Japanese big business most exposed to Indonesian crisis

Our Reporter
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Japanese banks and manufacturers stand to lose far more than their US and European rivals from the ongoing confrontation between the International Monetary Fund and the Suharto regime in Indonesia.

They are heavily exposed financially to a meltdown of the Indonesian economy and have the closest relations with Suharto's administration and business empires, which are sometimes presented as following the "Japanese model" of close national regulation.

Tokyo fears that any further deepening of the Suharto regime's financial crisis, exacerbated by the International Monetary Fund's restructuring demands, could trigger a new round of currency mayhem in Asia and deal an additional blow to Japan's banks and its already weak economy.

Over the past decade, Japanese businesses have been, by far, the largest exporters to, and importers from, Indonesia. Japanese firms have also been the biggest investors, and its banks the greatest lenders.

Japanese transnationals sank $25.13 billion into Indonesia in the 10 years leading up to 1997. That was 14.5 percent of aggregate foreign direct investment. The amounts involved grew astronomically in the last few years, from about $1 billion in 1993 to nearly $8 billion in 1996, before falling back to $5.4 billion in 1997, after the financial crisis erupted.

If Indonesia declares a moratorium on external debt payments, Japanese companies will be unable to take foreign currency out of Indonesia to buy raw materials and components, or repatriate their profits. Demand for their products in Indonesia will plummet further.

Japan's trade with Indonesia was worth $12.77 billion in the first 10 months of 1997, more than Indonesia's trade with any other country. Japanese firms have profited enormously by both selling to the Indonesian market and using Indonesia as a source of cheap labor and raw materials, reflected in the high level of imports back into Japan.

Exports to Indonesia in those 10 months totaled nearly $6 billion, whereas US exports were some $5.5 billion, followed by Singapore ($4 billion), Germany ($1.2 billion), Korea, China and Taiwan (all about $1 billion) and Australia ($0.5 billion).

Japanese companies imported materials and goods from Indonesia worth nearly $7 billion in the same period. The next biggest purchasers were businesses in the US ($4.5 billion), followed by Germany, Korea, Australia, Singapore, Taiwan and China (all around $1-2 billion).

This lucrative trade has already plunged in the wake of the rupiah's collapse. Japanese exports to, and imports from, Indonesia both fell by nearly 20 percent in January, compared to a year earlier. Perhaps the greatest concern for Tokyo is that Japanese banks, already staggered by bad debts, are seriously at risk in Indonesia. Their total exposure there was estimated to be $23.2 billion at the end of June 1997.

Some Japanese business figures are speaking publicly of their fears of an Indonesian default, triggered by the IMF's threatened withdrawal of emergency funds.

"Since the devaluation of the rupiah, many Indonesian companies have been facing difficulty in paying back their loans and in importing raw materials because local banks cannot get their letters of credit accepted overseas," Hideaki Shimizu, Jakarta representative of Japan Asia Investment Co., a fund management company, told *Nikkei Weekly*, a Japanese business paper. "Economic activity in Indonesia has been paralyzed and the nation is very close to defaulting on external debt."

Speaking anonymously, an executive of a major Japanese commercial bank said: "We will have to set aside a substantial amount of funding to cover potential losses in case of a major Indonesian default.” Most Japanese lending in Indonesia went to subsidiaries of Japanese companies, but repayments were only partially guaranteed by the parent firms. “A substantial amount will be unrecoverable because lending to relatively large subsidiaries in Indonesia is often not guaranteed by the parent,” the bank executive said.

These fears sent Japanese Prime Minister Hashimoto to Jakarta last weekend in a desperate bid to mediate between Suharto and the IMF. Tokyo earlier proposed the establishment of an Asian version of the IMF, with fewer strings attached to yen-based loans, but was bluntly rebuffed by Washington, which did not want to see the IMF’s preeminence challenged.