Tensions mount as Asian fallout spreads

Tokyo rejects US demands on economy

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The meltdown of the East Asian economies, which has already plunged Japan into its worst recession since 1974, is reigniting fundamental economic and political antagonisms between Washington and Tokyo.

In recent weeks the Clinton administration, backed in this instance by the European regimes, has issued one public statement after another blaming Japan for the Asian crisis. Speaking on behalf of their own big business cliques, the US and European governments have ganged up to demand that Tokyo cut taxes and increase government spending to boost internal consumption, and buy more from the rest of the world, including the East Asian economies.

Now, Japanese Prime Minister Ryutaro Hashimoto has hit back, rejecting the US criticism of his government's attempts to end the country's prolonged and worsening economic slump. Hashimoto told a parliamentary committee last Friday: "Demands for domestic stimulus measures from the US and others do not necessarily always produce positive results."

Hashimoto's belligerent tone reflects how much is at stake in this conflict. When Japan's rivals call on it to "stimulate" and "deregulate" its economy, they actually mean that it must absorb more imports and break the still considerable grip of Japanese conglomerates and finance houses over domestic markets.

Hashimoto was joined by his finance minister, Hikaru Matsunaga, who said: "We will stir domestic demand our own way. Many people talk about the Japanese economy and we take them seriously, but we will take adequate measures based on our own judgement."

Hashimoto's government has already introduced four separate economic packages since last October, but these have primarily increased public works, benefiting large firms close to the government. US spokesmen have been increasingly aggressive in calling for tax-cutting measures that will raise domestic spending without directly lining the pockets of the industrial giants.

US Treasury Secretary Robert Rubin has declared it "critically important" that Japan stimulate its economy, while his deputy, Lawrence Summers, has laid out specific targets. Summers said Japan should provide a fiscal stimulus of as much as 2 percent of Gross National Product.

Rubin meets with opposition leader

On March 5 Rubin went further. He directly intervened into Japanese domestic politics by meeting in New York with former prime minister Kiichi Miyazawa, now an opposition figure, to reiterate demands that Tokyo reduce its trade surplus, surrender Japanese domestic markets and slash corporate and personal taxes.

Last week Gene Sperling, one of Clinton's economic advisers, was even more specific. He said Japan should boost its economy with "real" measures worth between 8 trillion yen (US$62 billion) and 10 trillion yen. His reference to "real" measures was a thinly disguised attack on the Hashimoto administration for devoting its previous economic packages to propping up debt-ridden banks and companies.

Kunihiko Saito, Japanese ambassador in Washington, criticised Sperling for spelling out how much Tokyo should spend. "It is not constructive for a US official to comment publicly on Japan's economic measures, which the Japanese government has the right to decide on its own," Saito said.

Such public hostility on both sides of the Pacific is a measure of how quickly the Asian collapse has brought the conflicts between US transnationals and their Japanese rivals to a new peak of intensity.

Tokyo last week released data showing that, after stagnating throughout the 1990s, the Japanese economy officially slid into recession in the last quarter of 1997. The fall of 0.7 percent in Japan's Gross Domestic Product—the second consecutive quarter of decline—was a direct result of the Asian crisis.

In the wake of the East Asian collapses, Japanese banks have imposed a severe domestic credit squeeze, particularly hitting small and medium-sized businesses. Already saddled with more than $600 billion in bad debts, the banks have loans throughout the region that cannot be repaid at current exchange rates, including $23.2 billion in Indonesia alone.

While Washington is demanding increased government spending, Hashimoto has responded to the slump with further spending cuts. His government has followed Washington and other regimes around the world in implementing laws requiring balanced budgets. On the day that Hashimoto spoke, Japan's lower house of parliament passed a 77.67 trillion yen budget for the year beginning April 1, reducing spending almost across the board.

