

## opinion

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## EDITORIAL

## The new squeeze on Argentina

It is difficult not to sympathize with the government of Argentina. It says it does not wish to default on its debt, but it is being squeezed by two sets of forces: Argentine domestic law and the overwhelming majority of its creditors on one hand, and a New York court and a small group of creditors that refuse to negotiate what they are owed on the other. Another default looks more likely each day.

In 2001, Buenos Aires defaulted on about \$100 billion of its debt, at that time the largest sovereign debt default in history. Over a period of several years, it negotiated with holders of the original securities and agreed to swap the old bonds for new ones worth about 33 cents on the dollar.

Ninety-three percent of the defaulted bonds were swapped. The remaining 7 percent refused to renegotiate and demanded payment in full, a position that the Argentine government argued was manifestly unfair to those creditors who did agree to the haircut.

That position was backstopped by Argentine law and a clause in the restructured bonds agreement, both of which guarantee exchange bondholders that the government will not make a better offer to investors who did not participate in the restructurings.

Unbowed, the minority have continued to fight for payment in full. They have looked all over the world for Argentine assets to seize, and once even got an order to impound an Argentine Navy vessel. They have even demanded that courts disclose the location of those government assets.

According to Argentine government officials, the country has been the target of more than 900 creditor lawsuits.

On June 16 the U.S. Supreme Court refused to hear an appeal of the New York District Court ruling that Argentina had to pay the holdouts along with the restructured bondholders when it made the interest payments due June 30. Argentina promptly asked for a delay to negotiate, a request that was just as quickly refused by the New York judge.

To up the ante, the judge also issued an injunction that forbade New York banks, which act as the conduit for the government's payments to bondholders, from paying some debt and not others.

In many ways, Argentina is not a very sympathetic plaintiff. It dismisses the holdout bond holders as "vultures" and President Cristina Fernandez de Kirchner has said her country would not bow to "extortion."

Economy Minister Alex Kicillof claimed the court rulings aim to "bring us to our knees before global usurers." Leaked correspondence between Argentina and its lawyers suggests that their legal strategy might involve "gaming the system" to sidestep the judge's ruling.

But overheated rhetoric aside, Kicillof has a fairly accurate

assessment of the situation. The Argentine economy is slowing and inflation is rising. Central bank reserves have fallen to eight-year lows and are now about \$29 billion; they are likely to shrink still further in the second half of the year.

With potential exposure to the holdout creditors reaching as high as \$15 billion, or half the country's reserves, this debt ruling could force yet another default.

"Force" is the operative term. Argentina is ready to pay the holders of restructured bonds. It deposited \$832 million at New York banks to make interest payments due June 30, but the judge's ruling makes that partial payment impossible. Failure to do so means that the country is technically in default on June 30, but it will have a one month grace period to negotiate some resolution before the default is final.

The impact of the ruling extends beyond the Argentine case. The International Monetary Fund has warned of "systemic consequences" if countries shy away from giving U.S. courts, arguably the most sophisticated in the world on these matters, jurisdiction over cases for fear of a loss of sovereignty.

In a similar vein, the United Nations Conference on Trade and Development (UNCTAD) published a rare comment on the ruling that also focused on "legal precedents that could have profound consequences for the international financial system." It noted that the ruling removes financial incentives for creditors to participate in debt restructurings, making future arrangements more difficult.

Requiring third-party financial institutions to provide information about the assets of sovereign borrowers could undermine the confidentiality that is critical to that relationship. Finally the ruling erodes sovereign immunity, a cornerstone of international diplomacy and finance.

The worries about sovereign immunity are real. The U.S. government published a "friend of the court" brief in the Argentine case warning of adverse effects on international relations if the holdouts won and Argentine law was summarily dismissed. Equally real is the prospect of retaliation against U.S. assets in aggrieved nations.

The hope now is that Argentina and the holdouts will redouble efforts to reach a settlement in the month before a real default occurs.

The U.S. government, along with other parties worried about the impact of the ruling on future debt restructurings, should press the holdouts to settle. The holders of the restructured bonds have done well; there is money to be made even after a haircut.

The holdouts' utter disregard for the consequences of their stubborn refusal to settle deprives them of any moral claim to payment. That, and not the financial bottom line, should dictate the outcome.

