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Japanese Banks and The Latin American Debt Problems

Os bancos Japoneses e os problemas da dívida latino-americana

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RESUMO: O artigo descreve a relação do Japão, especialmente de seus bancos privados, com o problema externo da América Latina. Ele fornece informações de histórico relevantes e examina a abordagem adotada pelos círculos financeiros japoneses. O Japão se tornou agora o país com o maior superávit comercial do mundo e é considerado como tendo as maiores reservas financeiras. Mas a presença do Japão na discussão de medidas fundamentais de alívio da dívida não foi significativa, como seu montante total de crédito pode implicar.
PALAVRAS-CHAVE: Plano Brady; crise da dívida; fluxos internacionais de capital.

ABSTRACT: The paper outlines the relation of Japan, especially its private banking facilities, to the Latia America foreign problem. It gives relevant background information and examines the approach taken by Japanese financial circles. Japan has now become the country with the world's biggest trade surplus and is regarded as having the largest financial reserves. But Japan's presence in discussing fundamental debt relief measures has not been significant as its total amount of credit might imply.
KEYWORDS: Brady plan; debt crisis; international flows of capital.
JEL Classification: F34; H63.

INTRODUCTION

Early in March 1989, fresh from his January inauguration, President George Bush of the United States and his government announced the Brady Plan, their new international debt strategy which incorporates reductions in payments of debt service by debtor countries. It has been described as the first serious action taken by a developed country toward reducing the burden of debtor countries in the seven

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years since the Latin American debt problem, starting with Mexico,[1] took a critical turn. Although an evaluation of the effectiveness of the Brady Plan has to be postponed until results of its practical application are obtained, Japanese financial circles have expressed appreciation for it,[2] saying that the basic idea of U. S. Treasury Secretary, Nicholas F. Brady's new debt strategy, was drawn from the so called "Miyazawa Plan" proposed by former Japanese finance minister Kiichi Miyazawa, in which expansion of the functions of the International Monetary Fund (IMF) and the World Bank was stressed.

While the composition of creditors for Latin American countries naturally differs for each debtor country, Japan, generally speaking, is the second ranking creditor nation after the United States. Japan has now become the country with the world's biggest trade surplus and is regarded as having the highest financial reserves. Expectations for Japan's economic cooperation has naturally increased among debtor countries over the years. In the context of the debt problem, however, Japan's presence has not been as significant as its total amount of credit might imply.

This gap is partly attributable to Japan's geographical location, being so distant from the debt plagued regions, with the exception of the Philippines, Japanese policy makers and financial circles, when considering debt problems, have always tended to think that "Latin America is the backyard of the United States, whose problems should be primarily managed by the U.S. government and dealt with by U.S. financial circles."[3] In addition to the traditional U.S. – Latin America connection, there is a historical reason for Japan's attitude. Japan's private banks have only relatively recently launched into foreign markets and the progress of their approach to foreign debt has been "a process of learning," bringing with it the gradual internationalization of Japan's financial circles. Further, a lag in awareness has existed on the Japanese side concerning the seriousness of the Latin American debt problem. The problem of debt was identified mainly as a "liquidity crisis", while the "growth crisis" of the debtor countries, another important aspect of the debt problem, was de-emphasized.

This paper outlines the relation of Japan, especially its private banking facilities, to the Latin American foreign debt problem, giving certain relevant background details and examining the approach taken by Japanese financial circles. Based on these data, the author would like to pose an argument concerning the relation of Japan to Latin America.

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[1] As for details of the Latin American debt crisis starting with Mexico, refer to the author's Country Risk – Debt Crisis in Latin America (in Japanese, Tokyo, The Nihon Keizai Shimbun Inc., 1983).

[2] Comments delivered by Mr. Murayama, the Minister of Finance, reported in The Nihon Keizai Shimbun, March 11, 1989.

[3] Similar opinions are too numerous to mention and are often heard in the author's interviews with government officials and leaders of Japanese banks or in newspaper reports.

JAPAN'S RELATION TO DEBT PROBLEM OF LATIN AMERICA

Loans to third world countries, in general, are largely divided into (a) official funds by government institutions such as export-import banks and economic cooperation agencies (Overseas Economic Cooperation Fund – OECF, for Japan), (b) funds collected from many and unspecified investors through the issuance of bonds by debtor nations, and (c) funds from private sources financed by private banks. The private loans mentioned last are brought into focus in this paper in relation to the Latin American debt problem.

Official funds, because of their favorable loan conditions for borrowers, normally having low and fixed interest rates, have always been an attractive option for borrowing countries. For creditor countries, on the other hand, the question of continuous extension of official funds has been used as a bargaining chip to third world countries. However, unlike the period around 1970 when official funds on a direct bilateral basis accounted for 31% of the total indebtedness of Latin American countries,[4] in 1982 the ratio had declined to 12% on average, causing a drop in their relative significance. Thus, the amount was no longer large enough to directly cause an international liquidity crisis for the creditor countries.

