Japan debates its response to the Ibero-American debt crisis

by Richard Katz

The Mexican debt crisis has put Japan's political and business leadership in the uncomfortable position of once more having to decide whether to buck Washington. The Finance Ministry is supporting the Washington-led International Monetary Fund (IMF) effort to impose on Mexico and other Latin American debtors conditions of economic cutbacks, particularly contraction of investment, as the prerequisite for any debt restructuring. The majority of Japanese bankers and businessmen disagree with this policy: they fear the IMF policy will stifle the world investment growth upon which Japan's economy depends.

Almost half of Japanese exports consist of capital goods. The Japanese know that any clampdown on developing-country investment will prolong the 10 percent export plunge Japan has already suffered this year. However, because these businessmen are afraid of the political repercussions of challenging Washington or destroying the credibility of the IMF, the Finance Ministry line has prevailed so far. Nonetheless, the businessmen are still seeking some way to avert the destruction of their markets.

"We are in a real dilemma," stated one banker, "because we must decide how to handle the entire Latin American situation. We have to decide whether to support the American bank position, or whether to support Mexico."

"The IMF conditionalities are no good," said another banker. "You can't simply go into a country and tell them to devalue again and again, to cut the budget, and to cut investment. I have been telling people here that the man on the street in Mexico will not tolerate the level of austerity being demanded by the IMF. On the other hand," he continued, "you cannot simply roll over the debts of every nation. That would be inflationary. So there must be some compromise between these nations and the IMF."

This banker's skepticism toward IMF methods is common in Japan. What has thus far kept Japan from opposing the IMF is not so much an aversion to rollovers, but the lack of a political alternative. An official of the Ministry of International Trade and Industry (MITI) expressed the quandary best, asserting, "The Mexican crisis is not just a crisis of that country, but a reflection of the problems in the entire international monetary system. Personally, I think Mexico should be handled like we handled corporate liquidity crises in Japan: the debts are set aside or stretched out while the economic foundations are rebuilt. Personally, I don't agree with all the IMF conditions. But I don't see any alternative. The most important thing is to preserve the entire international system. If the IMF system is destroyed, there will be chaos. Some sacrifices will have to be made."

Japan's stake in the debt crisis

Japan's stake in resolving the debt crisis does not lie primarily in its new role as one of the world's major creditors (in 1981, according to Bank of England estimates, Japanese banks issued 23 percent of all Eurocurrency loans). More important is the fact that, with half of Japan's exports composed of capital goods, Japan's economic future hinges on restoring growth in tangible investment globally. Indeed, a large part of the reason Japan has become such a large international banker in the last six years is to finance its exports, half of which are bought by the developing countries.

The international credit crisis, which is decimating investment in both advanced and developing countries, is constricting Japan's export markets. As of August of this year, *Japan's total exports have fallen an inflation-adjusted 10 percent from August of 1981.* (See Figure 1.) The primary cause was the fall in capital-goods exports.

The export plunge already caused a 3 percent production decline and investment decline in the first half of this year, a decline expected to continue.

The issue thus facing Japan is not simply whether the Latin American debt crisis is resolved in a way which gets the bankers their money back. Japan's economic future hinges on whether the debt restructuring is conducted in a way that promotes a new program of industrial investment.

The IMF's and international bankers' program, however, is calculated to do the opposite: This plan was presented starkly to *EIR* by an official of one of the banks on the 14-member international steering committee of Mexico's main creditors. "From an academic standpoint, I suppose I could agree that after debt restructuring, Mexico and other countries should get new credit if world trade is to be revived.

"But, in reality," the banker continued, "the international economy is going to face a few more years of the stagnation we have seen in 1979-82. Mexico is never going to go back to the 8 percent growth rates it had before; that was too ambitious. In fact, for many years Mexico will have to grow more slowly than even the slow world average. No one will give them the credit to finance new investment. The same is true of other countries in the same debt situation."

This banker's view is also the view of the Bank for International Settlements (the bank of central banks), the IMF and the Reagan administration. If this view, which is the corollary to Volcker's investment-killing high interest-rate policy for the advanced sector, prevails, then Japan's export prospects are finished—because without investment in the developing countries, there won't be much in the advanced sector either.

What will Japan do?

So far the Japanese government has lined up with the IMF. At the Toronto IMF meeting, Finance Minister Watanabe warned that "Japanese banks would not lend money to countries that cannot pay their debts," adding, "Countries receiving assistance must strive to help themselves." Watanabe told the press that the Finance Ministry (MOF) would issue new "administrative guidelines" aimed at contracting new lending to the developing countries. According to JIJI press, the MOF wants to limit a bank's loans to any single country to no more than 30 percent of the bank's net worth. In the case of one of Japan's largest banks, Fuji Bank, with more than $84 billion in assets, the guideline would amount to about $550 million. Currently, long-term loans are subject to a limit of 20 percent of net worth to any single country. However, the biggest increase in overseas lending in the last two years has been in nominally short-term loans, which can be used to evade the guidelines. Watanabe's new guidelines, if they became official policy, would include short-term loans as well, and would slow future lending. One banker explained, "The limit would not force retrievals of outstanding loans for most banks, but it would slow future lending."