## THE GLOBAL PERSPECTIVES

## Japan's diplomatic duplicity

KYODO

South Korea's Foreign Ministry said Friday that it has posted news articles and videos related to Korean women coerced into sexual slavery during World War II. The ministry has also shared links to articles and essays on major media from home and abroad that addresses the Japanese government's latest review of its 1993 apology.

These moves, in response to Japan's attempts to neutralize the Kono Statement, follow Seoul's lodging of a formal protest with Tokyo and its discussion of the issue with the United States, drawing a largely perfunctory expression of regret from Washington. We only hope Korean diplomats do not think such passive, lukewarm steps will stop, or at least slow, Tokyo's inexorable push to return to pre-World War II Japan, step by carefully calculated step.

This week, the Japanese Cabinet under right-wing nationalist Prime Minister Shinzo Abe, will take one more, and decisive, step toward its goal: exercising the right to collective self-defense by reinterpreting — virtually incapacitating — Japan's Constitution. If Japan becomes a "normal" country without repenting of its wartime misdeeds, it points to the failure of Korea's diplomacy with its former colonizer.

Behind this diplomatic fiasco are Koreans' inconsistent and unprincipled dealings with the Japanese, known for meticulous, and dualistic, schemes.

When it comes to the bilateral relationship, however, Korean leaders might have appeared to be two-faced, too, sending confusing signals to their Japanese counterparts. Most former Korean presidents, especially Kim Young-sam and Lee Myung-bak, started their terms of office with a pro-Japanese stance but

became anti-Japanese because of what they saw was Japan's lack of reciprocity.

Yet Japan's right-wing nationalists have never changed their goals, only hiding or revealing them depending on circumstances.

Refusing to meet Abe and doing nothing about his plans while expressing hostility toward the whole of Japan will only help the Japanese leader's agenda.

President Park Geun-hye should not avoid meeting her Japanese counterpart and be ready to have an historical debate. If not, she should at least encourage similar meetings between foreign ministers. South Korea is weaker than Japan economically and militarily. But Seoul has moral superiority and must make the most of it.

Keeping the Korean leader from doing this is her own lack of confidence — a less-than-firm belief in herself.

**The Korea Times, Seoul (June 30)**

## How to avoid the next financial crash

BLOOMBERG

One of the main lessons of the last financial crash is that central banks and financial regulators need more ways to reduce the risk of the next one. Announcements by the Bank of England serve as a reminder, six years later, that this lesson hasn't yet sunk in.

Many central banks, led by the U.S. Federal Reserve, have innovated boldly when it comes to monetary policy. They have pumped money into the financial system. They have provided banks with emergency loans. They have started providing "forward guidance" in an attempt to stabilize markets. Some even pay negative interest rates on reserves as a way to encourage private lending. Many countries have overhauled their financial regulatory systems as well.

There is a third category of innovation, however — known as macroprudential policy — that has lagged behind. It shouldn't. As the name suggests, macroprudential policies are a kind of hybrid: financial regulations attuned to the condition of the system as a whole, rather than the soundness of particular banks or other institutions.

Here's an illustration. Authorities can make any individual bank less likely to fail by demanding that it use more capi-

tal and less debt to finance its lending. (That's generally a smart policy.) The macroprudential approach would go further — say, by varying the amount of required capital according to the economic cycle. Or regulators could cap loan-to-value ratios for mortgage loans, for instance, not because particular lenders were at risk from reckless lending but because the system as a whole was tolerating too much leverage and inflating a house-price bubble.

The U.K. is a prime candidate right now for strong macroprudential policies. It has low inflation, economic slack and moderate growth — suggesting that interest rates should stay low for the moment. But the U.K.'s mortgage borrowers look increasingly overextended and, in and around London, there's every appearance of a house-price bubble.

On Thursday, the Bank of England introduced new macroprudential restrictions supposedly aimed at that imbalance. They are notable mainly for their timidity. The BOE told banks to make sure that new borrowers could still afford their loans if interest rates rose three percentage points within five years, and that mortgages of more than 4.5 times borrowers' incomes should be limited to 15 percent of new lending. For now, neither rule makes any difference.

**New York (June 27)**

For now, though, these worries are premature. Aside from exceptions such as Canada, Norway and Sweden, central banks and other regulators typically lack even the means to make empty gestures.

Few need the need for macroprudential policy. If speeches and conferences on the topic were a measure of progress, there'd be no cause for concern. Sadly, they aren't. Governments should develop a sense of urgency before it's too late.

