Japan's Achilles heel: the IMF

Part 1 by Kathy Wolfe

U.S. Secretary of State James Baker, in a speech to the Japan Institute for International Affairs in Tokyo on Nov. 11, added insult to the injury of George Bush's cancellation Nov. 6 of the presidential trip to Japan. "Your 'checkbook diplomacy,' like our 'dollar diplomacy' earlier, clearly is too narrow," Baker said. He demanded that Japan immediately deregulate its rice and other markets under General Agreement on Tariffs and Trade (GATT), or risk "a serious political problem."

It is certainly true that Japan has now replaced OPEC as banker to the world. "Japan became the Riyadh of the 1980s," as one banker put it, "Anyone selling anything came through Tokyo." Japan sells more than other nations, however, because Japan alone has had the brains to continue industrial production and investment, while the rest of the world has shut down its production under "shock treatment" programs of the International Monetary Fund. From 1982, when the IMF put Argentina and Mexico in bankruptcy and moved to shut down the trade of most industrial nations, Japan's current account surplus rose from $9 billion, to $70-90 billion a year in the late 1980s.

During this time, Japan has made a strong effort to use those funds for development. Tokyo, however, has made a fatal blunder, by tying its international financial strategy to the IMF and the "Ditchley cartel" creditors committee of London and New York banks. While aid to the Third World has increased, the IMF forbids bank lending, and thus most private investment, to much of Africa and Ibero-America.

Now Japan is at a crossroads. The IMF and its Washington spokesmen are paper tigers, as the dollar-based banking system is about to crash. If Tokyo continues to follow IMF dictates, out of a foolish desire to "go along" with other industrial nations, that will only help to spread the IMF's "financial AIDS virus."

In this series, we explore what Japan has done to date with its financial might, and possibilities for the future. Japan's basic international profile shows a worldwide investment pattern in every part of the globe.

The American reader should suppress his media-induced racist reaction to these numbers. To the Japanese, this is a matter of national security. Precisely because Japan is under constant attack from the industry-haters in Washington and London, Tokyo is forced to invest heavily in every area of the world. As Sumihito Hirai of the Japan External Trade Organization (JETRO) told *EIR* in an interview we published last week, "Japan has no natural resources and Japan is a small market. Therefore we had to go everywhere, to secure resources and market share."

TABLE 1

Where Japan put its money, 1951-90

(cumulative; billions of dollars; fiscal years ending March 30)

To:	U.S.A., Canada	W. Europe, Australia, New Zealand	Third World	Global total
From Japanese:				
private investment	136	77	97	311
Ex-Im Bank loans	20	13.6	28.5	62.2
Foreign aid (ODA*)	0	0	40	40
Total all sources	156 (38%)	91 (22%)	165.8 (40%)	413 (100%)

* ODA = Official Development Assistance

Source: Ministry of Finance, Bank of Japan, Export-Import Bank of Japan, Japan Overseas Economic Cooperation Fund.

Table 1 shows the "bottom line." Funds have been distributed consistently at almost 40% in North America, 22% in the other OECD nations of western Europe, Australia, and New Zealand, and 40% to the Third World. (Japanese investment in eastern Europe has been tiny until now.)

The largest source of funds within Japan is, of course, the private sector, that is, Japanese industrial combines and banks which have generated Japan's own boom. Japanese private sector "non-portfolio" Foreign Direct Investment (FDI) rose from under $5 billion in 1982 to $67.5 billion in fiscal year 1989 and $57 billion in FY 1990. This totaled $311 billion during the postwar period. "Non-portfolio" means that this figure excludes stocks, bonds, and other purely financial investments made by the Japanese, focusing on business creation. The $311 billion private investment is 75% of Japan's $413 billion in total funds abroad.

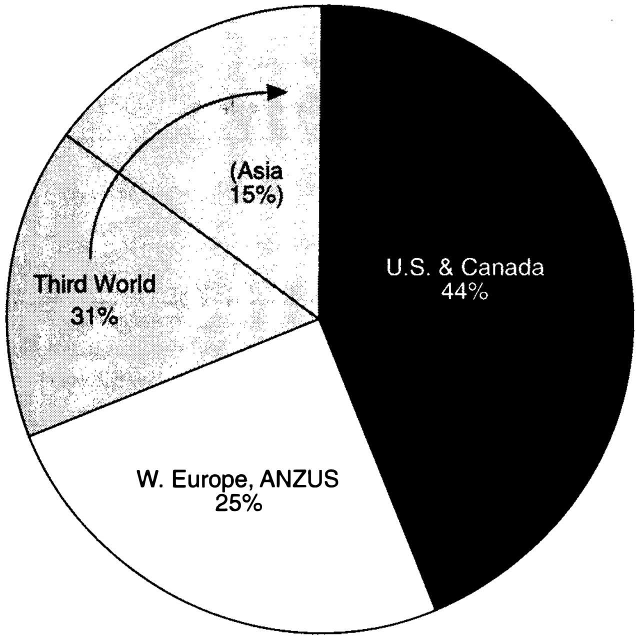
The U.S. received the lion's share of this direct investment. Further, during this time, the Japanese bought an additional estimated $200 billion in U.S. government debt, and billions in other American financial markets.

