Japan's policymaking takes positive turn

by Our Special Correspondent

The infernal paradox of the Japanese situation continues to confound nearly everyone. Japanese banks are almost in technical insolvency, corporate bankruptcies are at an all-time high, and the real economy is sinking precipitously. Ironically, were the Japanese prepared to adopt the approach on reorganizing their financial system recommended by *EIR* Founder Lyndon LaRouche (see "Save Japan! Not Banks!" *EIR,* Oct. 2), this problem could be solved rather quickly. However, Japan has decided to take certain measures on their bad bank debt that, although inadequate for addressing these fundamental problems, do represent a sign of increasing confidence on the part of all Japanese institutions. A new version of the expanded "rescue and reform" package was finally passed by the Japanese Diet (Parliament), in which $550 billion was allocated to protect depositors, help insolvent banks, and provide liquidity for credit-starved banks that are burdened with bad debt.

The shift in confidence is reflected in the ongoing effort to aid a devastated Asia and take on more global responsibility for the current crisis. Led by the Ministry of Finance, the Japanese have proposed a $30 billion package for Asian countries devastated by the crisis, and have given critical support for instituting capital and foreign exchange controls. As the International Monetary Fund's (IMF) approach to the crisis has become increasingly discredited, and the Group of Seven (G-7) nations have failed to act on the deepening depression, the Japanese have begun moving in a positive direction.

A quiet U.S. shift

With limited U.S. support, the first phase of Japan's renewed efforts began on Oct. 3, when Finance Minister Kiichi Miyazawa announced the $30 billion aid package just prior to the IMF meeting. It was only a year ago that Japan's Vice Minister of Finance for International Affairs, Eisuke Sakakibara, proposed an Asian Monetary Fund to aid the Asian economies. At that time, the IMF and its director, Michel Camdessus, reacted aggressively against that proposal, and they received U.S. backing. The idea of an Asian Monetary Fund was buried.

With events now overtaking the IMF, the United States has quietly shifted its support to the Japanese. Reacting negatively to these developments were the rest of the G-7 central bankers, who are desperately trying to get Japan to support the new European single currency, the euro. The European Central Bank, which went into operation last June, was hoping to convince not only Japan but also China that shifting to the euro would protect them from the fate of the rest of Asia, and to get Japan, in particular, to dump its dollar holdings.

However, for now the Japanese have ignored the European appeal, and it appears that the $30 billion plan will aid those countries in desperate need. The Japanese are also signalling that they are prepared to expand that package. At a Tokyo conference, Sakakibara said, "Lessening the impact of the credit crunch on Asia is of critical importance. . . . It is necessary to increase that amount." The package includes loan guarantees and interest-rate subsidies targetted at some of the hardest-hit countries, including Indonesia, South Korea, Malaysia, and Thailand. Of the total, $15 billion will be used for medium- to long-term financial needs to promote an economic recovery. In addition, earlier in October the Export-Import Bank of Japan signed a memorandum of understanding with South Korea's Ministry of Finance and Economy for $3 billion in loans.

This important, albeit limited, step on the part of Japan clearly demonstrates that the Japanese recognize the danger of a global collapse. And, as Sakakibara commented, "If Japan collapses, it can't help Asian countries. We are at a turning point of our times. Japan and the rest of the world are faced with the worst crisis since the end of World War II. Asia must support the world economy. It is very important for Japan and Asia, which faced the crisis in the first place . . . [to] create a structure to support the global economy."

What has enabled Japan to move on this front is the fact that the Japanese still have the largest foreign currency reserves, and it remains the world's largest creditor. Its reserves totalled $212 billion as of September 1998. Moreover, several top Japanese officials in both the government and private sector have openly supported the moves by Malaysia to impose capital controls in order to stem the speculative attacks by hedge funds.

Takashi Hosomi, chairman of Nippon Life Insurance Research Institute, strongly endorsed the moves to curtail short-term capital flows. "The ultimate solution to the problem of implusive capital flows is to cut off the supply of capital that is floating capriciously around the world," he said. Hosomi and others have been highly critical of the IMF's proposal for surveillance of hedge funds as completely inadequate, because these funds and their banking allies that finance hedge funds operate at a high level of secrecy which makes surveillance practically impossible.

