

Japan's Achilles' heel: the IMF

Part 2, by Kathy Wolfe

Over the past decade, as the International Monetary Fund (IMF) has destroyed the economies of most of the Third World, Japan has begun industrializing the one area of the world which has grown economically: Asia. In Washington, which objects to any industrialization anywhere, complaints about Japan's Asian investment strategy take the form of: "Have you stopped beating your wife, yet?" If Japan had not invested in Asia, the Bush administration would complain that the Japanese were cheap. Since Japan has invested, Washington complains that the Japanese are taking over the Pacific.

"If you think the Soviet Empire in Europe is collapsing, wait until you see what happens to the American Empire in the Pacific," University of California Japan expert Chalmers Johnson of the Council on Foreign Relations warned Congress last year. "Americans, British, French all make a lot of noise. But the Japanese are the real power in Asia," as K.C. Kwok, economist at the Hongkong and Shanghai Bank in Hong Kong, told the press recently. "Japan is the only country capable of supplying resources to the region" says Ali Wardhana, a former Indonesian cabinet minister.

In fact, Japan should be encouraged to do more in the Third World, not less. Japanese officials such as Sumihito Hirai of JETRO New York made the problem clear in interviews with *EIR* published two weeks ago. "It is true that development was not possible in much of the LDCs [lesser developed countries] because of the international debt crisis," he said. "Certainly in Latin America" the IMF made private lending impossible, "so Japan could not build up investments there. But Asia is different. In Asia, we were able to raise living standards."

Masataka Nakamura, general manager of Mitsui Trust Co. New York, told *EIR*, "We prefer to work in Asia where we have a certain cultural understanding of the way of doing things. The growth areas for Japanese banks are in Asia: Thailand, Singapore, Malaysia, Indonesia—the Asian tiger nations. They are close to Japan geographically, and we need what they can produce."

The problem is that granting all of Ibero-America and Africa to the IMF and thus allowing them to slide into famine and genocide is not only morally wrong, it is about to bankrupt Japan. Asia alone cannot possibly pull the world out of

the current depression—nor generate enough orders to keep Japan's banks and industry afloat.

Asian strategy

The U.S. "Pacific Empire" is, in fact, already irrelevant. Japan's overall financial flows to Asia are nearing \$100 billion, more than twice those of the United States. There was \$47.5 billion in Japanese private capital investment in Asia over the period of 1951-90. Japan also supplied more than 60% of Asia's aid, over \$20 billion in government aid, known as Official Development Assistance (ODA), including "soft" loans at low 2.5% interest, \$14.8 billion of which was made during the last few years (see **Table 1**). In addition to the totals in Table 1, we can add over \$18 billion in loans to Asian nations from the Japan Export-Import Bank at the end of March 1991.

In 1991, Japan exported more to Asia than to the U.S. for the first time in 15 years, part of Japan's strategy to greatly decrease its trade dependency on the U.S. overall. Japan's trade with the U.S. is down from 33% of total Japanese trade to under 25% in 1991, and the U.S. share will fall further.

Japan's first investments in Asia were to secure supplies of raw materials such as oil and other minerals, especially in Indonesia. Since 1985, the rise of the yen has made exports from Japan more expensive, so the Japanese began to move their industrial plants overseas, especially to Thailand, South

TABLE 1
Japanese investment and aid in Asia
(millions of dollars)

Countries; major industries	Private investment 1990	Cumulative	
		Private investment 1951-90	Government aid (ODA) 1985-89
Indonesia: chemical, banking, automotive, machinery	\$1,105	\$11,540	\$3,160
Thailand: wholesale, electrical, food, chemicals	1,154	4,422	1,676
Hong Kong: wholesale, trade, banking	1,785	9,850	10
Singapore: wholesale, electrical, chemicals, banking	840	6,555	100
Malaysia: electrical, wholesale, chemicals, services	725	3,231	401
South Korea: electrical, chemical, machinery, textiles	284	4,138	400
China: oil, electrical	349	2,823	2,944
Taiwan: electrical, chemicals, machinery, automotive	446	2,731	10
Philippines: trade, chemicals, electrical, food	258	1,580	1,996
India, Pakistan, Bangladesh	99	506	3,236
Asia total	\$7,054	\$47,519	\$14,838

Korea, Taiwan, Indonesia, and Malaysia.

