Click here for Full Issue of EIR Volume 9, Number 16, April 27, 1982

# Foreign Exchange by David Goldman

## Japan cuts foreign investment

*Japan is trying to protect the yen—but only changing the world trend to speculative investment can reverse the crisis.*

In an attempt to defend the yen, whose value has dropped almost 10 percent since mid-February, the Japanese government has instructed Japanese banks and corporations to cut back on their overseas investments, according to Bank of Japan (BOJ) officials. So far, Tokyo has ordered at least a 30 percent cut in long-term, *yen*-denominated capital placements—that is, bank loans, and direct investments—and, according to the April 6 *Nihon Keizai Shimbun,* is considering even more drastic cuts.

Since the restrictions do not yet affect *dollar*-denominated loans and investments which make up the overwhelming majority of capital outflow, the cutback should amount to no more than a few billion dollars over the next six months. If a deepening yen crisis forces application of such restrictions to dollar-denominated investments as well, then Japan's program of development loans to such key countries as Mexico, Brazil, and Indonesia, as well as direct investment in the advanced sector, could grind to a halt. So far, according to Jiji press, the authorities are content with limiting *dollar*-denominated loans to a 10 percent growth rate, compared to a doubling during 1981.

From a level of approximately 230 yen per dollar during most of January and February, the yen has suddenly fallen to a 248 to 250 per dollar level. This 20-point fall in six weeks is equal to the entire fall over the past several months.

A Bank of Japan official insisted to *EIR,* "The reason for the fall in the yen is the high American interest rates. Up until recently," he explained, "the yen had fallen only slowly because people believed that the effect of the interest rate differential would be overcome by the fundamental strength of the Japanese economy and its strong trade surplus. But now, people believe American rates will stay high and they are no longer betting on economic fundamentals."

Bank of Japan authorities reportedly believe trying to stem the fall through intervention in the face of Volcker's interest rates, would be like King Canute trying to hold back the sea. Fearing the yen could be pushed to 260 per dollar, the authorities will try to hold it at 250 per dollar via the restriction on capital outflow and surgical, sporadic currency interventions. Reportedly, the British and Swiss trusts managing Arab funds are telling their clients that they are better off earning 16 or 17 percent in the United States than 7-8 percent in Japan. The long-term capital inflow, which was regularly reaching $2-$2.5 billion per month in 1981, is now about $600 million per month.

This is compounded by the sharp drop in Japan's trade earnings due to Western recession and protectionism.

During the first months of 1982, Japan's exports have been falling in dollar terms while rising in real volume terms. (Both February and March dollar export totals were less than during the same month of 1981.) Whereas Japan earned a $20 billion trade surplus in 1981, it could begin showing a trade deficit in dollar terms within a few months.

Meanwhile, an important change has meanwhile occurred in the character of Japan's own long-term investment overseas, say Japanese officials. Last spring, after monetary officials lifted the clamp-down imposed on yen and dollar overseas investment due to the Khomeini-caused plunge of the yen, the volume of Japan's investments overseas (including bank loans) doubled from only $10.8 billion in 1980 to the record high of $22.7 billion in 1981. This outflow was divided between investments in setting up manufacturing and commercial subsidiaries in the West, or other advanced country investments, and development packages for the industrializing Third World.

By the end of the year, and during early 1982, according to Japanese officials, more and more of the average $2 billion monthly overseas investment was switched to simply seeking high-interest paper investments in the West.

Of the three sources of the fall of the yen—slowing of exports, slowing of investment into Japan, and rise of investment outside of Japan—the only one the Japanese authorities can control is the latter.

The current package of restrictions is designed to attempt cut back on the capital outflow simply seeking higher interest rates without crippling either Third World loans or productive investment in the advanced sector.



© 1982 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.