Japan's capital goods strategy

There is an important, but minority, view in Japan amenable to a negotiated debt moratorium. One MITI official told *EIR*, "The important thing is to keep production and trade going. As far as the debts go, if the developing countries cannot pay, eventually you're going to simply have to change the due date on the debts."

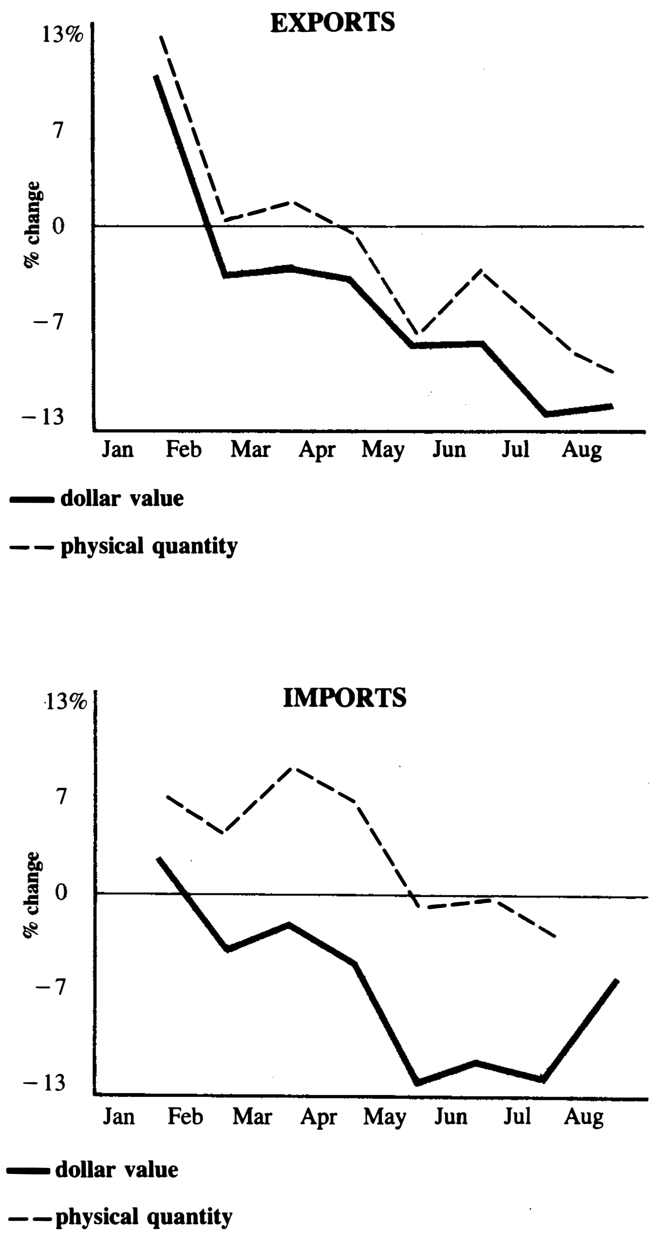
Similarly, the respected economist Tadashi Nakamae of Daiwa securities has said that debt moratorium is the only alternative to default (see *EIR*, Aug. 31). The heart of Nakamae's argument was that, "As long as the financial aspect of the North-South problem is not solved, the world economy cannot enter a new recovery phase. Actually, the industrialized countries must not only solve the financial problems but . . . assist their [developing countries'—ed.] covery. Through this process, the industrialized world would be helping itself recover."

Nakamae's argument is in many ways a restatement of the strategy that has guided much of Japanese government economic planning since the early 1970s. In 1971 the Industrial Structure Council of MITI had issued a "Longterm

Figure 1

Japanese trade plunges in 1982

(Percent change in trade from the same month of 1981)



Dollar value is simply the export/import figure in dollars *not* adjusted for either price changes or changes in the yen/dollar exchange rate. Physical quantity adjusts for both price and exchange rate changes, thus producing a measure of trade in terms of autos, tons of steel, barrels of oil, etc.

The major reason for the wide discrepancy between the dollar value and the physical quantity drops is the 15 percent devaluation of the yen since January plus, on the import side, large drops in the price of oil, other raw materials, and farm products.

Source: Japan Ministry of International Trade and Industry (MITI).