Certainly much of this relocation was to take advantage of cheap Asian wages, often only 10% of those in Japan. Today, however, Japanese economists claim that per capita incomes in Asia will begin soon to rise to the point that the next wave of Japanese investment is planned to be for the higher wage-scale, higher-technology industries, for sales to the local population. "Up to now, most Japanese investments in Asia were a kind of relocation of plants to produce for export [to the U.S. and Europe], but that's over now," says Kayoko Kitamura at the Tokyo Institute for Developing Economies. "The ASEAN market is growing rapidly, and now Japanese investment will be for the local markets."

Sales of cars and trucks, for example, in Thailand have tripled from 100,000 a year in 1987 to over 300,000 a year. Matsushita Electric sees a 10% annual sales growth for consumer electronics in Southeast Asia.

Japanese private investment in Thailand, Malaysia, South Korea, and Indonesia has especially begun to create a basis for industrialization. Japanese diplomatic sources say that Japan tries to emphasize infrastructure in its government operations toward underdeveloped countries. Japan is granting yen loans for infrastructure development at 2.5% interest to be paid back in 30 years, with a 10-year grace period beyond that.

Toyota has plans to invest \$700 million in the region to take production of automobiles there from 300,000 to 500,000 units by 1995, according to Toyota's Asia director Akira Yokoi. Most of these Japanese vehicles are sold in Asia—almost all autos in Thailand are of Japanese make. Today, Japanese industry has only some 5% of its industrial production abroad. But the Ministry of International Trade and Industry estimates that auto, machine tools, industrial electronics, and other key sectors will have 30-50% of their production abroad by the year 2000. In Thailand 300,000 workers or 15% of the work force will be employed by Japanese firms by the end of 1992.

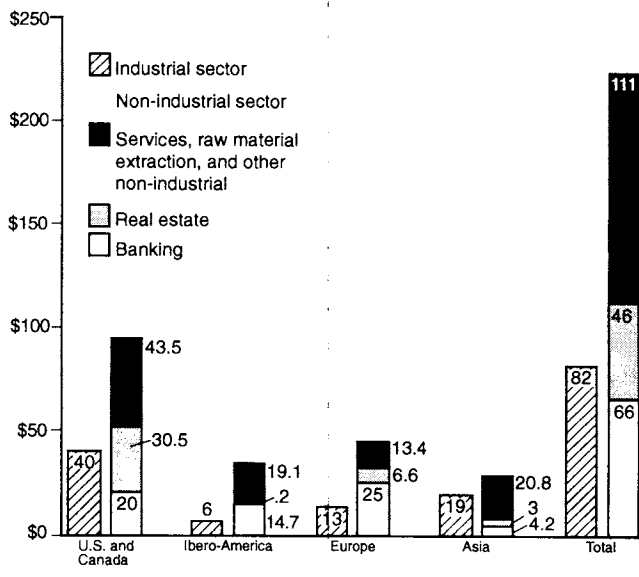
Since the Chinese Communists' bloody crackdown on the democracy movement in 1989, Japan's development program for China has been stalled, but Japanese diplomatic sources report that Japan is eager to make China a priority. Unless China's vast population is developed, instability there will be a major problem for all Asia, they say. Since 1980, Japan has given China \$10.45 billion in energy loans. The Japanese government in particular has an outstanding \$6.1 billion loan to China which was frozen after the June 1989 Tiananmen crackdown. Some financing from this may have now been resumed; Japanese sources say their government would like to finance large big Three-Gorges Dam project, for example.

Japan is also ready to back the Mekong Development Project in Cambodia if current peace momentum can be maintained. The Japanese government announced Oct. 26 that it will hold a Conference on Cambodian Reconstruction and Development in early 1992.

FIGURE 1

Japan's foreign private investment de-emphasizes industry

Cumulative 1951-90
(billions of dollars)



Source: Japanese Ministry of Finance.

Quality of investment

The fact, however, that Japan allows the IMF and the New York banks to control the world economy overall has created the kind of fundamental flaws in Japan's development strategy which could destroy Japan.

The real problem is that Japan's elite has abandoned the kind of true large-scale development and industrialization project initially proposed during the 1970s by Masaki Nakajima of the Mitsubishi Research Institute, who conceived of the Global Infrastructure Fund (GIF). At a recent GIF meeting at the Jimmy Carter Center in Atlanta, Georgia, Japanese leaders formally gave up on a dozen of these "mega-projects," ostensibly because of environmental problems. The real problem, however, is a global IMF austerity system which forbids such large-scale industrialization of the Third World.

For example, failure to apply the large-scale development project model has meant that the pro-industrial Japanese government agencies which would have coordinated such projects, have been less involved. Instead the Japanese private sector has proceeded in a less planned fashion, and has caught the "bug" from British and U.S. bankers of investing too much in the service sector, real estate, and other non-productive "post-industrial" areas.