**New York (June 27)**

## Who'll pay for the Iraq sins?

Stephan Richter  
Washington  
GLOBALIST

Will the purveyors of the 2003 U.S. invasion of Iraq ever do penance for their sins of warmongering?

In the history books, the U.S. Republicans will never live down the fact that they "Iranified" Iraq, disrupting thousands of years of calibrating regional balance. That country long served as a buffer state for one purpose only — to suppress the implosion of the region.

True, the Democrats who backed the invasion aren't much better, because they were swayed by the idiotic "patriotic" fervor of 2003. But at least they seem to recognize the error, even if it should have been visible at the time: Any U.S. leaders who take an action that, historically speaking, must inevitably hand Iraq to Iran and restore Iran as the dominant regional power needs to have their heads examined.

It is well known that John McCain, the former U.S. presidential candidate and prisoner of war, likes to pour oil into any fire he sees. It is in his nature to do so. The question is why let him without at least first forcing him to pay penance for his past sins of warmongering.

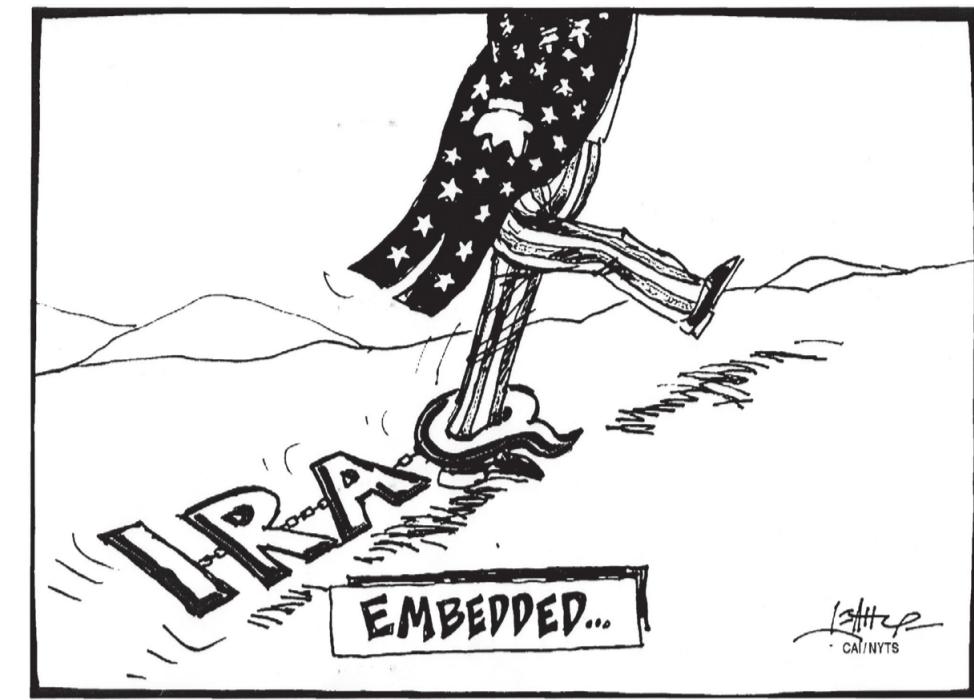
The senior senator from Arizona now wants to take his pyromaniac style of foreign policy into Iraq once more, echoing his "bomb, bomb, bomb" spirit of a decade ago. In that, he is guided not by any sense of patriotism, but by the impetuosity of an anarchist.

McCain is not only one of the chief propellants of the American pyromania that destroyed Iraq but also one of the most senior still holding political office.

The most basic fact of the matter is this: Anybody who was out to topple Saddam Hussein — and thereby turn all of Iraq into a powder keg — at best showed complete ignorance of the history of the region.

A deep-seated sense of religiously fueled enmity throughout the ages has shaped life in West Asia. Shiites and Sunnis, when pitted against each other, and then presented with an opportunity, have always been inclined to make a blood sport out of pursuing the other.

The crucial role that Iraq had traditionally played in that kind of highly combustible environment was that it served as a satellite buffer state that essentially separated the Levant and Asia Minor from Iran/Persia, providing a check on the expansion of empires from either direction. Internally divided due to shifting borders and occupiers from repeated conquests, Iraq has often stood at the crossroads between large Western



Sunny powers and the Shiite Persian power to the east.