In this connection, concerning Japan's official funds, annual direct loans by the Export-Import Bank of Japan to Latin America were Y 157.2 billion ($ 0.71 billion at the 1981 year-end rate of Y 218.9/dollar) and direct government loan through OECF were Y 24.1 billion ($ 0.11 billion) as of 1981. That was immediately before the outbreak of the Latin American debt crisis.[5]

Meanwhile, fund raising in Japan by means of public issue bonds was allowed for only four countries: Mexico, Brazil, Venezuela and Argentina in Latin America, accounting for Y 376 billion ($ 1.71 billion). The number of countries being allowed private placements in the region was six, accounting for Y 167 billion ($ 0.76 billion).[6] Unlike the debt crisis of the 1930's when bonds became irrecoverable, the ratio of bonds to the total indebtedness of Latin America in this debt crisis was only 7% (as of 1982), which alone could not cause any serious problem. Perhaps the only exception is Costa Rica, where arrears of the foreign-currency-denominated government bonds were the major problem.

In view of fund resources, therefore, the biggest characteristic of the debt problem this time was the presence of a huge amount of private bank loans based on floating interest rates accounting for 57% of the total indebtedness (as of 1982). Japanese banks played an important role in this development. Table 1 shows the

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[4] Inter-American Development Bank, Economic and Social Progress in Latin America (Washington, D. C., Inter-American Development Bank, 1988).

[5] Ministry of Finance, FY 1982 Annual Report of International Finance Bureau (Tokyo, Kinyu Zaisei Jijou Kenkyukai, 1982).

[6] Ministry of Finance, FY 1988 Annual Report of International Pinance Bureau (Tokyo, Kinyu Zaisei Jijou Kenkyukai, 1988).

transition of medium/long-term overseas lending outstanding by region for private Japanese banks.

Unfortunately, the figures only become available from 1983, after the debt crisis had already become serious. Nearly 50% or $ 38 billion of the total $ 77.8 billion external loan outstanding as of the end of 1983 was to developing countries. Furthermore, loans to Latin America accounted for 31% of the total amount, 2.4 times that of Asia, which has rather closer relations to Japan in both geographical and trade/investment aspects. Moreover, the amount was almost equivalent to the loans to developed countries (OECD nations).

Table 1: Japan's Medium/Long-term Lending Outstanding by Hegion

Billion U.S. $, %
Upper row: Total lending
Italics: Distribution
Lower row: Yen-based lending

	1983		1984		1985		1986		1987	
	Value	%	Value	%	Value	%	Value	°lo	Value	%
International	6.2	8	7.3	8	10.2	9	12.9	8	18.6	8
Organizations	5.3		6.3		9.3		11.5		17.0	
OECD Countries	28.6	37	35.1	38	45.8	39	67.4	42	114.7	49
	5.7		9.2		16.1		25.2		43.6	
Eastern Europe	5.0	6	5.1	6	7.9	7	12.0	7	15.4	7
	1.7		1.6		2.9		4.2		5.5	
Latin America	23.9	31	28.3	31	31.4	27	38.1	24	43.9	19
	2.1		3.4		6.1		9.9		16.3	
Asia	10.0	13	12.1	13	16.6	14	23.9	15	32.4	14
	2.7		3.6		7.3		12.1		18.9	
Middle East	0.4	/	0.5	I	0.6	I	0.9	,/	1.0	
	0.1		0.1		0.1		0.1		0.2	
Africa	3.7	5	3.6	4	4.5	4	5.9	4	6.7	3
	1.8		1.6		2.4		3.3		4.0	
Others	0.1	-	0.1	-	0.1	-	0.2	-	0.3	
	-		-		-		-		-	
Total	77.8	100	92.1	100	117.1	100	161.3	100	233.0	100
	19.4		25.8		44.2		66.4		105.7	

Source: Ministry of Finance, FY 1985-1987 *Annual Report of /nternational Finance Bureau.*
Note: Yen-based lending (including Euroyen lending) is converted into dollar from MOF statistics using the year-end exchange rate; ¥ 232 per dollar in 1983, ¥ 251 in 1984, ¥ 200 in 1985, ¥ 160 in 1986 and ¥ 123 in 1987.

Table 2 shows lendings by country. Since no statistics by country have been officially disclosed by the Ministry of Finance,[7] data reported in "Country Risk Information" issued by The Japan Bond Research Institute, which is based on informal sources of the Ministry and financial circles, were used here. The table shows that as of 1984, among the major borrowing countries (except those of the Western developed nations), Mexico and Brazil ranked the highest by far, at $ 9.7 billion and $ 7.7 billion. Furthermore, six out of the 13 borrowing countries having debts of $ 1 billion or more to Japan were in the Latin American region. The Asian countries with the largest loans were Korea with $ 3.3 billion, Malaysia, $ 2 billion, and Indonesia, $ 1.9 billion.

