Business Briefs

Japan

Government on Resona Bailout: 'No Crisis Here'

Raising concerns that other major banks may require similar rescues, Japan's government said it will pump an estimated $17 billion in public funds into Resona Holdings, the nation's fifth-largest bank, effectively putting the lender under government control, after the bank asked for help on May 17. No sooner had the ink dried on that bailout, when the Japanese government was forced to bankroll a merger of two big regional banks, which were about to go under.

When Resona's capital-to-assets ratio had dwindled below 6%, the legal minimum for domestic banks, Prime Minister Junichiro Koizumi for the first time convened the Financial Crisis Council. In full-bore denial, Chief Cabinet Secretary Yasuo Fukuda insisted, "It was a crisis for Resona, but it's not a systemic problem. . . . This is not what we will call a crisis." Nonetheless, Fukuda admitted that the government does not rule out injecting funds into other banks.

Resona had been inflating profits for years, raising fears that even larger banks, such as Mizuho Financial Group, have not been truthful in their accounting. The bank revised its losses to $7.3 billion for Fiscal 2002—nearly triple its earlier estimates.

Bank shares fell on speculation that more lenders will be effectively nationalized. Japanese bonds also dropped. "The crisis at Resona Bank has shown that Japan's financial world is in a far worse state than people generally believed," Japan's top business daily *Nihon Keizai Shimbun* editorialized on May 17.

Finance

Bank of Japan Warns Crisis 'Could Happen'

"Without appropriate policy measures, a financial crisis could possibly happen" in Japan, Bank of Japan Governor Toshihiko Fukui warned a parliamentary committee.

The core of the nation's financial system remains "weak" as banks face "deep-rooted" problems, Fukui said. He reiterated his call for the government to be given the power to act pre-emptively to inject funds into banks in trouble, rather than wait for the lenders to seek aid.

"It's better to take necessary steps as soon as possible before a crisis," he cautioned parliament. "It's better to deal with lenders' problems before their capital level" drops below minimum standards set by government regulators.

Dollar Crisis

'Dollar Gamble' May Lead To Panic, Says Samuelson

Economist Robert Samuelson warned that the weak dollar could lead to a backlash against the U.S. economy—and a "panic."

The "dollar gamble" announced by Treasury Secretary John Snow at the Group of Seven meeting—intended to increase U.S. exports and domestic production—could backfire, Samuelson wrote in the May 21 *Washington Post.* The rest of the world has survived, to date, by exporting to the United States, and if that is cut off, there could be a collapse in the rest of the world "that could boomerang on the U.S. There's another danger: a big foreign withdrawal from U.S. stocks, which could hurt the market or even trigger a panic."

Wall Street

Investors Pull Out On Dollar Collapse

The *New York Post* warned on May 25 that foreign investors are considering a pullout from Wall Street stocks, as the result of the 17% fall in the value of the U.S. dollar over the past six months. Offshore investors owned 15% of U.S. stocks at the end of 2002, for a total Wall Street investment of $1.35 trillion. "The problem is that these investors are going to see their returns fall in local currency terms as the dollar declines," Bernie Schaeffer, of Schaeffer Investment Research, told the *Post.* "Even if the stock prices go up in U.S. dollars, they could still be left with losses in euros. At what point will they say, 'Hey, that's enough pain,' and just pack up and leave?"

An unnamed institutional London investor added, "There's so much uncertainty about the U.S. economy right now, and when you add that to what the dollar is doing, well, maybe it's time for me to bring some money home."

China

FEER Promotes Renminbi As Currency for Asia

Michael Vatikiotis and Bertil Lintner write in the May 23 issue of the *Far Eastern Economic Review* that the Chinese renminbi, although not fully convertible, is growing in use as a hard currency outside China—the first sign of its potential role as "Asia's money." In Hong Kong and along China's borders with Southeast Asia, an emerging renminbi zone can be traced, fuelled by burgeoning Chinese trade and tourism. "China is effectively managing a hard currency," says Michael Kurtz, chief analyst for Bear Stearns in Hong Kong.

"In Burma and Laos, the Chinese currency is a hard substitute for weak local currencies like the Burmese kyat and Laotian kip," writes *FEER.* "Cross-border trade has increased in recent years—consumer goods, machinery, and fruit come in from China; timber, minerals, and smuggled cars leave Burma, Laos, and Thailand. All these transactions, amounting to hundreds of millions of dollars in annual value, are settled in renminbi—greatly helped by lax controls over carrying currency in and out of China. Along the Thai banks of the Mekong River, Chinese traders from Yunnan do business without converting their renminbi into Thai baht. All over Thailand, an underground banking network enables traders to transfer funds in and out of the Chinese currency. A similar system works in the Pearl River Delta region connecting Hong Kong with Guangdong province."

