Wall St. Wants 'Korean Shock Therapy' in Japan

by Kathy Wolfe

Wall Street spokesmen led by the American Enterprise Institute (AEI) have begun a new "sell Japan" drive, demanding the "Korean model" of shock therapy in Japan, under which the International Monetary Fund (IMF) deregulated South Korea, shut down chunks of its industry, and sold it off to Western banks. Japan's banks must immediately take $1.2 trillion in bad loans and "let them go into the market," U.S. deregulation "expert" Robert Dugger told Washington audiences on March 16 and 18—let the assets collapse, and be bought up at a nickel on the dollar. If Japan balks, foreigners and Japanese depositors will dump the yen, he threatened, causing a 50% devaluation, and credit agencies like Moody's will bust Japan's government bond rating "lower than Botswana."

Dugger and State Department Japan adviser David Asher, former head of the AEI Japan program, told a Johns Hopkins University forum on March 16 that the "real problem" is Japan's industrial sector, which has been "overprotected" by the banks. The top 290 "spoiled corporations" have almost $2 trillion in bad assets, and "all of these assets must be sold off, " Asher said. "The Japanese public knows that 35% of GDP consists of bad assets, so even if money is dropped from a helicopter, no one will borrow. The only way to proceed is: Let the stock market determine what the assets are worth. Just sell them on the free market. The Nikkei Index will fall, but it will bottom out—eventually. If assets are sold off, they will start performing again. That is the magic of the market!" Dugger, now with the "vulture fund" Tudor Investments, which buys such paper cheaply, agreed: "Unless Japanese banks do as David says, the large depositors will begin moving their assets en masse into dollar accounts at Citibank Tokyo. This outflow from the yen has already begun," he threatened.

Meanwhile, broad layers of the Tokyo elite, from ousted Foreign Minister Makiko Tanaka, to former Vice Finance Minister Eisuke Sakakibara, dubbed Prime Minister Junichiro Koizumi a failure, and came close to demanding that he step down. Tanaka, who is now ahead of Koizumi in the polls for Prime Minister, told the British press on March 18 that Koizumi had sold out to the "old boys," and "it's the end" for his ruling Liberal Democratic Party (LDP). Sakakibara, who may have his own ambitions, said on March 16, that Koizumi has "deceived" everyone and "has neither the vision nor the expertise for reform."

Former Japanese Foreign Minister Makiko Tanaka (shown here on Sept. 9, 2001 at a meeting in Pearl Harbor, Hawaii), and other Japanese elites, have to avoid both the traps, of Wall Street's demand for Korea-style IMF austerity, and of Prime Minister Junichiro Koizumi's "do nothingism."

White House on IMF Line

Koizumi's "do nothing" policy is a disaster, but so far, his critics act as though there are only two choices: Do nothing, or use IMF shock therapy to shut down half Japan's industrial base.

The IMF model was demanded in January by AEI Senior Fellow John Makin of Wall Street's Caxton Associates hedge fund. Unless shock therapy is implemented, he wrote, there will be a $1 trillion bank panic in Japan. Makin is now featured by the Adam Smith and John Locke Societies as a "new guru," forecasting a global financial blowout to start in Tokyo. The IMF itself, in its new *Global Financial Stability Report*, said on March 14 that "the situation in Japan could worsen considerably. . . . If Japan's reforms falter," Japan's banking system, "crippled under a mountain of bad loans, may fall into a critical situation."

In Tokyo, Glenn Hubbard, chairman of the White House Council of Economic Advisers (CEA), came out verbatim on March 19 with the identical IMF shock-therapy line, after months of Bush Administration pretense that it would not lecture Japan. Bad assets at banks and industrial companies "should be released into in the marketplace in a way that will let them be used efficiently," he told Financial Services Minister Hakuo Yanagisawa. "Capital is not being efficiently allocated in the Japanese economy." Hubbard complained that Japan could not fulfill its role as military supporter of the Bush Administration in Asia otherwise. "It is difficult to project power, to be a major player on the world stage without a rigorous economy," he said. Shifting bad loans to the state

Resolution and Collection Corporation was useless, he said. "The question is how to get the . . . underlying collateral into the private sector," he said, urging Tokyo to accept large bankruptcies: "You can't fix non-performing assets if companies can't fail."