Table 2: Japan's Private Banks' Lending Outstanding by Country

(Million dollars)

	Dec.1984	Sep.1986	Mar.1987	Sep.1987
Latin America				
Brazil	7,732	8,930	9,241	9,132
Mexico	9,715	10,768	10,495	11,058
Argentina	2,237	5,043	5,227	4,982
Peru	338	335	337	335
Chile	1,260	1,547	1,532	1,570
Ecuador	736	785	801	791
Venezuela	2,357	2,334	3,787	3,791
Bolívia	2	2	3	2
Colombia	781	944	1,259	1,189
Uruguay	91	91	94	94
Panama	1,893	4,270	4,964	5,246
Costa Rica	155	181	183	180
Cuba	113	180	191	192
Jamaica	11	17	17	17
Trinidad and Tobago	216	340	346	341
Asia				
Korea	3,378	6,006	5,720	4,777
Hong Kong	1,268	2,455	3,092	4,253
China	322	1,730	2,470	3,132
Philippine	1,232	2,116	2,340	2,282
Thailand	764	2,049	2,187	2,429
Singapore	511	732	1,168	1,482
Indonesia	1,941	4,402	5,214	5,289
Malaysia	2,077	2,558	2,949	2,838

[7] It must be noted that the disclosure of Japanese finance information is still behind that of European countries and the United States. The figures shown in Table 2 are slightly higher than those in Table 1 mostly because of different conversion values adopted for exchange rates.

India	181	506	1,409	1,626
Africa				
Algeria	795	2,487	2,695	2,690
Liberia	1,412	2,218	2,231	2,260
East Europe				
USSR	554	3,473	4,089	4,609
East Germany	675	2,223	2,615	2,912
Poland	616	664	676	674
Hungary	1,107	2,738	3,228	3,391
Bulgaria	27	592	952	1,132
Yugoslavia	673	774	770	772
Total (incl. others)	90,142	152,681	181,356	205,830

Source: The Japan Bond Research Institute, *Country Risk Information*, Apr. 13, 1987, Jan. 25, 1988.
Note: Exchange rates for conversion; ¥ 231.0 per dollar in Dec. 1984, ¥ 153.6 in Sep. 1986, ¥ 145.8 in Mar. 1987 and ¥ 146.35 in Sep. 1987.

The loan ratio to developing countries since that time has sharply decreased from 50% as of the end of 1983 to 36% as of the end of 1987. This is because financial transactions among the Western developed countries have become active due to financial deregulation and sustained economic growth for Japan, America, and Europe. The business attitude of Japanese banks has shifted attention from the markets of developing countries, with their risks of debt problems, to those of developed countries.

Whereas the Latin American loan ratio has decreased from 31% to 19% in five years, the loan ratio to Asian countries has been nearly constant at 14%. This should be noted as part of the lending trend among developed countries to shift their area of primary interest from Latin America to Asia. Further, although the loan ratio to Latin America was sharply decreased, the amount of loans itself has shown an increase of 1.8 times, from $ 23.9 billion to 43.9 billion. This should be specially noted together with the trend in loans outstanding by American banks to Latin America, which will be discussed below.

How much significance does the Japanese bank's lending have for Latin American nations? Both debtor countries and creditor countries, not wanting to show their cards, are currently reluctant to disclose figures by bank and by country. We can only estimate the ratios based on rescheduling of principal and additional loans (so-called new money) in relation to debt support plans. For example, in the case of Mexico, the generally accepted figures of 30% by American banks and 14% by Japanese banks are approximate figures.

Only for Brazil has the full picture been disclosed for the period to the end of 1986 when, in August 1987, Folha de São Paulo, a leading Brazilian daily newspaper, printed a list of names of banks and companies (including trading firms, manufacturer and financing companies having large amounts of loans to Brazil) having outstanding loans of $ 50 million or more.[8]

According to the report, among private banking institutions worldwide with loans outstanding of $ 50 million or more, 35 were American accounting for 17.4% of Brazil's total medium/long-term debts outstanding ($ 17.76 billion). Not surprisingly, 38 were Japanese accounting for 11.9% of their total debts outstanding ($ 12.20 billion) England, which historically has had longer economic relations with Brazil as compared to Japan, stood third with 8.4% of $ 8.52 billion. France was fifth with 5.9% of 6.00 billion. Canada came sixth with 4.6% of $ 4.65 billion. And West Germany was seventh with 3.8% of 3.89 billion. It is interesting that the banking institutions of Brazil, the borrowing nation, were placed fourth on the list, accounting for 7.5% of $ 7.61 billion. Setting this aside, so far as the loan amounts are concerned, the Japanese role can be said to be quite important.

LATIN AMERICA AND THE FINANCIAL INTERNATIONALIZATION OF JAPAN

Japanese banking institutions conducted quite extensive overseas business before World War II, with overseas branches and local offices amounting to 79 and 72 respectively as 1942.[9] All these bases, however, were lost by Japan's defeat and a fresh start had to be made after conclusion of the peace treaty in 1951. Although six overseas branches were opened in that same year in New York and London by five Japanese banks, the take-off had to wait, as shown in Table 3, until capital transactions were liberalized early in the 1970's, backed by Japan's constant trade surplus.