Secretary of State Baker's comment is thus not only insane, but ungrateful. Without a massive Japanese trade surplus, the U.S. Treasury bond market drops dead. From 1985 to 1989 alone, when Japan's current account surplus boomed, Japanese investors bought $150 billion in U.S. Treasury debt. In 1990, when Japan "successfully" met U.S. demands to cut its surplus in half, Japanese investors sold $8 billion net in U.S. Treasury debt, crashing the market.

Japan's current account surplus is headed back to the $70 billion level in 1991. *EIR* suspects that Washington squawks in public, but is privately relieved.

FIGURE 1

Japan's Foreign Direct Investment (FDI) 1951-90



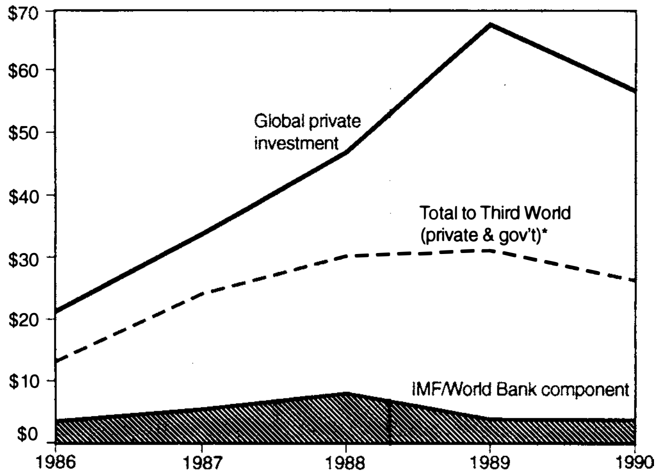
Cumulative global total = $311 billion

Source: Ministry of Finance, Bank of Japan, Export-Import Bank of Japan, Japan Overseas Economic Cooperation Fund.

FIGURE 2

Japan's investment booms, but not to Third World

(billions of dollars, fiscal years ending March 30, at constant conversion rate of Yen 130 = $1.00)



*Includes all Japanese private sector capital investment, Japan Ex-Im Bank loans, and Japanese government aid (ODA).

Source: Ministry of Finance, Bank of Japan, Export-Import Bank of Japan, Japan Overseas Economic Cooperation Fund.

IMF uses judo technique

Conversely, however, these figures also show that the IMF has been using the classical judo technique of controlling a large opponent (Japan) by a small fulcrum (Japan's external finances). **Figure 1** shows that of the largest category, private FDI, North America received 44%, other OECD nations 25%, and the Third World only 31%.

This is because, since 1982, the IMF and the World Bank have blacklisted the credit ratings of the entire continents of Ibero-America and Africa. This was not mere financial pragmatism, but a policy of deliberate genocidal reduction of the world's population by 2 billion people under the State Department's "Global 2000" plan.

Instead of bucking this trend, Japan has allowed the IMF to lead it by the nose. As a Japanese diplomat told a Mexican journalist, Japan's attitude has been *wei tan-zi:* "wait and see" whether the IMF will allow any investment. On IMF command, Japanese investors have stayed out of Ibero-America and Africa. Of the 31% of Japanese FDI investment which is in the Third World, 15% is in Asia.

The *type* of Japanese investment (not shown) is also heavily influenced by the IMF's preference for service sector, real estate, and other non-productive "post-industrial" waste. In North America, 64% of Japanese FDI is in the Anglophile banking, service, and real estate sectors. In Asia, 25% of investments are in those non-productive areas, primarily in the British-dominated financial centers of Hong Kong and Singapore. Out of that 12% of Japanese FDI which is in Ibero-America, more than half is in the Cayman Islands and other banking havens.

What has increased dramatically to the Third World is Japanese *government* funds. Japan's Foreign Ministry earmarked $65 billion for a "giving drive" to the Third World during 1987-91, to include $23.5 billion in Japan Export-Import Bank loans and $12.5 billion in foreign aid through Official Development Assistance (ODA). Japan exceeded its targets. ODA totaled almost $40 billion for the five years, making Japan the largest donor of foreign aid in the world. Japan Ex-Im loans to lesser developed countries reached $38 billion.

Figure 2, however, shows the IMF again poisoning the well. Japan's five-year plan also included $29 billion for the IMF and related agencies, giving the IMF a critical margin of control (bottom) in many Third World development plans. Japan's global private investment, the largest chunk of Japanese funds (top), tripled from 1986 to 1990. Since, however, the IMF bars Japanese private investors from much of the Third World, private Third World investment fell. Thus, despite Japanese government efforts, total funds to the Third World stagnated.

To be continued.