Foreign Exchange by David Goldman

Will Japan bail out the Euromarkets?

The U.S. pressure for "opening of markets" hopes to hook a siphon into Japanese markets.

Japan's bitter resistance to the American call for the "opening of its financial markets" is less than surprising, considering the intent of the proposal.

According to Washington consultant Richard Medley, who organized a congressional visit to Japan early in April, the object is to siphon the monetary excess from the Tokyo financial market into offshore markets.

The delegation was headed by Senate Banking Committee ranking Republican, Jake Garn of Utah.

Japanese investors put $100 billion into the U.S. securities markets during 1986, but at their own discretion.

Although the Japanese lost massively on dollar investments, through the American currency's devaluation, the government of Prime Minister Nakasone encouraged such investments, as a means of buying America's continued support for Japan's strategic defense.

Now the United States is demanding much more: that the Japanese run an extremely loose monetary policy, and permit American firms to borrow the excess at will on the Tokyo market, and invest it in American securities.

All the talk about "trade in services," i.e., letting Merrill Lynch earn brokerage fees to compensate for Chrysler's import-payments for compact cars, has nothing to do with the grim urgency with which the U.S. Reagan administration, and congressional visitors such as Senator Garn and Rep. Charles Schumer (D-N.Y.), are pushing for the "opening."

As matters stand, the Japanese will not loosen monetary policy, because they already fear the result of the Tokyo stocks and real-estate bubble.

Opening the market will make it easier for money to flow out, in other words, into the Euromarket, and make it easier for the Japanese to expand their own money supply, Medley explains.

The Tokyo stock market, where some price-earnings ratios have risen to the incredible level of 1,000, has already experienced wild swings; after falling by a record 850 points on the Tokyo Dow-Jones Index, panic selling on April 28 caused the Tokyo market to lose over 1,000 points.

The market stabilized later that day, and closed down only 182.55 points at 22,889.86.

A projected crash of the Tokyo market has been cited frequently by financial commentators as a potential detonator for a crash of the financial system in general.

However, the prospect of opening its well-protected banking system to the U.S. international banks and brokerage houses runs precisely counter to Japan's attempt to stabilize its own financial institutions.

Japan is unlikely to agree to anything more than such symbolic gestures as permitting foreigners more seats on the Tokyo stock exchange. On the contrary, Japanese banks have been taking measures to insulate themselves from threatened financial chaos since last December, when they began to unload so-called perpetual floating-rate notes, i.e., the undated paper issued by British and American commercial banks.

The Japanese have disengaged from their previous role as buyer of last resort of other banks' paper; their withdrawal from the market led to the virtual freezing of the entire $200 billion market in floating-rate notes.

Subsequently, Japanese banks created an offshore corporation, frankly described as a "trash can" in some bankers' press statements, to offload their loans to developing nations, following the write-off of uncollectible Third World debts by the Swiss and other European banks.

Medley concedes that "there is enormous resistance in the bureaucracy," including "deeply ingrained monetarist sentiment at the middle-level of the bureaucracy." In short, the Japanese don't want to print money.

Asked about Japanese fears of increasing the offshore exposure of their banking system, he added, "Yes, the currents do run counter to each other."

It appears that the Japanese want to retain political control over their own financial system. Medley adds that the plan offered by Japan's former Foreign Minister Shintaro Abe, during his recent Washington visit, to provide $30 billion in aid to developing nations over three years, is "not altruistic.

"The Japanese want to secure their Asian and also their Latin American markets. They don't have to put any strings on the aid. If they go in there and say, 'Here's a billion dollars, enjoy it,' and then their trading companies go in to make a sale the next day, what do you think the Brazilians are going to do?

"Obviously, they want to make sure the Japanese will put another $1 billion in next year."