Table 3: Establishment of Overseas Business Points for Japanese Banks

	Branches	Local Affiliated Corporations	Representative Offices	(Number) Total
1965	4	0	0	4
1966	3	0	0	3
1967	2	0	0	2
1968	1	1	1	3
1969	1	0	5	6
1970	1	2	11	14
1971	4	4	23	31
1972	15	5	18	38
1973	10	11	22	43
1974	14	14	18	46
1975	3	0	27	30
1976	6	7	23	36

[8] Folha de S. Paulo, September 2, 1987.

[9] Ministry of Finance, FY 1977 Annual Report of International Finance Bureau (Tokyo, Kinyu Zaisei Jijou Kenkyukai, 1977).

1977	11	7	12	30
1978	4	10	16	30
1979	5	1	22	28
1980	12	8	24	44
1981	12	7	23	42
1982	8	14	55	77
1983	9	15	42	66
1984	10	16	34	60
1985	13	33	63	109
1986	16	31	36	83
1987	12	14	25	51

Source: Ministry of Finance, *FY 1977-1988 Annual Report of international Finance Bureau.*

As of the end of 1987, overseas locations for Japanese banking institutions included 227 branches, 205 local affiliated corporations and 405 representative offices.[10] Compared with foreign investments by trading firms which promptly expanded their overseas networks after the War or by manufacturers who became internationally active late in the 1960's, internationalization of banks got a late start.

However, the expansion of overseas business by Japanese banks since that time has been remarkable. Although initially started mainly with the financing of Japanese firms' operations, they have rapidly increased in the area of foreign lending. This trend was accelerated by the rapid growth of the Eurodollar market (based on oil dollars since 1972/73); by the surplus in Japan's international balance of payments starting from 1976; and, further, by the substantial increase in the power of the yen as an international currency. The trend can be seen from Table 4, table of international balance of capital accounts, which can be more clearly understood by reference to Table 5, which shows the rapid increase of the foreign loans outstanding, including short-term lending by Japanese banks.

The expansion, however, did not follow a straight course. In June 1974, unrest in international financing was spread by the bankruptcy of West Germany's Herstatt Bank. Further, under the circumstances of the sharp rise in the Eurodollar rate and of international criticism raised toward the Japanese bank's controversial "Japan premium" fundraising methods, which exceeded the international money market rate, the Ministry of Finance, in July 1974, announced the prohibition of increases in short-term (loan period of one year or less) foreign loans outstanding and took measures not to admit, in principle, any medium/long-term foreign lending (loan period of over one year). New loans decreased and the debt outstanding remained level between 1974 and 1977.

The Ministry of Finance, subsequently, relaxed the measures by stages starting

[10] Ministry of Finance, FY 1988 Annual Report of International Finance Bureau (Tokyo. Kinyu Zaisei Jijou Kenkyukai, 1988). Japanese banks bases in Latin America, as of this time, counted nine branches, seven local affiliated corporations, and 52 representative offices. However, financial negotiations for syndicated loans, etc. are mainly conducted at the money centers of New York and London and decisions are made in Tokyo headquarters. The numbers of local bases, therefore, do not always reflect the degree of financial involvement.

Tabela 4: Japan's Long-term Capital Balance

(Million dollars)

	Overseas Assets					Overseas Liabilities					
	DI	TC	Loans	PI	Totel	DI	TC	Loans	PI	Bond	Totel
1965	77	243	115	0	446	47	−9	18	−61	72	31
1966	107	401	149	1	706	30	−30	−18	−25	−25	−102
1967	123	481	221	4	875	45	−32	29	70	−13	63
1968	220	586	237	3	1,096	76	−15	478	229	119	857
1969	206	674	336	1	1,506	72	3	385	730	200	1,353
1970	355	737	628	62	2,031	94	7	80	252	44	440
1971	360	863	594	195	2,231	210	8	20	940	8	1,149
1972	723	324	1,684	1,188	5,020	169	11	−197	696	−105	533
1973	1.904	1.048	3,038	1,787	8,468	−42	−12	−313	−591	−198	−1,282
1974	2.012	672	1,136	141	4,063	202	−6	−232	−865	80	182
1975	1.763	29	1,295	24	3,392	226	−26	166	1,518	1,235	3,120
1976	1,991	571	1,525	146	4,559	113	−5	326	3,104	1,509	3,575
1977	1,645	1,388	472	1,718	5,247	21	−13	−324	2,355	1,099	2,063
1978	2,371	142	6,299	5,300	14,872	8	−22	−7	2,487	833	2,483
1979	2,898	−1,288	8,102	5,865	16,294	239	−33	−169	4,282	2,210	3,318
1980	2,385	717	2,553	3,753	10,817	278	−16	−231	13,113	1,236	13,141
1981	4,894	2,731	5,083	8,777	22,809	189	−15	−186	13,220	1,368	13,137
1982	4,540	3,239	7,902	9,743	27,418	439	−6	−181	11,860	4,281	12,449
1983	3,612	2,589	8,425	16,024	32,459	416	8	−37	14,148	5,663	14,759
1984	5,965	4,937	11,922	30,795	56,775	−10	3	−77	7,194	7,350	7,124
1985	6,452	2,817	10,427	59,773	81,815	642	29	−75	16,741	12,890	17,273
1986	14,480	1,836	9,281	101,977	132,095	226	−40	−34	545	18,412	634
1987	19,519	535	16,190	87,757	132,830	1,165	−1	−119	−6,081	30,079	−3,70

Source: Same as Table 3.

