What is Japan's “Big Bang” financial deregulation?

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Japan’s long promised start to financial deregulation, dubbed the “Big Bang,” began inauspiciously on April 1. As signs of a deep recession grew, the yen slid against the US dollar to near its lowest level in five years, and the stock market plunged, boosting the hidden losses of the country’s major banks and finance houses.

Western financial interests criticized the government of Prime Minister Ryutaro Hashimoto for introducing several new provisions allowing the debt-riddled money houses to effectively “cook their books,” so as to disguise their mounting losses and problem loans.

Both the worsening economic slump and the international complaints point to deeper, and fundamentally irresolvable, conflicts that lie at the heart of the “Big Bang” package. The three-year program to open up Japan’s banking, insurance, stock exchange and superannuation markets to global competition is already leading to a ferocious struggle between the giant Japanese, European and US banks.

Two opposed agendas are being pursued. The world’s biggest banks and investment houses, and their respective governments, have demanded the changes to gain access to Japan’s lucrative markets—including an estimated 1,200 trillion yen (US$9.2 trillion) in personal savings.

However, the Hashimoto government’s aim is to restore Tokyo as the unrivalled financial center of Asia and reassert its global position against New York, London and Frankfurt. When the government first announced the plan in November 1996, it borrowed the “Big Bang” name from the deregulation introduced by the Thatcher government in Britain.

The Big Bang package is a complex series of measures (contained in a 2,132-page tome, weighing five kilograms), staggered from April 1, 1998 to March 2001. The first liberalization removes barriers to companies buying and selling, and offering investments, in foreign currencies. By 2001 it will be theoretically possible for Japanese and overseas-owned institutions alike to perform banking, insurance, stock brokering and investment services in yen or any other currency, with minimal government regulation.

Many of the world’s big financial conglomerates have moved quickly to try to wrest funds and profits from their Japanese rivals, often establishing local partnerships as the best means to proceed in the first instance. On a single day in the middle of March, Dresdner Bank and Jardine Fleming announced separate tie-ups with Japanese partners. Other finance houses—such as Merrill Lynch, GE Capital, Swiss Bank Corp.—announced their plans even earlier.

Business observers have already warned of the clash of corporate interests in joint ventures. “The interests of Japanese institutions and the interests of foreign institutions are generally incompatible,” a European brokerage analyst told the *Far Eastern Economic Review*. The European and US companies have said they will not seek to poach their partners’ customers, yet they will welcome those who switch. The Japanese firms, themselves no more committed to long-term alliances, are looking to benefit from foreign expertise.

That may be why Merrill Lynch has chosen to step into the market without a Japanese partner. It has taken on 2,000 employees and 30 branches from the defunct Yamaichi Securities. Yamaichi, one of Japan’s largest brokerage houses, collapsed last November, owing $2.1 billion. Merrill Lynch’s purchase expresses the real perspective guiding the Western financiers—to profit from the demise of their Japanese counterparts.

All the companies rushing into Japan have their eyes on the life savings that millions of Japanese workers and retirees have shifted out of banks and into the postal savings system. It pays interest of just 0.25 percent a year but carries a government guarantee. The collapse of the Japanese share and property markets in the early 1990s has made many working class people, who have to set aside their own funds for old age, fearful of riskier investments.

The global operators are seeking to reverse this outlook. They will promise high returns to convince younger workers, in particular, to gamble on pension mutual funds and other forms of share market investment.

Deregulation has led to predictions of a flight of capital from Japan if the economic and financial crisis worsens. "Financial deregulation within a stagnant economy could first send a *tsunami* (tidal wave) of money out of Japan as citizens, seeking higher returns, invest abroad for the first time. 'Sell Japan' could become the reality as people buy dollars and dump the Nikkei for the S&P," commented *BusinessWeek*, referring to the Tokyo and New York stock exchanges.

At the heart of these concerns is the fact that the Japanese financial system is rotted. Back in 1989, when the Nikkei share index peaked at 39,000, more than double its current level, the Tokyo financial market outstripped London, Paris and Frankfurt and loomed as a challenger to Wall Street. Today, seven years after the bubble burst, the Japanese financial system is in danger of a complete meltdown as companies begin to write off trillions of yen in bad debts.

In many cases, the collapse of the East Asian markets, where Japanese financial institutions also invested heavily, has made it impossible to disguise any longer the true damage of the 1990s. Some of Japan's biggest finance houses have already fallen in recent months, including the Tokuyo City Bank, Sanyo Securities and the Hokkaido Takushoku Bank.

When on March 31, the end of the 1997 fiscal year, the Nikkei closed at 16,527—down 8.2 percent from a year earlier—other banks could have collapsed as deflated share prices undermined their closing balances. As the deadline loomed, the Ministry of Finance decided to allow banks to value their share holdings at the purchase price, not actual value. Yasuda Trust and Banking, for example, would have had to report additional losses of $450 million if not for the change, according to an estimate by Deutsche Morgan Grenfell.

Other measures were also taken to prop up the financial sector, including a $232.5 billion bank bailout. One feature of this bailout was a March 30 transfer of $7.6 billion in postal savings and postal insurance funds to the trust banks.

The financial package is part of a wider deregulation plan covering 624 areas, including telecommunications, transportation, medical care and legal services, unveiled on March 31. In these fields too, the US and European governments have complained that the pace is too slow and the scope of market opening is too narrow.

"Japan is not doing enough," stated Frank Hesske, minister-counselor and deputy head of deregulation for the European Commission in Japan. US Trade Representative Charlene Barshefsky had an even more negative view. "The new deregulation program is too vague on key issues and often delays implementation of important regulatory changes for several years," she said.

As the rival banks, finance houses, brokerage firms and industrial giants fight for increased market shares at each other's expense, the jobs and life savings of millions of workers in Japan are threatened. According to some predictions, Japan's official jobless rate, already at a record high of 3.5 percent, will rise to nearly 6 percent by the end of 1998.