# Japan's 'resource finance'

*In the aftermath of the latest Iran crisis, Japan has resumed international lending in a drive to secure access to oil and raw materials.*

After almost a year's absence from the international credit markets, Japan, over the last few weeks, has been engaged in a rapid-fire series of new loans to oil and/or resource rich countries. "Resource finance" is the new battlecry in Tokyo—Japan's response to the escalation of the Iran crisis.

1) The Japanese government offered visiting Mexican Industry Minister Andres De Oteyza $100 million in official government loans as part of a larger package of private loans for the $2 billion Las Truchas project on the Pacific coast. In return, Japan wanted Mexico to up its oil shipments to Japan from the current 100,000 barrels per day to 2-300,000 bpd. According to Mexican sources, Oteyza was open to discussing expanded oil shipments to Japan provided the latter cooperates in projects in Mexico's industrialization plan. The discussion will be resumed when Prime Minister Ohira visits Mexico the first week in May.

2) After a decade of stalling, the Japanese government and the Mitsubishi group reached final agreement in early April on going ahead with a $2 billion petrochemical project for Saudi Arabia at Al-Jubayl. In return, the Saudis, who already provide 30 percent of Japan's oil, agreed to increase their supply by 200,000 barrels per day. The government, rather than Mitsubishi, had been responsible for the earlier delay. The petrochemical plant, with a combined million tons per year product, could be on line by 1985.

3) A package of $650 million in private and government loans to Brazil directly tied to resources for Japan was agreed upon during the visit to Tokyo of Brazilian Transport Minister Elizeu Resende in the first week of April. The package includes $100 million for iron ore expansion, $300 million for a railroad to facilitate export of soybeans, and $250 million for a railroad to facilitate a Japanese-financed steel project. In certain cases, the funds may not be released until June.

Prior to this series of loans—with additional loans being negotiated right now—Japan had made almost no loans since last spring, due to a virtual prohibition by the Ohira administration. The government stated the ban was necessary to preserve the supply of foreign exchange that was rapidly being eroded by the run on the yen. Reserves had fallen from $32 billion in November 1978 to only $26 billion in April 1979. In fact, behind the ban lay Washington's insistence that U.S.-Japan friendship was hurt by the huge growth in low-interest loans to the tune of $15 billion per year set by Ohira's predecessor Takeo Fukuda.

Despite the further fall of foreign reserves to only $18 billion in March of this year, the Finance Ministry decided to lift the ban. As one Japanese banker confided, "Japan is now using its lending capacity to ensure future supplies of oil and raw materials—we don't know what will be the result of the Iran crisis—this is resource finance." Besides the countries mentioned above, Venezuela, China and perhaps Indonesia are prime loan targets.

The new Finance Ministry guidelines, as quoted in the April 1 *Nihon Keizai Shimbun,* specify a total of $8 billion in international loans in the year beginning April 1, half the rate of fiscal 1978 under Fukuda. They also specify that there will be case-by-case approval of loans by the Ministry and that many of the loans will be done jointly with the World Bank.

Since the guidelines were used, new developments have put a snag in the plan. The yen, previously floating for months at around 240-245, has dropped to 260 per dollar. As a result, according to one bank, the guidelines for 1980 have been reduced to about $4-5 billion. Additionally, certain loans negotiated by private banks have not been approved by the Finance Ministry.

It is likely, however, that the reduction may be only temporary. The renewed Iran crisis has terrified resource-less Japan that it may be cut off at any moment from adequate oil and raw materials. Japan will find it necessary to extend billions of dollars of loans to secure supplies. This does not mean a return to the Fukuda policy of lending for industrial development in the Third World, but if Ohira wants to be re-elected Prime Minister next December he will find it difficult to maintain lending at the minimal $4-5 billion level.