Note: DI Direct Investment.
TC Trade Credit.
PC Portfolio Investment.

midyear 1975. It removed the restriction on short-term lending in midyear 1977 and fully liberalized foreign lending in peacetime by the revision of the Foreign Exchange and Foreign Trade Control Act in December 1980. Since June 1983, Euroyen lending also has been liberalized by stages, except for medium/long-term lending for residents. As seen in Tables 4 and 5, foreign lending by Japanese banks showed increases in both 1978 and 1979 and have been almost steadily increasing since 1982 despite the deterioration of the Latin American liquidity crisis.

Table 5: Japanese Banks' Lendings at the End of Year – including short – term lendings (Billion dollars)

	Foreign Currency-based	Yen-based	Total
1973	13.3	o	13.3
1974	16.6	0.1	16.7
1975	17.8	0.2	18.0
1976	17.4	0.3	17.7
1977	18.3	0.8	19.1
1978	30.0	4.7	34.7
1979	43.6	7.9	51.5
1980	54.9	9.1	64.0
1981	74.3	13.6	87.9
1982	92.5	15.5	108.0
1983	102.6	19.8	122.4
1984	123.0	29.0	152.0
1985	134.4	35.2	169.6
1986	169.1	57.2	226.3
1987	218.2	80.4	298.6

Source: Sarne as Table 3.
Note: Yen-based lendings were converted by year-end exchange rate.

In this process, Latin America can be said to have played an important "classroom" role in efforts by Japanese banks to acquire financial know-how in the international field. Unfortunately, statistics summarizing the course of Japanese banks' expansion of lending to Latin America have not been disclosed. However, the expansion of the share held by Japanese banking institutions can be clearly seen, for example, from Mexican statistics (Table 6).[11]

The November 1982 issue of Euromoney, an international financing magazine, noted that "The Japanese banks' peak period of expansion overseas – the first nine months of this year – coincided with a contraction in overall level of activities in the Euromarkets … just when lending was becoming more hazardous … indeed

[11] Figures of Table 6 should include not only loans by private banks but also those by official institutions. However, since the amounts of official funds are small, the table can be interpreted to represent the change in lending attitude of private banks

there is clear evidence that lending to Mexico continued at a high level until the middle of 1982 . . . Short-term Pemex credits attracted Japanese lending as late as early August."[12] The time, August 1982, was when Mexico had to decide to depreciate its currency for the second time and to temporarily close the exchange market while it called for financial aid from the U.S. government an international financial institutions.

Table 6: Mexico's Public Debt Outstanding by Creditor Nations

(Million dollars)

	1977		1978		1979		Jun.1980	
	Value	%	Value	°lo	Value	%	Value	%
U.S.A.	10,577	47.0	7,721	29.4	8,630	29.8	8,521,,	26.6
England	3,506	15.3	3,756	14.3	4,166	14.0	3,841	12.0
Japan	1,237	5.4	3,388	12.9	4,404	14,8	5,410	16,9
Canada	779	3.4	1,996	7.6	1,845	6.2	2,005	6.2
West Germany	1,558	6,8	2,022	7,7	2,410	8.3	2,039	8.9
France	710	3.1	1,523	5.8	1,726	5.8	2,140	6.7
Switzerland	733	3.2	1,024	3.9	1,190	4.0	1,047	3.3
1.0.	2,177	9.5	2,899	11.0	2,886	9.7	3,123	9.7
Others	1,535	6.7	1,944	7.4	2,440	8.2	3,127	9.7
Total	22,912		26,264		29,757		32,053	

Source: JETRO, *Tsuushou Kouhou*, Jan. 17, 1981.
Note: I.O. International Organizations.

Competition in lending was said to be so severe that some Japanese banks, in order to raise the loan figure to Mexico, even accepted resold syndicated loans originally accepted by lending American banks. Reselling of syndicated loans was advantageous for both the U.S. banks and the Japanese banks; for the former, to reduce loans outstanding to Mexico which had already reached their credit limits and, for the latter, to quickly raise lending results.

For the latecomer Japanese banks, major Latin American nations such as Brazil, Mexico, Argentina and Venezuela became the most suitable loan customers because of their flourishing demands for funds since 1977, when the Japanese foreign lending regulations were considerably relaxed. Having started with participation in syndicated loans formed by American or European banks, Japanese banks have gradually accumulated financial know-how and, early in the 1980's, some of them have even begun to participate as managers in the formation of syndicated loans. Besides earning spread and manager fees, Japanese banks were extremely interested in being ranked at the top of the manager banks lists compiled by Euromoney and Agefi magazines. Table 7 shows results of syndicated loans for

[12] Euromoney, November 1982. As for details, refer to Chapter 4 of the above-mentioned book written bv the author.

