

US leads attack on Japan at G-7 meeting

Mike Head
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The G-7 finance ministers, meeting in London last week, were unable to produce any plan to resolve the economic meltdown centred in East Asia. Instead the focus of the meeting was an attack on Japan. The Clinton administration, joined by the European powers, blamed Tokyo for the Asian crisis and issued a series of economic and political demands on the Hashimoto government.

The atmosphere at the G-7 conference was summed up in a *New York Times* article by David E. Sanger: "As finance ministers from the world's leading industrialised countries gather in London over the weekend, the United States and its European allies have identified a new villain in the Asian financial crisis: not currency market speculators, not the crony capitalists of Indonesia and Korea, but the paralysed Japanese government."

In the days leading up to the London meeting, White House officials denounced the policies of the Hashimoto administration. US Deputy Treasury Secretary Lawrence Summers told Congress that Japan was engaging in "virtual policy"--a reference to its repeated pledges to stimulate its economy--and failure to act. US Trade Representative Charlene Barshefsky declared that Japan's efforts to end the Asian crisis were "woefully inadequate."

These charges found their way into the G-7 meeting's communique in somewhat more diplomatic language. "In Japan, activity is low and the outlook is weak," it said. Britain, France, Germany, Italy and Canada joined the US in declaring there was a "strong case" for fiscal stimulus during 1998. Such public interference in one member's economic affairs is rare for the G-7. Conflicts, demands and counter-demands are usually aired behind closed doors.

The real concern driving these statements is that Japanese big business has responded to the Asian financial meltdown, and its own mounting debt crisis,

by shifting much of its export drive from Asia to the US and Europe, while refusing to open Japan's industrial and financial markets to its American and European rivals. As the G-7 ministers assembled, the latest US trade figures showed the trade deficit rose by 24 percent to \$US10.8 billion for December. The 1997 US deficit showed the highest figure in nine years, at \$US113.7 billion, as deficits with Japan and China grew substantially.

US Treasury Secretary Robert Rubin led the charge at the London meeting, threatening Japan with the spectre of rising protectionist pressures in the US. Back in Washington, US Commerce Secretary William Daley was even more blunt. "Japan has to understand the political reality in Washington," he said before leaving on a week-long tour of Asia. "A soaring trade deficit and an election year are not a good mix for them."

Calls for Japan to "stimulate" its economy and "reform" its financial sector are codewords for demanding that the Japanese capitalists surrender domestic markets to their US and European antagonists, end the tight internal grip held by the Japanese banks and finance houses, and take more low-cost imports from the devastated countries of east Asia.

Washington has specifically demanded huge tax cuts in Japan to boost domestic consumption spending. It has rejected the six economic packages already introduced by a succession of Japanese governments since 1993. Those packages--costing a total of 56 trillion yen (\$65 billion)--primarily increased public works, benefiting the existing Japanese conglomerates.

At the same time, US and European companies are mounting an aggressive drive to take advantage of the East Asian crisis by expanding into markets in the region, traditionally a Japanese stronghold. In its March 2 cover story, *Business Week* reported that: "Foreign buyers, from opportunistic vulture funds to huge multinationals seeking strategic footholds, are scouring

the region. Many, such as Merrill Lynch & Co. and Coca Cola Co., find that assets they've coveted for years are suddenly for sale." Among these buyers are the Big Three US auto companies, previously unable to penetrate substantially into Korea, Thailand or Indonesia.

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The Hashimoto government has rejected the US-led demands and countered with charges of its own. Facing a worsening banking and financial crisis at home, it has accused the other powers of turning Japan into a scapegoat for an economic crisis of global dimensions. Japanese officials have begun distributing charts and graphs showing that they have offered \$US19 billion in emergency loans to South Korea, Indonesia and Thailand, compared with Washington's \$8 billion. They have also revived proposals for a yen-dominated "common currency" system in Asia, a proposal that seeks to challenge the supremacy of the US dollar in the region.

Instead of succumbing to US pressure for financial deregulation and tax cuts to boost internal consumption, Tokyo announced, as its offering to the G-7 meeting, an economic package designed to do the opposite: expand exports and prop up its banking system. The chief measures were 300 billion yen (\$3.5 billion) in new loans to facilitate Japanese exports to Asia, and various provisions to prevent the collapse of banks saddled with "problem" loans.

In the midst of this conflict, a well-known American business commentator warned that Japan's financial crisis had reached alarming proportions. "Japan is flirting with bankruptcy," wrote Rudi Dornbusch of the Massachusetts Institute of Technology in the February 26 edition of *Far Eastern Economic Review*. "Its banks are being downgraded by credit-rating agencies, its budget deficit has grown alarmingly large, and if unfunded pension liabilities are included, its debt is now equal to more than 200 percent of GDP. One might even say that in financial terms, Indonesia looks good compared to Japan."

Dornbusch referred to the Wall Street crash of 1929 and declared that Japan was teetering on the brink of a 1930s-style disintegration of financial institutions, confidence and economic activity. Such warnings show that Dornbusch and others are acutely aware that world

capitalism once more faces a breakdown of the order of the Great Depression. Nevertheless, Dornbusch backed the demands being made of Japan by Washington.

Similar conflicts between American and Japanese big business in the 1930s ultimately led to war. Today the escalating tensions between the US, Japanese and European capitalists can again threaten humanity with a global conflagration.



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