

Outright Disposal of Bad Loans

The heavy weight of bad loans held by Japanese banks is hindering the nation's economic recovery. In a bid to remedy the situation, Financial Service Minister Yanagisawa Hakuo has proposed that banks should push forward with the outright disposal of problem loans. Specifically, he calls for banks to not only build up funds for loan-loss reserves but to also sell and forgive problem loans in order to eliminate such loans from their balance sheets. This is aimed primarily at putting an end to a "negative cycle," in which falling land prices lead to the depleted value of collateralized real estate, thus boosting the amount of bad assets. Yanagisawa hopes banks will bolster their capital bases through direct disposal of bad loans and restore their function as an "indispensable blood" of economic activities, thereby shoring up an economic recovery. However, direct disposal of bad loans is predicted to spur failures of unprofitable businesses. Some analysts believe such disposal will inevitably have an adverse effect on economic activity for the time being. Therefore, it is still uncertain whether the outright disposal of problem loans will be pushed aggressively.

As of the end of September 2000, the amount of problem loans (risk-management loans) at the nation's banks stood at ¥31.8 trillion, up 4.7% from six months earlier. Banks wrote off ¥2.2 trillion in bad loans in the April-September period of 2000. The volume of such loans is still increasing, however. This is mainly because land prices are falling, reflecting slack economic activity, which in turn puts a dent in the value of collateralized real estate and thus pushes up the amount of bad loans.

The view is growing among economists that the Japanese economy has begun to decelerate after peaking last summer, with gross domestic product (GDP) falling into negative territory in the July-September quarter. The lackluster performance, combined with a slowing U.S. economy and sluggish stock prices, prompted the Bank of Japan to slash interest rates. The central bank is now weighing the

possibility of returning to the zero-interest-rate policy it abandoned last August. However, it is considered essential for banks to go ahead with the outright disposal of problem loans and be relieved of the burden of such loans. The effect of rate cuts and other fiscal and monetary policy measures would otherwise not penetrate fully into economic activities.

Outright disposal of bad loans unavoidably affects the restructuring efforts of debt-ridden general contractors and distributors – the industrial sectors in which the ruling Liberal Democratic Party (LDP) has a major stake. Some political pundits are wondering whether the LDP will be able to put a scalpel into these ailing industries. In general terms, Japanese politicians are aware that the Japanese economy cannot revive without structural reforms of industries. But they have left the matter unattended for decades. Attention now focuses on whether politicians can change their traditional nature of passing unresolved issues on to later generations. Japanese politics will be tested by the question of outright disposal of bad loans, which is due to start in fiscal 2001.

Submarine Accident Shaking Japan-U.S. Relations

Four and a half hours after setting sail from Pearl Harbor, the submerged 6,000-ton U.S. Navy nuclear submarine *Greeneville's* sonar detected a ship cruising in the vicinity. The sonar data was conveyed to a sonar officer in the sub's control room who was supposed to instantly compute the vessel's speed, presume the cruising direction of the vessel and calculate the distance between the submarine and the vessel. These measures play an important role in determining the next move of the submarine. After the processing of the sonar information, the movements of the surface vessel were displayed on the monitor of the control room. The ship was the 499-ton *Ehime Maru*, a Japanese fisheries training vessel on a training voyage with students from Uwajima Fisheries High School in

Photo: Kyodo News



The U.S. Navy released video footage of the sunken *Ehime Maru* that showed the damage to the ship

Ehime Prefecture, in southern Japan.

Normally the sonar officer plots the progress of surface vessels and then the captain or the officer on watch gives an instruction on how to steer the sub. But that day, everything was different aboard the *Greeneville*. The six-square-meter control room was cramped with 16 civilian visitors invited by the Navy on a demonstration cruise to bolster public support for its missions.

The sub, skippered by Commander Scott Waddle, descended to about 120 meters and began a rapid ascent to the surface in an emergency surfacing drill, with civilian visitors at the controls. In less than one minute, the 110-meter-long *Greeneville* sprang to the surface with a splash like a torpedo at a sharp angle – sharper than the take-off angle of a jumbo jet – and struck the stern of the *Ehime Maru*. "Jesus," exclaimed Waddle, who noticed the Japanese ship through the periscope, but too late.

It was 1:43 p.m. The *Ehime Maru*, with 36 students and crew members aboard, sank in a few minutes. Six students and three crew members were missing, perhaps trapped inside the sunken vessel.

The tragic accident drew wide attention since it involved a ship carrying high school trainees and a state-of-the-art sub of the U.S. Navy. Japanese Prime Minister Mori Yoshiro's inadequate handling of the case has triggered a political crisis in Japan, with demand for his resignation intensifying. The prime minister committed the mistake of continuing a round of golf after hearing the news.