Latin America collected by Euromoney, in which the rapid progress of Japanese banks is noteworthy.

Compared with American and European banks, however, the lending attitudes of Japanese banks at that time showed particular characteristics. A tendency to follow the lead of American banking has been the chief characteristic, prompted by limited knowledge and information of Latin American countries and general immaturity in international financing. Emphasis has been placed on sovereign lendings for which state banks and state firms are borrowers, with little lending to distantly related private firms. High priority has been given to project financing for resources development and industrial investments in which Japanese firms participate.

Table 7: Participation in Syndicated-loans to Latin America

(Million dollars)

	1980	1981	1982
Japan	1,638	5,093	7,459
U.S.A.	7,044	15,523	9,098
Canada	2,469	2,518	2,220
England	2,677	4,560	5,103
France	3,024	2,430	2,463
West Germany	1,598	667	682
Switzerland	613	516	442
Italia	137	102	232
Arabian Countries	1,046	2,568	1,866

Source: *Euromoney*, Feb. 1983.

These characteristics are manifested in the limited lending Japanese banks made to the Alfa Group, Mexico's biggest group of private firms, and again in the Japanese banks' attitude toward accepting a large-sized loan to Tubarão Steel Co., a joint venture of Japan, Brazil and Italy in Northeast Brazil.

JAPANESE BANKS FOLLOWING THE DEBT CRISIS

What kind of action did the Japanese banks take to cope with the occurrence of the debt crisis in Latin America? The impact that the debt crisis in Mexico had in Japanese financial circles was as dramatic as in America and Europe. They immediately halted lending to Latin America. The Ministry of Finance, to avoid a shock to the Japanese financing system caused by the debt problem, issued guidelines to private banks in February 1983, including the following items:[13] (a) Strengthen the system for investigating country risk, (b) Raise by stages the ratio of prepared financ-

[13] Ministry of Finance, FY 1988 Annual Report of International Finance Bureau (Tokyo, Kinyu Zaisei Jijou Kenkyukai, 1988), p. 152.

ing to funds operated, (c) Diversify raising means of medium/long-term funds, (d) Improve liquidity through the betterment of foreign currency assets & debt balance, and (e) Hasten the management of reserve funds for deferred credits.

It was during this period that Japanese banks began to seriously consider country risk, to develop approaches for risk investigation and to clearly set country limits for each borrowing country. While each bank independently considered its own measures, the Japan Center for International Finance (JCIF) was jointly established in March 1983 by private banking institutions. The center serves to collect information regarding country risk and to accumulate know-how. Staff members are dispatched not only from member banks but also from the Ministry of Finance and the Bank of Japan.

Following the Latin American debt crisis, the Bank of Japan took the emergency measures of extending short-term bridge-loans to debtor countries through the BIS (Bank for International Settlements), and the government acted to accept progressive payment of official funds through the Paris Club. However, since the biggest problem in this debt crisis was the management of debts from private banks, the attitude of Japanese private banks, Latin America's second largest creditor, was extremely important. The approach Japanese banks took toward Latin America's debt problem can be summarized into the following points:

First, they followed the market mechanism, by which measures such as reduction and exemption of debt were not taken on a policy basis. Therefore, except among a few bank managers, serious discussions were rarely conducted concerning debt relief measures.

Secondly, concerted steps for unity among the creditor banks group were encouraged. Since constant cooperation is highly valued among Japanese banks, independent decisions or actions by one bank alone irrespective of others have been most unwelcome. As a result, when rescheduling of debt payments and financing of new money were implemented, the number of Japanese banks that dropped out was far smaller than for American and European banks. Further, attempts to reduce total credit through various steps such as redemption or sale on the secondary market were infrequent, while such attempts were evident from early stages among American and European private banks.

Thirdly, the concerted steps and unity among Japanese, American and European banks on an international basis were highly valued by Japanese banks. They have especially anticipated America's initiative and, in most cases, have followed its decisions. Japan strongly supported the United States on the Multiyear Rescheduling Scheme, which was suggested in 1984, and the Baker Plan of October 1985. Although representative banks on the Japanese side always attended the bank advisory committee for debtor countries, they never chaired the committee in the Latin American region except for that of Trinidad and Tobago.[14]

[14] Japanese banks served as the main manager of the Advisory Committee in the debt negotiations of the Philippines.

Japan's failure to assume such a leading role can be attributed to their general lack of know-how and of sufficient staff to deal with controversial negotiations and was compounded by their inability to communicate details of the discussion to the hundreds of creditor banks concerned.

Japanese banks, by participating in the committee, are said to have accumulated the know-how for financing negotiations.[15]

Fourthly, Japanese banks have highly valued the role of governments and international banking institutions. We have seldom observed scenes in Japan in which the heads of private banks took leadership roles in resolving debt problems as was often the case in America's financing circles. Since the cooperation between the government and the private sector, often referred to as "the convoy system", was standard Japanese practice in domestic debt problems, the Japanese banks promoted a similar relationship among the banks, the IMF and the World Bank. They have especially valued the IMF's function of checking the policies of debtor countries and of assuring their honoring of promises made to the creditor bank groups.