Figure 2
Composition of Japan's exports

	Capital equipment	Industrial supplies	Consumer durables
1964	26%	45%	15%
1968	31	39	19
1972	34	34	25
1976	40	33	22
1981	43	26	28

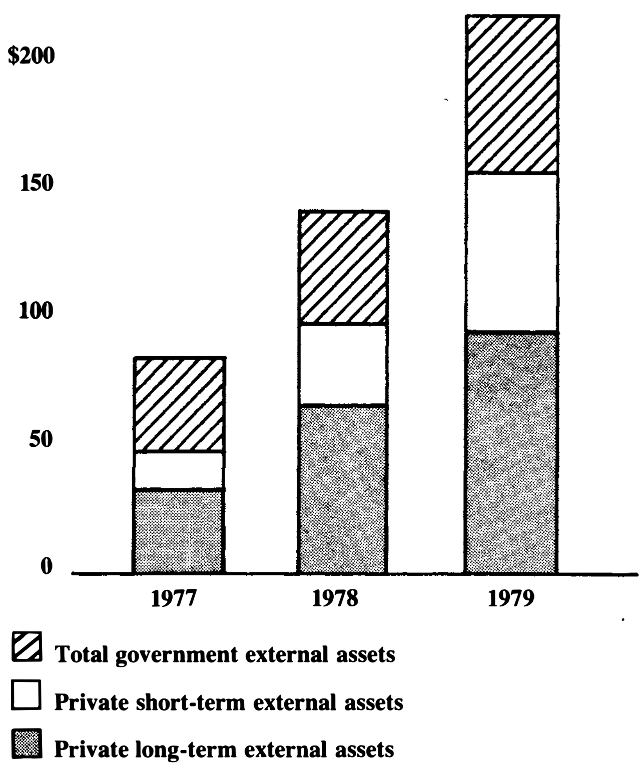
Source: Japan Ministry of International Trade and Industry (MITI).

Capital equipment includes electrical and non-electrical machinery and transport equipment; industrial supplies includes textiles, metals, industrial chemicals; consumer durables includes household electrical appliances, passenger car, toys, and musical instruments.

Generally, except for metals (which increased in proportion), industrial supplies have a lower technological content than either capital equipment or consumer durables. The biggest reason for the drop in the industrial supplies portion is the drop of textiles from 10% of total trade in 1964 to less than 1% in 1981.

Figure 3
Japanese overseas loans and investments mushroom

(Total outstanding external assets at end of year in billions of current dollars)



Source: Bank of Japan

Vision of Japan'' whose thesis was that economic growth in the advanced sector could not be sustained for long unless the developing countries were being industrialized. The MITI document charted an economic strategy for Japan in which Japan would upgrade its own technological development in large part by aiding the transfer of industrial technology to the developing countries.

In the early 1960s, MITI had decided to make Japan a major exporter of capital goods as part of its technological advancement. Up to that point, the bulk of Japan's exports were industrial supplies, mainly textiles and basic steel. Beginning in the early 1970s, in line with the ''Longterm Vision'' strategy, the developing countries were added as a major target market for capital goods sales. By 1981 a record $12.8 billion in contracts for entire industrial plants was ordered from Japan, primarily from developing countries. This was almost 9 percent of Japan's entire exports.

As a result of this program, capital goods steadily grew as a portion of exports. (See Figure 2.) Even though a majority of capital goods are still exported to the advanced sector, the developing countries have become an increasingly larger part of this market.

In part Japan managed this export feat because it deliberately undertook a program of foreign lending. The large Japanese banks, who usually belong to business groups together with trading companies and heavy industry producers, became an important source of international credit. Of the 1981 total of $160 billion in private overseas loans and investments, it is estimated that about half went to the developing countries. Aside from the amount that funded Japanese subsidiaries or resource projects in those countries, most of the rest funded Japanese trade with the borrowers, either directly or indirectly. (See Figure 3.)

Japan has cooperated, in particular, with Mexico's development program, helping steel, petrochemical and other projects. Of Mexico's $80 billion debt, an estimated $11 billion long-term and $5 billion short-term is held by Japanese lenders. Now, precisely because the Volcker high interest rates and the IMF austerity programs have wiped out investment in both advanced and developing countries, Japan cannot find markets for its capital goods. In the first half of 1982, Japan's exports of industrial machinery fell 23 percent, machine tools fell 17. In contrast motor vehicles fell ''only'' 6.6 percent and home electric appliances ''only'' 3.3 percent. The world investment collapse, not the consumer spending decline, is Japan's essential export problem.

On September 30-October 1, Japan's Export-Import Bank will sponsor a major symposium in Tokyo with cabinet ministers and top businessmen from Brazil, Mexico, Argentina, Venezuela and Peru. Peruvian Prime Minister Manuel Ulloa and Brazilian Planning Minister Delfim Netto will be giving addresses on promoting Japanese-Latin American economic cooperation, along with former Foreign Minister Okita. One of the panels is on financing. What happens at this symposium will be the next indicator of what Japan will or won't do.