London takes aim at Japan, Inc.

The Anglo-Americans view Japan as one big "junk bond" waiting to blow up. First in a two-part series by Kathy Wolfe.

The scandals which have collapsed the Tokyo Nikkei stock index by 8% since June 21 to a seven-month low are intended to force Japan into the same financial deregulation which bankrupted the United States during 1978-82. If Tokyo falls for the trap, the Japanese "economic miracle" will end up resembling the current U.S. economic junk heap. The deregulation plans, and much of the scandal, have been set up by the British merchant banks such as Jardine Fleming which have piled into Tokyo from Hong Kong, with their sidekicks from Wall Street such as Lazard Frères, Salomon Brothers, and Merrill Lynch. Behind them are the Bank of England and U.S. Treasury Secretary Nicholas Brady, from Wall Street's old Dillon Reed investment bank, and the Federal Reserve.

These are the same financial geniuses who gave America the savings and loan fiasco. Is Japan next?

On June 21, officials of the world's largest brokerages, Nomura Securities and Nikko Securities, confessed at a Tokyo press conference that the firms had made $120 million and $122 million respectively in secret payments to compensate large clients for stock market losses. On June 22, the other two of Japan's "Big Four" brokerages, Daiwa Securities and Yamaichi Securities, acknowledged paying $72 million in stock loss reimbursements. The Tokyo stock market promptly began to collapse. By July 5, Japanese industrial firms and banks were drawn into the panic, when Hitachi, Japan's most prominent computer and electronics company, was accused of being one of the recipients of Nomura "kickbacks." Other industrial giants rumored to be on the take were Showa Oil (Japan Shell Oil) and Tokyu Rail. Major Japanese banks such as Sumitomo were also reported under investigation.

By July 9, total payments by the Big Four were reported to have been as much as $863 million. Protesting investors, led by the city of Osaka and pension funds, pulled large investments out Japanese brokerages. Industrial corporations suspended many stock issues.

Finance Minister Ryutaro Hashimoto, a prominent candidate for prime minister in Japan's October elections, took the heat—although such payments are *not* illegal in Japan. "Ministry Official Admits Coverup," ran the Kyodo news release June 24 which started the furor. "The Ministry of Finance turned a blind eye to payoffs. . . ."

Paul Blustein, Tokyo financial correspondent for the *Washington Post,* wrote on June 29: "The Finance Minister is regarded as a leading candidate to succeed Prime Minister [Toshiki] Kaifu in October, and his star could be badly tarnished. The ministry, given its extraordinary influence and intelligence capabilities, must have turned a blind eye." On July 9, the minister formally apologized to small stockholders, and took a 10% pay cut. The *Washington Post* is controlled by New York's Lazard bank, and its parent, Lazard's of London.

Where's the fire?

The source of all the accusations? Japan's Kyodo news service. If that seems odd, one might also ask: Since the payments were legal, why any scandal?

The instigator, in fact, was Robert Zielinski of the Tokyo office of Jardine Fleming, the current name of the old Hong Kong opium trader and merchant bank Jardine Matheson. A prominent economist often quoted on Japan, Zielinski, oddly enough, is also the author of an authoritative book on Japanese gangsters.

On June 7, Kyodo News, on a tip from Zielinski, began investigating Japanese gangsters on the Tokyo exchange. A Kyodo reporter at the U.S. Securities and Exchange Commission in Washington found 1989 SEC filings showing that West Tsusho Co., indirectly owned by Japanese gangster Susumu Ishii, had bought into two U.S. companies.

At the time, the news was that West Tsusho's financial adviser was the President's brother, Prescott Bush, who received $1 million in consulting fees. That story has been conveniently put on hold for now.

Kyodo also reported, however, that Japan's Finance Ministry was covering up those SEC reports. The same wire also charged the big brokers, Nomura and Nikko Securities, with making big personal loans to gangster boss Ishii, and with creating profits for him by falsely inflating the stock of Tokyu Rail Co. in which he held shares.

Zielinksi, the expert on Japanese gangsters in high finance, told the press that the gangsters "were flush with cash in the 1980s and given low yields at the bank, they had no place to go but the stock market."

An outcry erupted in the British and U.S. press about corruption at Japanese brokerages and the Ministry of Finance. Blustein of Lazard's *Washington Post* filed daily reports from Tokyo in U.S. papers, quoting Zielinski frequently. The London *Economist*, in an editorial "A Bridge Too Few," on June 15 denounced the ministry's collusion with business and its "reluctance to take on the four powerful securities companies" and the Japanese banks. "The ministry is the problem," it said, because it is only a front for Japanese financiers.