Tokyo Elites Splinter

Speaking at the Hopkins forum on Japan, former Japanese Vice Minister Sakakibara shocked some observers when he appeared to endorse the Wall Street proposals, the same ones he has called "free market fundamentalism" in the past. Japan so overprotects its markets that "in many ways Japan is a socialist country. I said this at a conference in Beijing recently," said Sakakibara, "and the governor of the Bank of China replied: 'At least the Communist Party of China has a political leadership, which Japan does not.' "

Sakakibara called for the radical IMF shock therapy, as forced on South Korea in the depths of the 1997 "Asia crisis." "Look what South Korea has done!" he said. "They have implemented radical reform. They really used the Asia crisis effectively to change their economy under the IMF program during 1997-99. Japan should do what Korea has done. . . . As Korea has shown, bank restructuring has to be accompanied by industrial and corporate borrower restructuring, because the banks' borrowers have a structure which is not generating a profit. Korea has done it, we could learn a lesson from them." Stephen Bosworth, U.S. Ambassador to Seoul in 1997, first proposed this "Korea model" in a Tokyo interview last November.

The horrible reality of this "Korean model" was described to *EIR* in detail by Korean officials who huddled in the cold with the IMF when the oil ran out in Seoul in December 1997 (see "The Crisis Is Here!" *EIR*, Aug. 18, 2000). Entire industries were shut down or bought up by Citibank and Morgan, and Seoul markets now depend on foreign money for over 50% of financing, forcing the rule of "shareholder values."

Foreign "vulture funds" such as Dugger's Tudor Investments have bought almost $10 billion in such distressed Japanese assets dumped at "market" prices, Nikkei reported on March 19. Since 1998, over 160 Japanese firms have been dumped that way, and over 100 are due to be dumped this year.

The CEA's Hubbard even criticized Japan's recent re-regulation against short selling in Tokyo markets, which has caused half the asset collapse. "It would not be wise to use regulatory measures to artificially prop up asset markets," he said. "This can only distort the valuable signals sent by the markets."

Financial Services Minister Yanagisawa rebuffed Hubbard on March 21 in the Tokyo Diet, saying, "There is no reason [for Japan] to be criticized, because we imposed regulations similar to those in the U.S." He continued the crackdown on illegal short selling that day, by censuring another five brokerages—Merrill Lynch, Crédit Suisse First Boston, KBC Financial, Okasan Securities, and Nippon Global—following suspensions against Goldman Sachs, Morgan Stanley, Citibank Nikko, and others.

But it's not clear that Japan's managers have a positive plan, and the postwar political system of party-ministry-industry cooperation, the so-called "Iron Triangle," is cracking under the pressure. Prime Minister Koizumi has fallen from 90% to 40% in the polls since Tanaka's Jan. 29 ouster and related scandals forced two top members of the LDP to resign. "Conservative" LDP member Muneo Suzuki quit on March 16 after being accused of manipulating Foreign Ministry aid to Russia and other countries for the profit of his supporters' construction companies. "Liberal reformer" Koichi Kato, one of Koizumi's closest chums, resigned on March 18 after an aide was convicted of tax illegalities.

Koizumi is "no darn good," but blasting Koizumi and the "Iron Triangle," now the national sport, could cut in many directions. If the AEI crowd gets their way, these scandals could paralyze the country. It is reported that Ichiro Ozawa, who has said that Japan's finances should be managed by "foreign investors," might head a new opposition power bid.

On the other side is Makiko Tanaka, known for accompanying her father, Prime Minister Kakuei Tanaka, on breakthrough diplomatic missions to China and Russia in the 1970s, and for trying to reorient Japan away from U.S. domination. Tanaka and her husband visited Beijing on March 21-25 to celebrate the 30th anniversary of her father's re-establishment of relations, and met People's Congress Chairman Li Peng, Foreign Minister Tang Jiaxuan, and other Chinese leaders who helped restore Sino-Japanese ties. Li praised Kakuei Tanaka for his "insightful political decision."

Makiko Tanaka, breaking with Koizumi, told AP and the London *Guardian* March 18 that her relation with Koizumi had soured in particular when she snubbed U.S. Deputy Secretary of State Richard Armitage, and proposed a plan "to make Japan more self-reliant in its relationship with the United States through a reconsideration of bilateral security ties." When she presented her plan, she said, he was bewildered, knowing nothing about foreign policy. "He was embarrassed and at a loss."

The question, however, is not "Who is the captain," but, "Where should Japan's ship of state go?" Part of the Japanese elite may believe that Koizumi can't handle this crisis, that the Bush Administration is a disaster, and that something new must be done, cooperating with Russia and China. Makiko could be a help there. But if she doesn't have a third alternative, to the twin evils of "LDP do nothing" or "IMF shock therapy," she might also fall into a Wall Street trap and implement Korean-style IMF reforms for lack of a better idea.

The first step to a completely new approach, which, as LaRouche has stressed, would be to point out that this is not a "Japan crisis," but a *global* crisis in which the entire dollar-based, post-1971, IMF system is fundamentally broken; that the IMF is morally and financially bankrupt; and that a New Bretton Woods conference is urgently needed.