Japan’s banking crisis: impact for Australia

Tony Jones talks to Tokyo-based financial analyst Dr Ken Courtis, vice-chairman for Goldman Sachs’ Asian operations, for an assessment of the depth of the crisis in Japan’s banking sector.

Compere: Tony Jones
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TONY JONES: There were fears of a run on the banks when the Government removed its safety net or at least started to.

That hasn’t happened yet but should depositors still be nervous?

DR KEN COURTIS, VICE-CHAIRMAN, GOLDMAN SACHS, ASIA (TOKYO): I think they are, Tony.

We’ve seen a lot of money move out of the banks in the last six months and people will be watching this very closely.

Actually, taking the insurance or reducing the level of insurance on time deposits, actually increases the fragility of the banks because it will mean that any twitch, any nervousness, anything that shocks consumer depositor sentiment, will have an immediate knock-on effect, particularly small banks - the weaker banks see people very quickly move deposits out of them.

TONY JONES: How vulnerable is the whole banking sector, though?

Does anyone know, for example, how much bad debt and big bad debt some of these major banks are carrying?

DR KEN COURTIS: Well, there are estimates all the way from the one you’ve just heard - 16 per cent to 18 per cent of GNP, all the way up to 50 per cent of GNP.
I think we’re probably somewhere in the middle of that.

But if you think of it, if the bad debt is 25 per cent to 30 per cent of GNP, that is a number that we’ve never seen in any major economy before and sooner or later Japan will have to deal with it.

Tony, as long as Granny Suzuki, in a sense, keeps believing the numbers in her passbook, in another words, if she keeps having confidence in the system, at least largely in the system, and as long as Japan keeps a current account surplus so that it doesn’t have to borrow money from you or from anyone else outside of Japan to finance this, they could keep this game going.

There will be humps and bumps and we’ll get close to the edge and we’ll move back, but as long as those conditions stay in place, this crisis will continue.

TONY JONES: But you’re saying in reality, Granny Suzuki’s confidence is misplaced, aren’t you?

DR KEN COURTIS: I think her confidence is sorely misplaced and I think everyone who knows what is is going on in the system understands that.

But Tony, if you go back in history, probably if we were the 1st April 1942, Tokyo felt a little bit like it does today.

It hadn’t been bombed.

It was nice.

People were being told that, yes there were problems, but there wasn’t a crisis looming.

And yet everyone in the leadership of this country 60 years ago knew the dimension of the crisis, knew that the war was lost, yet somehow they couldn’t come to terms with it and come to a consensus among the leadership to cut a deal with the Americans so they could cut their losses.

And no-one could imagine the scenario that was about to unfold over the next three years.

I sort of think that financially and economically, we’re in the same position today, Tony, 60 years later.

TONY JONES: There is a growing feeling, though, because it always seems that Japan is on the brink of collapse over the
past six or so years.

It has seemed that.

But it never actually happened.

So there’s a growing feeling that this may never happen or indeed if it does, we can discount the effect that a collapse in Japan might have on the rest of the world’s economy.

Are those people simply fooling themselves?

DR KEN COURTIS: I think very much so, Tony.

This is the biggest financial crisis that any major economy has known since the 1930s.

I think it would be at best naive to expect that a crisis of this dimension could be unwound without huge international volatility, to say the least.

I mean, remember Thailand?

That little country that was far away about which we knew little?

It’s 46 times smaller than Japan, and yet when it imploded it triggered a world financial crisis that shook markets all the way to the city of London and Wall Street.

And Japan is so much more intimately integrated with the world financial system.

So as this crisis moves to a climax, and it might take three or four years before that happens, when it does, when it does, if we aren’t prepared for it, Japan’s problems will become our problems and they will be big ones.

TONY JONES: How depressed are you about this?

I mean, do you think the Government simply is never going to take the appropriate measures that it needs to take to stop this collapse from happening?

DR KEN COURTIS: Bernard Shaw said, Tony, that people always end up doing the right thing after they’ve exhausted every other possibility.

I sort of think that’s what’s going to happen here.
I don't think we should expect any proactive leadership to take us out of this crisis, to take us away from the edge, from this Government.

When it gets its back against the wall it's going to do whatever it can to move the crisis away.

But we'll get to a point where Japan will run out of options.

There's a cashflow at the end of every story and even a rich country like Japan will come to the end of its story.

TONY JONES: Finally, Ken Courtis, Australia at the moment has what is sometimes described as a 'miracle economy', a booming economy in a world where economies just aren't booming.

We, though, are one of the major trading partners or Japan is one of our major trading partners, if not our major trading partner.

How serious would any collapse in Japan be for the Australian economy?

DR KEN COURTIS: Well, given that almost a third of Australia's exports go to Japan, if the yen were to fall to 160, 170, to 180, the US dollar, in other words, falls 30 per cent, 40 per cent, 50 per cent from where it is today, and it would drag down the other currencies of Asia, I think, would be likely in that circumstance.

And if China were to devalue, obviously, obviously the Australian economy would get sideswiped.

Australia has done so much in the last few years to restructure and reposition and I think it has. There's a window out there and Australia should continue that restructuring, that repositioning, free trade maybe, with America, deepening its relations with China, but there can be no doubt about it: on an economy as big as Japan, when it goes over the edge, everyone will get sideswiped, including Australia.

TONY JONES: Let's hope something is done to stop that from happening.

Thanks again for joining us tonight on Lateline.

DR KEN COURTIS: Pleasure is mine.
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