Records of the *Greeneville's* sub-

merged cruise, released by the U.S. National Transportation Safety Board which conducted investigations of the case, disclosed incomprehensible details about the incident, such as a series of turns, which military experts said made no sense. The Greenville's cruising record showed, for example, that the sub made five turns before surfacing for a periscope search, made periscope checks twice to visually confirm that the area was clear of vessels, and turned the direction of its bow 90 degrees during the two minutes of descending prior to the emergency surfacing drill.

There is suspicion that some officers were serving as tour guides for the guests, and the surfacing exercise was for their entertainment, raising the possibility that the accident resulted from human errors on the U.S. side.

Nishimura Yoshiaki, a former submarine fleet commander of the Maritime Self Defense Force, said the turns may have been aimed at having the guests experience the sub's dynamic moves.

Japanese, as well as U.S., officials fear that the collision could adversely affect bilateral relations unless the case is properly dealt with. The Japanese side hopes that the U.S. authorities would carry out thorough investigations into the cause of the tragedy, find out where responsibility lies, make sure such mistakes don't happen again, and take measures for compensation payment.

Former Ministry Official Arrested for Swindling Secret Government Fund

A former Ministry of Foreign Affairs official in charge of logistics was arrested by police on March 3 on suspicion of swindling the government out of a vast sum of "secret" state funds.

The arrest of Matsuo Katsutoshi, 55, who once headed the ministry's defunct Overseas Visit Support Division, threatens to develop into a scandal involving not only the ministry but also the prime minister's secretariat. While holding the post from October 1993 to August 1999,

Matsuo managed funds for overseas trips for Japanese VIPs.

The Metropolitan Police Board (MPB) has uncovered Matsuo's offense and is continuing extensive investigations into the case with a special squad of 100 detectives at work.

The case unfolded when the Foreign Ministry was alerted to Matsuo's wrongdoing and filed a criminal complaint against him with the MPB. The extent of Matsuo's offense is not clear yet, and it will take a considerable length of time before the police grasp a full picture of the case.

Investigations have so far disclosed that Matsuo embezzled at least ¥334 million and purchased race horses, condominiums, membership of golf courses and company shares.

Matsuo is believed to have received a total of some ¥965 million in discretionary funds for diplomatic activities from the prime minister's secretariat to cover lodging and other expenses for three overseas tours. But there are no receipts for some ¥545 million which Matsuo said covered expenses for Foreign Ministry officials. It is not clear how much Matsuo actually paid. He has deposited the discretionary funds in his personal bank account. There is no doubt the Foreign Ministry tacitly permitted him to deposit a vast sum of money in his personal bank account and high officials paid no attention to his conduct.

In total, ¥560 million of the government's discretionary funds were deposited in Matsuo's personal bank account. Of that amount, ¥250 million was used for legitimate diplomatic purposes, ¥54 million was spent for racehorses and the remaining ¥256 million is unaccounted for.

Opposition parties took Foreign Minister Kono Yohei to task in the Diet for his ministry being too lax in managing state funds and turning a blind eye to Matsuo's activities. Also, they pointed to the possible involvement of high ministry officials in the embezzlement. But Kono dismissed the case as Matsuo's "personal crime."

According to government insiders, the case brought to light internal frictions in the Foreign Ministry, particularly conflicts between career officials and non-career officials, and between

the pro-U.S. official group and their rivals.

Matsuo is a non-career official who started out as a bottom-rung clerical worker after graduating from high school, and climbed the bureaucratic ladder as a logistics specialist. His job was to accompany the prime minister, foreign minister or other high officials of the ministry on their overseas tours, and make preparations for conferences and hotel reservations. He gained the confidence of his superiors but his status as a non-career official stood in his way to promotion. This may have prompted him to commit crimes and let out his pent-up feelings, his colleagues say. Some sources in the ministry say that Matsuo mostly had the confidence of pro-Washington career officials and their rivals are now holding them responsible for the mismanagement of money.

Another focus of the issue is whether part of the Foreign Ministry secret fund has been paid to the prime minister's secretariat for the latter's secret activities, though officials flatly denied this. According to Japanese press reports, the Foreign Ministry allocates some ¥2 billion annually in "secret funds" to the prime minister's secretariat. This sum is said to constitute part of the ¥3.4 billion the chief cabinet secretary can freely dispose of annually, including ¥1.624 billion in the secretariat discretionary fund and ¥1.392 billion in general administrative expenses.

Some reports say the money is spent by the prime minister's secretariat for various purposes such as election support for ruling parties and pocket money for diet members making overseas tours. The Foreign Ministry reportedly instructs overseas diplomatic missions to purchase expensive goods, such as high-grade wine, in case discretionary diplomatic funds are not used up. The scandal has aroused bitter public resentment against the government's abuse of public funds. There is growing public concern that the case will be dismissed only as the "personal crime" of a non-career official. At stake is the integrity of high government officials.