As the budget was voted on, a senior official of Japan's ruling Liberal Democratic Party announced that Hashimoto would soon unveil an economic package worth more than 10 trillion yen—but possibly without tax cuts. The LDP's policy group chairman, Taku

Yamasaki, said the package would include public works spending on telecommunications, education, environment protection and medical services.

Another senior party official, Yoshiro Mori, said the party would consider special tax cuts, but only for the year starting April 1, 1999. He said the government had recently passed a one-off income tax cut of 2 trillion yen and another “won’t impact quickly enough to float the economy.”

Trade crisis

The war of words between Tokyo and Washington has been fuelled by the Asian breakdown’s impact on global trading patterns. It has hit both Japanese and the US firms, although in different and contradictory ways. Hashimoto’s rebuff to the White House came as trade figures for February were released, showing a big increase in Japan’s surplus, and a record US deficit.

On the one hand, Japanese exports to Asia plummeted by 11.9 percent over all, reflecting the inability of East Asian businesses and consumers to finance purchases. Those to South Korea fell 38 percent, those to Thailand were down 41 percent, to Malaysia 24 percent and to Indonesia 56 percent. Such falls threaten to further undermine Japan’s economy. In recent years, Asia has accounted for about 35 percent of Japan’s total exports.

However, these falls were more than offset by expanded exports to Europe, and to a lesser extent, the US, combined with sharp declines in imports from Asia. Aided by a nearly 40 percent decline in the value of the yen since 1995, Japanese exports to the US grew by 7.2 percent, and exports to Canada were up 20 percent. Exports to the European Union continued to expand rapidly, rising 17.5 percent.

Despite devalued currencies and hence lower prices, imports from every Asian country dropped dramatically, with Malaysia, Vietnam and Indonesia suffering the biggest falls, down respectively 22 percent, 23 percent and 30 percent.

The Asian crisis hit US trade figures as cut-price imports flooded in and exports fell. According to the US Commerce Department, the monthly goods deficit rose $1.1 billion to $18.8 billion, a record high.

A revealing reference to 1995

The *Financial Times* of London commented over the weekend that the terse exchanges between Tokyo and Washington “highlight friction between the countries, now at its most intense since a dispute over opening the Japanese car market to imports in the mid-1990s.”

Such an assessment is extremely revealing. In 1995 the Clinton administration’s demands for access by the US “Big Three” vehicle makers to Japanese car markets almost unleashed the most serious trade war since the Great Depression of the 1930s. In the first half of that year the White House had aggressively driven down the value of the US dollar to 79 yen in order to hit Japanese exports. This economic warfare placed immense pressure on the Japanese financial system, already damaged by the protracted fall of the Tokyo share and property markets during the 1990s.

At the last minute, just before the June 28, 1995 deadline, the White House backed away from imposing punitive tariffs worth $5.9 billion a year on Japanese car imports, and signed a deal providing token access. Later that year it became clear that the US about-face was motivated by fears that Japanese banks were on the brink of a breakdown that could set off a chain reaction around the world.

Washington’s immediate concern was that Japanese banks could sell off their $200 billion holdings of US Treasury bonds in a last-ditch effort to stay afloat. Such a sell-off would have driven up US interest rates, pushed the US into a recession, and sent shock waves through global financial markets.

Hashimoto was Japan’s trade minister at the time. He claimed that the US had backed down, whereas Japan had maintained its “basic principles” by rejecting US demands for guaranteed shares of Japanese car markets. After the car accord was signed, the US, Japanese and German central banks began coordinated buying of US dollars, lifting its price to around 100 yen, bringing some relief to Japanese companies and banks. What was not stated was the reason: Japan’s serious financial crisis.

Following his apparent success in staring down the Clinton administration, Hashimoto was heavily promoted by Japanese big business and its mass media to succeed the discredited Socialist Party leader, Tomiichi Murayama, as prime minister in the LDP-SP coalition government. Today, Hashimoto is once more facing intense US economic pressure, but under even more critical conditions, with the collapse of Asian markets undermining one of corporate Japan’s main spheres of investment over the past decade.