The *Economist* editorial demanded full, U.S.-style financial deregulation. An appended article, "The Great Japanese Bank-Share Bootstrap Act," advised readers to dump Japanse bank stocks, warning of a blowout in Tokyo.

After two more weeks of Kyodo wires in the Anglo-American financial press, Nomura and other brokers conceded payments had been made to West Tsusho and other businesses. The chairmen of two major brokerages resigned.

This only whetted the appetite of the British. Jardine's Zielinski, in the *Wall Street Journal* June 26, predicted a major crash about to hit the Tokyo stock market. Japan is "one big contingent liability [junk bond] waiting to happen," he said.

"We are in the 1990s now, and all the hoo-ha that the Japanese are very rich . . . is over," Jesper Koll at the Tokyo office of London's S.G. Warburg's told the *Journal*.

On July 2, columnist Allan Sloan of *Newsweek*, another publication controlled by Lazard's, openly called for a crash of the Tokyo markets in a column reprinted in the *Wall Street Journal*. "The reason the Big Four brokerages and their allies in Japan's government have gotten away with this garbage is Japanese markets are closed off from the rest of the world," he wrote. "If you're an optimist, hope for a good, nasty fall in Japanese stock prices soon. . . . Maybe a major stock collapse might arouse the Japanese public to force the government" to deregulate.

GATT into the act

Behind the threats are a gun, of sorts. At the May meeting of the General Agreement on Tariffs and Trade (GATT) on financial markets, U.S. Treasury Secretary Brady and the Bank of England demanded that the Japanese government adopt a far-reaching new financial deregulation plan, opening Japanese markets to London and Wall Street banks. The scandals are timely for them.

The Treasury has written a 506-page "National Treatment Survey" detailing its GATT deregulation program for Japan and 20 other countries including Germany, Mexico, Brazil, and India. GATT negotiators from the Bank of England and the U.S. Treasury want to make particularly sure that Japan does not make any preferential banking and investment deals with Asian nations such as India.

U.S. GATT negotiator Barry S. Newman, deputy assistant treasury secretary for international monetary affairs, told the House Banking Committee April 24 that the model for what the U.S. is demanding of other nations is the U.S. International Banking Act (IBA) of 1978. The IBA was written at the behest of London's Hongkong and Shanghai Bank, to allow it to purchase New York's Marine Midland in 1978. It removed all restrictions against foreign banks invading America, and began removal of all domestic regulations. Under Treasury's "Fair Trade in Financial Services Act" of 1991, now before Congress, Japanese firms will face expulsion if Japan refuses Treasury's demands at the GATT negotiations, Newman threatened.

If Hashimoto will not deregulate, he and the Finance Ministry will be destroyed by scandal, the *New York Times* wrote June 25. "The regulators at the MOF [Ministry of Finance] are now coming under intense scrutiny, as an outraged public asks: How could such practices be so widespread? . . . The problem is that the MOF's securities and banking bureaus have long been advocates for their industries. This is because after they retire from public service, they are often hired by companies they regulated.

"What's truly shocking is the reminder that Japan's MOF still hasn't quite caught up with the 18th century," said the *Wall Street Journal* editorial on June 26. "That was the era in which Adam Smith explained in *Wealth of Nations* why free markets do a better job than state bureaucrats. . . .

"Thus did Marcos end up with his cronies, thus does India ensure the monopolies run by a few big families, thus, too does Japan. . . . Such sorry spectacles . . . are the visible downside of the industrial policy and administrative guidance philosophy that prevents Japan's capital markets from becoming world-class."

Hashimoto told the press July 9 that his enraged small investors were ringing his phones off the hook, demanding his resignation, and the right to place their funds with brokerages other than the Big Four. Certainly U.S. and British brokers would be happy to take the business.

Tokyo, however, might better recall the old joke that Adam Smith's "invisible hand" is "the one in your back pocket." If "world class" means letting the London and New York banks come in and take over, better pass.

In September 1982, Citibank Chairman Walter Wriston told *Fortune* why he wanted to take over the $1.2 trillion in consumer deposits in U.S. S&Ls and banks outside New York. "Willy Sutton said he robbed banks because that's where the money is," Wriston laughed. "I see that $1.2 trillion out there, and I don't see any number that looks like that anywhere else."

According to the careful calculations of the U.S. Treasury's "National Treatment Survey," the Japanese stock market in 1990 was worth $5 trillion, Japanese banks were worth $7 trillion in assets, Japanese mutual funds worth $500 billion, and Japanese pension funds worth $225 billion. London and Wall Street bankers—especially those about to lose some Asian branches in the 1997 Chinese takeover of Hong Kong—don't see any numbers that look like that anywhere else.

Next week: National banking versus merchant banking.