Figure 1 for example shows that Japan's global investment in raw materials and services at \$223 billion is three times that in industry at \$82 billion. Within that \$223 billion figure, only about \$23 billion is for extractive materials which are at least

TABLE 2

Japanese banks lead the world in assets: the top 12 banks

(billions of dollars at 130 yen to the dollar)

Banking company	Country	Total assets (loans outstanding as of March 31, 1989)
Dai-ichi Kangyo Bank	Japan	\$386.94
Sumitomo Bank	Japan	376.09
Fuji Bank	Japan	364.04
Sanwa Bank	Japan	348.36
Mitsubishi Bank	Japan	343.59
Industrial Bank of Japan	Japan	257.58
Norinchukin Bank	Japan	241.95
Tokai Bank	Japan	225.12
Mitsui Bank	Japan	219.67
Mitsubishi Trust	Japan	210.47
Crédit Agricole	France	207.99
Citicorp	U.S.A.	203.83

Source: American Banker.

industrially useful, such as agricultural products, forestry, fishing, mining, and related construction. Another \$18 billion is for transportation (infrastructure). Fully \$182 billion however, is wasteful service sector investment.

This is not just massive Japanese investment in inflated North American real estate at \$30.5 billion. In Asia, Japan's investments in industry versus services are about equal, but it turns out on closer examination that 25% of total Japanese investment are in the British-dominated financial centers of Hong Kong and Singapore. In Ibero-America, which gets only 13% of Japanese Foreign Direct Investment private investment, more than half is in the Cayman Islands, Panama, and other offshore banking havens.

Unless Japan ceases the practice of letting the IMF lead it around by the nose, the Japanese system will inevitably crash with the rotten U.S. banking system. Japan has the largest banks in the world which operate massively in the dollar-based banking sector (Table 2). Japanese private bankers insist that "Third World debt is a terrible problem, but we have to follow the lead of the U.S. banks on this."

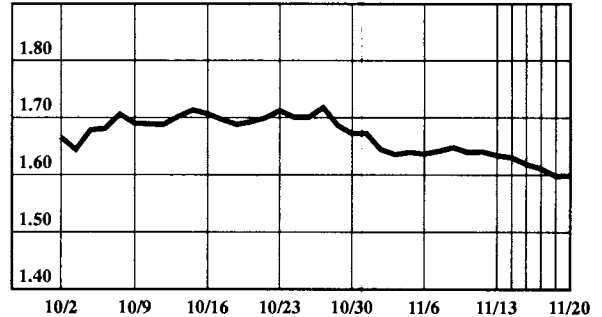
The Japanese government has to wake up and realize that Japan cannot hide in Asia from the mess that the British and American banks are making in the rest of the world by shutting down production and funding speculative debt. The Asian market alone simply cannot support a banking and industrial system of Japan's size. Japan must demand an end to IMF shock therapy austerity and switch to large-scale industrialization projects for the entire Third World, if only to save the Japanese system.

To be continued.

Currency Rates

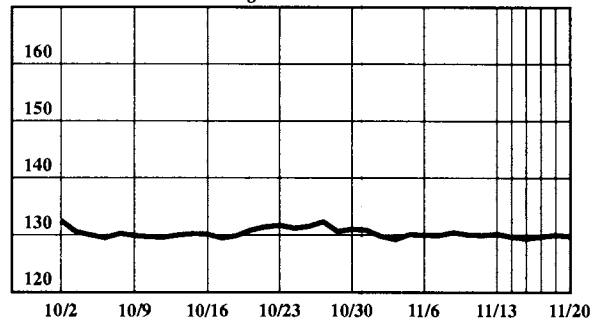
The dollar in deutschemarks

New York late afternoon fixing



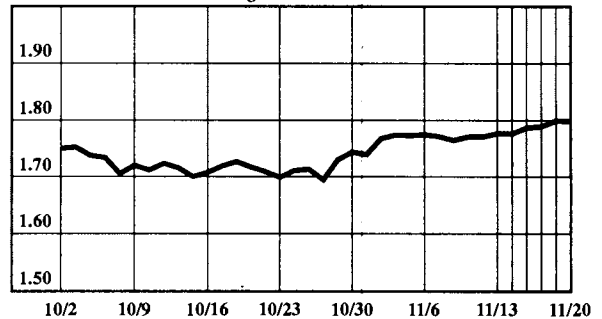
The dollar in yen

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The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

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