Relentless Economic Crisis Pounds East Asia

by Mary Burdman

Yasuhiro Nakasone, one of Japan's most senior political figures, made an extraordinary statement, comparing the current lack of leadership and instability in Japan, to the tumultuous period of the 1930s, in an interview with the April 21 *Japan Times*.

"The style of politics followed by the [ruling Liberal Democratic Party] during the postwar era is now showing signs of metal fatigue," stated the former Prime Minister, who is 82. The LDP has not been able to contain the damage after the bursting of three "bubbles"—economic, social, and political. On the economy, "the government has continuously resorted to makeshift steps, pressured to take immediate measures," Nakasone said. These short-term measures fail, and Cabinet after Cabinet has resigned.

Nakasone's five-year government ended in 1987. Now, Prime Minister Junichiro Koizumi will become Japan's 11th prime minister in 13 years. Koizumi not only faces the ever-deepening economic and financial crisis in Japan, but, in July, there will be national elections for the upper house of Parliament.

Éminence grise Nakasone compared this situation to that of the late 1930s, when Japan had six prime ministers in just six years. The country, going through social and economic chaos, embarked on the 1937 Sino-Japanese War, which led into World War II. "Although problems plaguing Japan over the last decade are mainly economic, there is a resemblance [between then and now]," Nakasone told the *Japan Times*. It was in that chaotic period, when two prime ministers, as well as a number of other prominent figures, were assassinated, that Japan was taken over by fascist and militarist forces.

The end of the Cold War had a big impact on Japan, as it did on Germany. Now, "the important thing is to present a medium- to long-term goal so the people will have hope for the future," Nakasone said. But most politicians today are limited to "individual policies" and lack the ability to have a more comprehensive view. "The qualities needed in a prime minister are an aspiration to lead the nation and training on political [strategy]," he said.

The Ever-Growing Debt Trap

Nakasone made his warning, as Japan and East Asia as a whole are plunging again into economic-financial crisis far worse than that of the 1997-98 "Asian crisis." The U.S. economy is imploding fast, with Europe's not far behind. In the first quarter 2001, U.S. imports have taken the steepest rate of decline in more than 20 years, which has hit East Asia brutally. Southeast Asian leaders, including Malaysia's Prime Minister Dr. Mahathir bin Mohamad and Thailand's Prime Minister Thaksin Shinawatra, have been warning publicly of the effects of the U.S. contraction on their nations, with Thaksin warning at a UN meeting in Bangkok on April 23 that the economic future of Asia is "extremely precarious."

Japan, the world's second-largest economy and the only "G-7" economy in East Asia, is itself in a relentless downward spiral, which is sucking in the rest of the regional economies, because Japan is the largest or second-largest trading partner of most other Asian nations. The critical problem, is that Japan is enmeshed in an enormous, ever-growing trap of bad debt. Tokyo has now admitted officially that it is burdened with approximately $1.3 trillion in unpayable bad debt—22% of total lending in Japan. This figure is some four times the size of earlier official admissions. Japan's public-sector debt is fast approaching 150% of its annual GDP of about $5 trillion, the result of a decade of unsuccessful government "stimulus" programs and bank bailouts, which cost the government some $1.5 trillion.

Now, the trap is closing. Japan's banks are trying to write off their debt, estimated by international agencies as approaching 100 trillion yen, but in the process are cutting off credit to enterprises teetering on the edge of bankruptcy, despite the re-instituted insane zero-interest regime of the Bank of Japan. At the same time, enterprises are facing shrinking exports and rapidly increasing cheap imports from developing-sector Asian nations. Japan's trade surplus with the rest of Asia was down 34.2%, the Finance Ministry reported on April 19, because of "a rapid increase in imports from Asian countries, mainly from China, which ships a large volume of raw materials and finished products to Japan."

In his press conference on April 26, outgoing Finance Minister Kiichi Miyazawa warned that Japan's "current pace of economic growth is not enough, as we have huge debt. Unless growth rises more, government bond repayment is difficult." Shigemitsu Miki, president of Mitsubishi Tokyo Financial Group, one of Japan's and the world's biggest banks, told the London *Financial Times* in an interview on April 18, that the critical problem is that Japan's bad loans just keep growing. The Financial Services Agency is estimating that during April-September 2000, 3.6 trillion yen of more bad loans was created, as enterprise bankruptcies soar. "We thought we disposed of all our bad loans, but Japan's economy in the second half of last year has worsened, and so new bad loans are being created. . . . [As] we cannot really expect the economy to improve . . . in the first half of this financial year, we expect the balance of bad loans to increase further," Miki said. The Japanese government has contingency plans to cover only the very worst debt, amounting to 33 trillion yen

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($264 billion).

Especially hard hit is the construction sector, one of the biggest of Japan's real economy, which employs some 10% of the workforce. This sector was devastated by the crash of the real estate bubble in the 1990s, leaving behind an unresolved debt burden. Japan had turned to the information-technology "economy," centered on exporting to the United States, to fill the gap, but this sector is now in its death throes.

