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**DIRECTORATE OF INTELLIGENCE**

19 April 1988

**Japan: Lying Low in Panama**



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**Summary**

Much of Japan's \$9 billion in direct investment in Panama, second only to its stake in the United States, is well protected from political pressure by the regime, but some individual Japanese businessmen are vulnerable to Defense Chief Noriega's efforts to squeeze money out of them. Mindful of US interests, the Japanese Government has refused so far to recognize Solis Palma's presidency, but Tokyo is maintaining low-level official contact with the regime. If Panamanian opposition to Noriega escalates or Washington prods harder, Tokyo would contemplate limited steps to increase the pressure on Noriega. A prolonged period of political instability could dampen Japanese investor interest in Panama over the longer run, however, retarding any recovery under a successor regime.



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This memorandum was prepared by Japan Branch, Northeast Asia Division, Office of East Asian Analysis. Information available as of 19 April 1988 was used in its preparation. Comments and queries are welcome and may be directed to the Chief, Japan Branch, Northeast Asia Division, OEA,



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[Redacted]

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**What's At Stake?**

Japan's \$9 billion direct investment in Panama is well protected from extortion attempts by Defense Chief Noriega, both because of the nature of Japanese economic involvement and the fact that the Japanese have moved to minimize their financial exposure as the crisis has developed:

- With much of Japan's investment in Panamanian-flagged, Japanese-owned ships plying the globe, Japanese shipping interests have few assets in-country.
- Much of the remaining Japanese stake in the financial sector, sited in Panama for tax considerations, has dried up in recent months. [Redacted]

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[Redacted]

[Redacted] Indeed, all ten Japanese banks in Panama have announced they intend to close, according to the US Embassy.

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[Redacted]

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Despite the pullback, Noriega retains some high-cost options (see inset), and some Japanese businessmen in particular are vulnerable. For example, a prominent Japanese entrepreneur, Hiroyoshi Aoki, has significant hotel and other local business holdings. In March, he was prepared to provide Noriega with cash, according to the US Embassy in Panama. Another Japanese concern, Fuji Kosan, operates an oil refinery and may be susceptible to similar pressure. [Redacted]

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Noriega's staying power in the face of strong economic and political pressure almost certainly has convinced the Japanese that they cannot expect a quick return to business-as-usual. We believe most firms are simply seeking to tide themselves over the crisis, maintaining skeleton staffs while removing nonessential personnel and their dependents to safe havens. [Redacted]

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**Noriega's Options: The Ramifications**

**Possible Panamanian Actions**

**Costs to Japan and Panama**

Seize assets

Japanese firms would lose several hotels and an oil refinery; would considerably dampen long-term Japanese investment interest.

Default on bank loans

Japanese banks have \$500 million in outstanding loans to Panama; would probably lead other Western banks to cut off financing.

Strip ships of Panamanian flags

Would probably create one-time cost of changing to alternative flags, such as Liberia. Nearly 30 percent of Panamanian-flagged ships are Japanese-owned. Panama would lose up to \$40 million in flagging revenues.

Impound ships in Panamanian ports

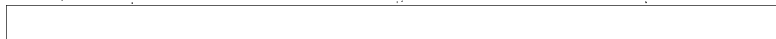
Very few Japanese ships are in Panama at any one time. Would probably lead to severely curtailed trade.



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**Tokyo: Keeping a Low Profile**

For their part, Japanese officials are likely to avoid taking sides even if they conclude Japan's interests would be better served by Noriega's ouster. In conversations with US officials, Japanese diplomats clearly have suggested as much. The Foreign



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Ministry, responding to Washington's concerns, has ignored the Solis government's request for formal Japanese recognition but has continued working-level contacts. [Redacted]

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If US pressure on Tokyo or Panamanian opposition to Noriega escalates, however, we believe the Japanese would move cautiously to support Washington more directly. In our view, Tokyo's initial steps would probably be symbolic, such as suspending its modest \$4 million cultural aid program--usually the first gesture the Japanese make when civil strife hits their aid recipients. Less likely approaches for Tokyo would be to encourage Japanese shippers to switch flags or to persuade companies to place corporate taxes due the Panamanians into escrow accounts. Tokyo might consider such measures, however, if European countries were planning similar actions. [Redacted]

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From Tokyo's perspective, any of these steps could be easily rescinded should Noriega step down, clearing the way for establishment of ties to a successor regime. Indeed, we would not rule out a significantly expanded Japanese aid program as a means to cement the relationship in the post-Noriega period. Here, too, however, Tokyo would be unlikely to take major initiatives quickly. Its behavior in the Philippine case suggests new activity by the Japanese private sector also could lag if Noriega's successor has trouble consolidating control. Japanese businessmen have yet to recover sufficient confidence in the Aquino government to initiate significant new investment. [Redacted]

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JAPAN: LYING LOW IN PANAMA



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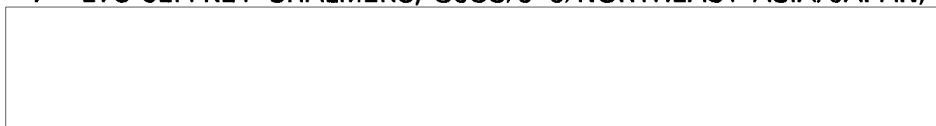


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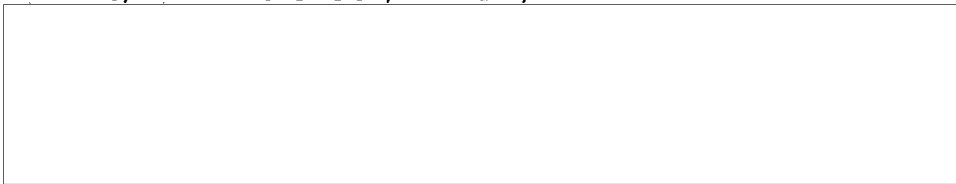


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