Japan says, 'No' to short-selling

As part of the reaction to the fact that the current global financial system is out of control, Japanese institutions have legislated additional steps on stopping what is known in the market as “short-selling.” Short-selling is a speculative technique where investors buy a stock at a price in advance, betting that the price will drop, and then cashing in when the price does drop. Now the Japanese government wants to tighten the screws especially on short-selling speculators who manipulate the market by spreading rumors that cause the price of a specific stock to drop. This technique was used by foreign investors on the Tokyo Stock Exchange, who targetted already fragile Japanese bank stocks, using rumors to ensure that their short-selling position came about. In effect, the Japanese, even if they wanted to reorganize their banking system in an orderly fashion, could not do so under the constant threat of speculative short-selling techniques.

Notwithstanding the short-selling, rumor-mongering, and other psychological warfare techniques, the Japanese banks are still in deep trouble and the real economy is hurting badly. Top Japanese banks are seeing their credit ratings downgraded, and corporate bankruptcies are at an all-time high. Most significant, the benchmark of the physical economy, machine-tool production, fell 16.3% in September compared to last year. Japanese machine-tool makers received fewer orders for the seventh straight month as manufacturing cut capital spending in the midst of the “deepest recession” in more than 50 years, according to figures released by the Japan Machine Tool Builders Association. In fact, domestic machine-tool orders for the same time period dropped 34.3%.

A New Bretton Woods

High-level Washington sources have told *EIR* that there is an ongoing debate behind the scenes about the future architecture of the global monetary system. Essentially, there are two U.S. groupings who are battling it out on the issue of a New Bretton Woods system. The first group generally agrees with LaRouche that a new system is needed before there is a complete collapse. The other group believes that tinkering with the system could itself lead to a blowout of the financial system. Reportedly, Federal Reserve Bank Chairman Alan Greenspan is deathly afraid that any radical measures against hedge funds and their banking supporters would trigger a collapse, and therefore wants to keep the present system alive.

Part of this debate also centers on the role of Japan. In this regard, many Clinton administration figures and bureaucrats believe that a Japanese-led recovery of Asia could begin to turn around the global economy. Although this group sometimes disagrees with Greenspan, they believe that any radical restructuring along the lines of a New Bretton Woods would be dangerous. The grouping that supports a New Bretton Woods believes that what the Japanese are trying to do is too little, too late to stem the inevitable. They would like to see a New Bretton Woods conference held, so that a new global monetary system could be established before the inevitable occurs.

Interview: Chalmers Johnson

IMF, Federal Reserve discredited in Japan

Chalmers Johnson is a professor at the University of California at San Diego. He is an “Asia hand” who has been a strong critic of Japan and of U.S. Asia policy. While his views represent a faction of the U.S. establishment, he is accurately reflecting the thinking behind the current policy debate in Japan. He was interviewed by Kathy Wolfe on Oct. 2.

EIR: What will happen to Japanese banks after the failure of Long Term Capital Management (LTCM)? And, what is your view of Finance Minister Kiichi Miyazawa’s statements on exchange controls and the $30 billion Asia fund?

Johnson: Miyazawa’s $30 billion fund is the most important thing that has happened in Asia in a year. He is resurrecting the Asian Monetary Fund [AMF]; Ministry of Finance officials have been quoted in the Japanese-language press this week explicitly saying that East Asian currencies will no longer be allowed to collapse, and that this money and more will be used to see to that. Japan’s actions on this, and their careful raising of the subject of exchange controls, go straight with [Malaysian Prime Minister Dr.] Mahathir: They both have general contempt for globalization, and are making a sort of declaration of independence against the IMF [International Monetary Fund] and globalization. They are tired of the IMF running Asia into the ground.

Two major recent events, the crack-up of Russia and the LTCM bailout in New York, have shown the IMF and the Fed [U.S. Federal Reserve] to be total and complete failures. Globalization and the new world order, or whatever they call it this week, just died; it’s deader than a doornail. The Japanese elites are increasingly concerned that the IMF, the Fed, and the Americans don’t know what the hell they are doing with the global financial system, and thinking, “We’ve got to somehow protect Asia from the coming disaster.” They are preparing for a global crash which lets the air out of the lone superpower, coming fairly quickly.

The Japanese tried to stop the Asia crisis a year ago by proposing the AMF, but Larry Summers killed the AMF and put down [Vice Minister for International Financial Affairs Eisuke] Sakakibara last November. Sakakibara told Summers, “Well, so you turn it over to the IMF—the IMF won’t be able to handle it.” And now everyone agrees that Sakakibara was right and Summers was wrong.