Among the popular expressions of the early 1980's in Japan was one that said: "Crossing a road against the red light is not dangerous if you do it with everybody else." That expression was also applied to debt problems. Individual banks considered it safest to work together with the Paris Club, the international financial institutions and foreign banks. The policies of debtor countries' governments are best dealt with by the cooperation of governmental institutions and private banks in Japan, America and Europe, along with the IMF.

Thus, there has been a difference not only in financial systems but also in the way of thinking between Japanese banks and others. American local banks have withdrawn harmonious progressive rescheduling schemes and West Germany and Swiss banks have conducted redemption in the early stages.

Because of this, once an agreement was concluded between the Bank Advisory Committee and debtor countries on deferment of debt payments and financing of new money, the quota allocated to Japanese banks was relatively high. As was previously pointed out (see Table 1) in this paper, although the rates of loan outstanding by Japanese banks to Latin America decreased from 31% for 1983 to 19% for 1987, the total outstanding showed an increase of 84% from $ 23.9 billion to 43.9 billion.

The trend of loans outstanding by Japanese banks to Latin America shows different characteristics from that of American banks shown in Table 8. The medium and long-term loans outstanding by American banks increased to a lesser extent (28%) than those by Japanese banks, from US$ 36.8 billion in 1982 to US$ 47.0 billion at the end of 1987. The short-term loans (one year and under) outstanding for 1987 was US$ 29.0 billion, which was US$ 22.6 billion (44%) less than that for the end of 1982 (US$ 51.6 billion). These figures reflect the effort taken for credit reduction and these cuts had a tremendous negative impact on the finan-

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[15] Interview with the person in charge of debt negotiations for a leading Japanese bank.

cial situation of Latin American countries. It is inferred from Japanese lending attitudes that the short-term loans lent by Japanese banks were less significant than those of American banks, although distribution data of short-term loan from Japanese banks are not disclosed.

Table 8: U.S. Bank's Lendings to the Third World Countries at the End of Year

(Million dollars)

	1982	1984	1985	1986	1987	1988
Latin America	88,481	90,477	85,396	81,144	76,030	65,665
Short-term	51,646	40,521	40,314	31,762	29,011	
Medium/Long-term	36,835	49,956	45,082	49,382	47,019	
Asia	29,365	27,244	24,099	19,830	17,760	14,781
OPEC	25,154	24,059	20,828	18,143	15,475	13,830
Eastern Europe	6,278	4,811	4,358	3,571	3,239	3,352
Africa	4,547	4,360	3,926	2,299	2,550	2,000

Source: Federal Financial institutions Examination Council, *Country Exposure Lendíng Survey*, various issues.
Note: Latin America includes Ecuador and Venezuela, which also belong to OPEC, and includes Panama, which belongs to Offshore Banking Center in the original data. Short-term: loans with a maturity of one year and under. Medium/Long-term: loans with a maturity of over one year.

In February 1987, immediately after Brazil, the biggest debtor nation among developing countries announced its "moratorium", which included suspension of interest payments to foreign private banks, American banks uniformly started to add large amounts of reserves for bad debts. American banks were said to have already accumulated reserves of as much as 30%.[16] In September 1989, several American banks, such as Chase Manhattan Corp. and Manufacturers Hanover Corp., announced that they would add reserves to cover losses related to Third World loans. The new provisions boosted loss reserves for developing nations an amount equal to 40-70% of the bank's outstanding loans in the Third World.[17]

Here too, Japanese banks have lagged behind. In England and West Germany, the amount of reserves for bad debts is decided through individual talks with the relevant authorities. In America, the decision and application are left to each bank's own discretion. In Japan, the Ministry of Finance decides the limit of reserves for bad debts and has never easily granted expansion of reserves for bad debts, in consideration of those banks that are financially less competent.

According to the Japanese system at the beginning of present debt crisis, the saving of reserves for bad debts was only allowed up to 1% of the amount newly lent to government institutions of specific countries, if it is tax-free, and up to 5%

[16] The Nihon Keisai Shimbun, March 11, 1989.

[17] The Wall Street Journal, September 19. September 21. 1989. The Washington Post, September 22, 1989.

of the term-end loans outstanding (including financing to private sectors), even with tax. Subsequently, in the closing account for FY 1987, preparation of as much as 10% with tax was allowed, which was further expanded to 15% in 1988. In March 1987, in the process of slowly expanding the reserve funds limit, 28 private banks, jointly set up the JBA Investment, a factoring company of credits of debt accumulated nations.

