JAPANESE** scientists claim success in a new desalination process that is not only one-third as costly as current methods, but produces fresh water pure enough to be used in boilers for nuclear and other reactors, according to the June 17 *Japan Economic Daily*. A spokesman says this process means that thermal and nuclear reactors can now be located at coastal sites where fresh water is unavailable (and perhaps where political resistance may be less).

● **TANZANIA** devalued its shilling by 20 percent against the U.S. dollar as of June 6. Tanzania is in disastrous economic shape, and has been under intense pressure from the IMF to devalue before granting any loans for balance of payments deficits. This is the third devaluation of the shilling in the past four years, none of which have led to an improvement in the Tanzanian economy.

● **ANDRE DE LATTRE,** former chairman of France's Crédit National and an official of the World Bank, was recently named head of the Institute for International Finance (IIF), the think-tank assembled earlier this year by the creditor bank organization known as the Ditchley Group.

● **WASHINGTON** has vetoed through COCOM a sale by Japan's Hitachi Ltd. of electronic phone exchanges to China, claiming that these could be used for military purposes. COCOM is the intergovernmental agency of Western countries that enforces rules against military-related technology transfer to Socialist bloc countries. The veto comes days before the United States is to announce its own loosening of restrictions on exports to China. According to Kyodo News, Tokyo will send officials to the United States to try to get a reversal of the decision.