"It's a curious situation because the renminbi is still subject to rigid capital controls," they write. "Regional central banks will not hold the renminbi as a reserve currency, nor do they issue debt in renminbi because China keeps it to a de facto peg of nearly 8.28 to the dollar. The renminbi is not freely convertible on the capital account, and most analysts don't expect this to change for some years."

Korea

Joint Statement Issued on Rails, Economic Cooperation

North and South Korea concluded their fifth Inter-Korean Economic Cooperation Promotion Committee talks in Pyongyang on May 23 and issued a seven-point joint statement. It called for positive efforts on both sides to resume South Korean travel to Mount Kumgang on the east coast of North Korea in June, and agreed to fast-track three major cross-border economic projects: the reconnection of the western Kyongui and of the eastern Tonghae rail lines; and the construction of the Kaesong Industrial Complex in the North.

"Regarding the linking of the severed railways, the two Koreas decided to hold a ceremony for the completion of the Kyongui and Tonghae lines around June 10, marking the third anniversary of the historic inter-Korean summit in Pyongyang," the *Korea Times* reported. Other Korean press are reporting the link day as June 13-14, the precise third anniversary of the June 2000 heads of state Inter-Korean Summit.

The groundbreaking ceremony for the key Kaesong industrial park will be in late June—a good reason to get the rail lines linked, because plans are already under way to begin relocating textile, shoemaking, and other labor-intensive factories from South Korea into the North. After workers and engineers actually start interacting across the DMZ, North Korea will begin to open up, and, it is hoped, the danger of war will begin to fade.

The two Koreas also agreed that the South will provide North Korea with 400,000 tons of rice this year, a major factor in getting the other agreements. The Koreas will hold the sixth Inter-Korean Economic Cooperation Promotion Committee meeting in late August in Seoul, the statement said.

U.S. Depression

'Faint Hoofbeats' of Four Horsemen Heard

"The Four Horsemen of the Depression aren't here yet, but you can hear the faint hoofbeats of at least three of them," warned *USA Today* on May 27.

Three of a depression's hallmarks—falling prices, rising unemployment, and global deflation—either are already here, or are on the way, claims the mass-circulation U.S. daily. While financial collapse has not appeared and "the odds for depression are still long," the daily assures readers, nonetheless the Fed's efforts to jumpstart the economy by slashing interest rates 12 times in the past three years "don't seem to be working."

While peddling the monetarist nonsense that the U.S. economy has been growing for the past six quarters, the article details the "nightmare" economic scenario of a depression—steps, it notes, which are already occurring. The depression scenario is unfolding, starting with reduced overseas orders for U.S. exports, because of deflation and recession in Japan and Europe. Second, the value of the U.S. dollar is plunging, causing foreign investors not to buy U.S. Treasury securities, inflows from which are used to pay the current-account deficit. And, companies as well as individuals are beginning to default on debt.

Briefly

WORLD AIRLINES face dark days as passenger traffic nosedives, the International Air Transport Association reported on May 23. World air passenger traffic plummetted by 18.5% in April—and by a whopping 44.8% in the Asia-Pacific region, as well as by 23.5% in North America, compared to the level in April 2002, largely due to the impact of the invasion of Iraq, and the SARS virus crisis in East and Southeast Asia.

PAY CUTS are being imposed across the board in Singapore, following the recommendation of the National Wages Council on May 21 for another year of wage cuts or freezes. Council chairman Lim Pin called the guidelines the "most severe in recent years." The council warned more layoffs are in store, as unemployment climbed to 4.5% in March.

VACANT SPACE in the industrial real-estate market, rose in the first quarter of 2003 to 10.06%, the highest level since third quarter 1994, from 8.89% a year earlier, according to a report by Grubb & Ellis Co., reported in the *Wall Street Journal* on May 21.

THE U.S. SENATE passed unanimously on May 23 a bill to add an additional 13 weeks of unemployment benefits for those unemployed workers who have exhausted their first 26 weeks of benefits without finding work. The bill extends the Temporary Emergency Unemployment program through the end of this year. However, the Center on Budget and Policy Priorities said the bill fails to help about 1.1 million workers who have used up their benefits.

THE RUSSIAN Central Bank "fears another default," stated the news agency *RBC* on May 19. It said: "The situation on Russia's corporate borrowing market looks increasingly similar to the situation preceding the 1997 crisis. . . . To prevent Russia from repeating the same mistake, the Central Bank will introduce restrictions for Russian companies that want to borrow on foreign markets."