Sale of credits for debt-equity swap deals, an effective means for reducing loans outstanding for American and European banks, was not granted until the middle of 1988, under the guidance of the Ministry of Finance. The reason given for disallowance was that it might have caused anxiety regarding the credit worthiness of debtor countries.[18]

Although, as above described, Japanese banks were slower than American and European banks to increase reserves for bad debts and to reduce loans outstanding, the risks for bank management of credit to Latin America can be said to have been largely reduced. Substantial reduction in yen basis was obtained, even considering that the exchange rate changed from Y 250/dollar (in annual average) in 1982 to Y 120-140/dollar. Further, Japanese banks' assets have greatly increased because of the favorable expansion of the Japanese economy, sharp increases in real property and stocks, and growth of the Tokyo market as an international financial market. A part of the growth of Japanese banks can be seen in the transition of total assets of major banks shown in Table 9.

Table 9: Total Assets of Major Japaneses Banks

(Trillion Yen)

	Mar. 81	Mar. 83	Mar. 85	Mar. 87
Daiichi-Kangyou	20.0	25.9	32.7	41.6
Sumitomo	16.7	22.5	29.7	38.6
Fuji	17.2	24.1	31.2	37.3
Mitsubishi	17.1	23.0	29.1	34.8
Sanwa	16.0	22.2	27.3	34.2
IBJ	13.5	17.7	22.2	28.2
Mitsui	12.3	16.4	19.7	23.9
LTCB	10.8	14.4	18.4	20.7
BOT	12.2	16.3	17.3	18.6

Source: Companies *Annual Reports*.
Note: IBJ: The Industrial Bank of Japan, L TCB: The Long-Term Credit Bank of Japan, BOT: The Bank of Tokyo. The annual balance of banks settles at the end of March.

[18] The Nihon Keizai Shimbun, August 25, 1989

CONCLUSION

The statistics concerning ratios of credits to developing countries against the total credits held by each Japanese bank has not been disclosed. However, the current situation of Japanese banks indicates that worries about an outbreak of an international liquidity crisis, which flourished in 1982, seem to have been sharply reduced, if not totally eliminated. In addition, these banks have set up an international collaboration system and acquired enough know-how to deal with such a situation should it arise. On the other hand, the "growth crisis" of debtor countries, another debt crisis problem, has never been solved.

According to statistics disclosed by the Economic Commission for Latin America and Caribbean (ECLAC), the growth rates per capita for the eight years from 1981 to 1988 showed plus figures only for Brazil and Chile, each by 1-2%, while high minus growth rates were marked for Argentina, Venezuela, Peru and Mexico, by 15%, 15%, 14% and 11% respectively.[19] Their situations are now more fittingly regarded as "economic deterioration" rather than "growth crisis."

The Japanese government has taken a series of measures to stress capital recycling to debtor countries, well known in Latin America as the "Nakasone Fund." In May 1987, the then Prime Minister Nakasone announce the recycling of 30 billion dollars over three years, including 10 billion dollars committed to multilateral aid organization in 1986, as a part of Japan's effort to reduce huge trade surplus.

Since almost 90% of the 30 billion recycling program was committed by June 1989, the Japanese government announced on the occasion of the Economic Summit held in France in July 1989, the expansion of the program from 30 billion dollars to 65 billion dollars over a five-year period (Table 10). The expanded capital recycling program covers from 1987 to 1992.

There are three main channels for recycling (Fig. 1). The first is funds made available to multilateral aid organizations through the establishment of the Japan Special Fund and other capital raised through bond sales in the Japanese market. The second channel is through OECF, the Export-Import Bank of Japan and the Japanese commercial banks in collaboration with the multilateral aid organizations through co-financing arrangements. And the third is, in a lesser extent, direct, untied loans by the EXIM Bank of Japan.

The "Nakasone Fund" was actually intended to serve as a new fund supply to debtor countries, not as "debt relief." Further, although private banks participated somewhat in the form of collaborative financing, the principal role was taken by official funds. Among these amounts, additional financing from the Japanese financial market to international institutions, such as the World Bank, is included.[20]

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[19] CEPAL (ECLAC), Balance Preliminar de la Economia Latinoamericana -- 1988, (Santiago, CEPAL, 1988).

[20] The Japanese government is also actively supporting Mexico's debt reduction strategy, the first test case of the Brady Plan, using the funds of the Export-Import Bank of Japan.

Based on the historical fact that Japan's postwar economic rehabilitation was facilitated by the reduction and exemption of war reparations, it is about time for Japan to take initiative in discussing fundamental debt relief measures with its participating private banks.

Table 10: Expanded Capital Recycling Program

(Billion dollars)

	Original Program	After Expansion	Notes
Period	1987-90 (3 Years)	1987-92 (5 Years)	
Components			
1. EXIM-Japan	10.0*	23.5	Additional 13.5 ofwhich 8 to SDSCs**
2. OECF	5.5*	12.5	Additional 7 of which 2 to SDSCs**
3. Others***	14.5*	29.0	Additional 14.5
Total	30.0*	65.0	Additional 35 ofwhich 10 to SDSCs**

Source: The Japanese government.
Note: * Actual estimate.
** Highly-indebted developing countries to which the Strengthened Debt Strategy is applied.
*** Contributions and/or subscriptions to multilateral development banks by Japanese government, etc.

Main Channels of the Recycling Program