On April 13, the Japanese Cabinet Office warned that Japan's "economy is weakening. . . . Due to the U.S. economic slowdown, Japanese exports have declined, resulting in a fall of industrial output . . . [and] signs of stalled corporate investment." The same day, Economy, Trade, and Industry Minister Takeo Hiranuma warned that "economic prospects are extremely severe." A Bank of Japan report released on April 16 said that "net exports are falling rapidly," and that "industrial production is declining more sharply and excessive inventories of electronic parts and some materials are building up."

Bankruptcies are mounting: The liabilities of bankrupt Japanese companies have shot up 130.7% so far just in 2001, to 25.98 trillion yen ($209.8 billion), according to Japanese research institutes. The number of bankruptcies was also up, by 12%, and was above 18,000 cases for the first time in 15 years.

Japan had to report a 20.6% year-on-year fall in its trade surplus for fiscal 2000. On a monthly basis, the trade surplus fell for the third month in a row, down 20% in February, after a fall of 57.9% in January and 20.7% in December 2000. Especially hard-hit has been Japan's trade with the rest of East Asia, which is focussed around the computer/high-tech sector.

Thrown to the Wolves

The situation could not be more sharply posed for East Asia: Either these nations break with the "information technology" lunacy, and move rapidly, in cooperation with Russia and India, in the construction of the Eurasian Land-Bridge as conceived by Lyndon and Helga LaRouche, or it plunges further into disaster.

South Korea had been the world's 11th-largest industrial economy before 1997; now, its currency, the won, is again at "Asia crisis" levels of 1,340 to the dollar, with no recovery in sight. The won hit some 1,900 to the dollar at its lowest level in 1998. The resulting rising import prices are fostering out-of-control inflation. Exports are endangered: On April 18, the Korea Semiconductor Association reported that the market for its semiconductor chips is in the process of contracting by 45% this year. In 2000, the same market had grown by 108%. In an effort to bail out the stock market, the government has announced plans to get pension and other public funds to risk some 6 trillion won in the market, and Seoul announced a $21 billion bank bailout on April 23. At the same time, construction of the critically important North-South Korean railroad is not progressing, the result of President George W. Bush's loony, disastrous remarks about Pyongyang in February.

In Taiwan, capacity utilization in the computer/electronics sector has fallen to around 50%. Unemployment in March rose to a 15-year high of 4.1%. While this is low by Western standards, it reflects the closure of some 5,000 factories in Taiwan last year. Production has fallen 4.4% year on year, and many enterprises are moving to China, where costs are lower.

Southeast Asia, much poorer than South Korea or Taiwan, is even more on the edge. Small countries such as Malaysia and Singapore depend upon the electronics/high-tech sector for more than 50% of their exports. Despite Dr. Mahathir's protective policies, Malaysia, a nation of only 20 million, could lose 15,000 of its highest-paid jobs in the electronics sector.

Most endangered is Indonesia, a nation of 200 million people, which is being thrown to the wolves. The embattled President Abdurrahman Wahid is warning of civil strife, and police officers issued "shoot on sight" warnings for Jakarta on April 26. Yet, while Washington is ensuring that at least some International Monetary Fund monies are gotten to NATO member Turkey and to Argentina, part of Bush's Americas free-trade initiative, Indonesia is being driven rapidly into bankruptcy. A two-week IMF visit which ended on April 24 refused to release even a pathetic $400 million payment. This had been agreed to in December, and in the meantime it has lost 20% of its value due to the crash of the rupiah, now at 12,000 to the dollar, approaching its crisis-depth of 16,000. Jakarta is in the utterly impossible situation of trying to get new loans from members of the Consultative Group on Indonesia, the World Bank, the Asian Development Bank, the United States, and Japan, to meet its budget deficit—but that is dependent upon agreement with the IMF. Indonesia, with some $140 billion in external debt, is already paying some 45% of its budget for debt. The population faces utter poverty, and Indonesia faces civil war.

In this crisis, Lyndon LaRouche has made an urgent proposal which Asian leaders must heed. Japan and the other advanced nations must, he said in a discussion in Germany on April 18, first "raise the interest rates on general lending, thus accepting, now, a wave of bankruptcies of entities already hopelessly, inevitably bankrupt in fact." This would dry out the speculative bubble. Then, after putting the world economy through bankruptcy reorganization, nations must create "flows of new, low-cost credit . . . for public and private investments in the public interest." Such a policy was proposed in Germany in the critical year 1931, by Dr. Wilhelm Lautenbach and the Friedrich List Society. It was aborted when Adolf Hitler was pushed into power, but was implemented in the United States, by President Franklin Roosevelt. With such credit, Asia could launch in earnest the Eurasian Land-Bridge, also known as the New Silk Road.