Even before the rise of Islam and its factions, the area was the dividing zone between western and eastern empires. Rome sometimes held Mesopotamia during its long-running struggle with what is now Iran.

However, with the Cheney/Bush/McCain clan's resolutely amateurish move into Iraq, that crucial buffer disappeared and turned itself into a wall of fire. Their collective amateurishness is only superseded by the ahistorical U.S. foreign policy of the region.

The whole Iraq episode and the current conundrum also show what a terrible ally the United Kingdom has been for the United States over the past decade or so. True, the post-empire U.K. has long made it a habit of punching above its weight class, usually by acting as America's sidekick. But for all the immodest ambitions that this points to, traditionally the U.K. government has at least usually been mindful of history.

To be sure, the British Foreign Office had enough smart people who knew about Iraq's historic role inside the Muslim world as a buffer state — to keep religious emotions from exploding.

Evidently then-British Prime Minister Tony Blair was so eager to please his American master that this most critical advice was suppressed. Even if the American ally had been unprepared or unwilling to listen, it would have been all the more incumbent on the U.K. to speak out loud. That is what good allies do. In fact, that is what Germany and its

## A breed apart: liberal hawks who buoyed Bush

HIROAKI SATO



New York

Frank Rich's "Iraq Everlasting: We are still stuck in 2003, and it isn't (only) George W. Bush's fault" (New York Magazine, June 4, 2014) is a laundry list, however partial, of those in "the liberal Establishment" who "enlisted in the stampede" that would slaughter many hundreds of thousands of Iraqis in the next decade.

Rich's list begins with Senate Democrats — Hillary Clinton, Joe Biden, John Kerry — and extends to those of the so-called liberal media, much of which cheered on [George W. Bush's] war with a self-righteous gravity second only to Dick Cheney's.

The list covered "the East Coast liberal media cabal," as Bill Keller, the New York Times op-ed writer whom Rich quotes, put it in his column "The I Can't Believe I'm a Hawk Club" (NY Times, Feb 8, 2003). The self-disbelieving members of the "hawk club" were "op-ed regulars at this newspaper and The Washington Post, the editors of The New Yorker, The New Republic and Slate, columnists in Time and Newsweek."

Among them were Paul Berman, Thomas Friedman, Matthew Yglesias, Fred Kaplan, George Packer, Dan Savage, Jacob Weisberg and Andrew Sullivan. Berman was a cultural commentator turned advocate of "liberal interventionism" in "Terror and Liberalism" who decided that bombing and blasting people into bits would help "form a liberal revolution."

Friedman is a NY Times columnist who wrote with a knowing condescension, a few weeks before Bush's "ultimatum" to Saddam Hussein: "Mr. Bush's audacious shake of the dice appeals to me" ("The Long Bomb," March 2, 2003, NY Times). Or, as Tony Judt put it in "Bush's Useful Idiots" (London Review of Books, Sept. 18-21, 2006), Friedman's "pieties are always road-tested for mid-blew political acceptability." Hence his durability.

Rich's essay is a journalistic followup on Judt's historical assessment, and Judt, who died four years ago, was scathing. These "tough" new liberals repro-

duce some of that old left's worst characteristics," wrote the historian whom I admire. They "display precisely the same mixture of dogmatic faith and cultural provincialism, not to mention the exuberant enthusiasm for violent political transformation at other people's expense."

How could that have happened?

Keller concluded: "We reluctant hawks may disagree among ourselves about the most compelling logic for war — protecting America, relieving oppressed Iraqis or reforming the Middle East — but we generally agree that the logic for standing pat does not hold."

True, liberals are suckers for conceits such as "reform" and relieving other peoples of "oppression," but did they truly believe, at that juncture of history, that their country needed protection from a right-wing country in [the Mideast]?

By then it was known that Iraq had suffered a great deal under the victor's imposition of a no-flight-zone and other clampdowns since the Persian Gulf War, was it not? There were academic reports that more than half a million babies had died as a result.

More practically, did Keller and other liberal hawks believe that Hussein had intercontinental missiles capable of delivering nuclear bombs or any other weapons of mass destruction to a land 10,000 km away?

Didn't they wonder, as Richard Dawkins did: "Why did Bush suddenly start threatening to invade Iraq when he did, and not before?" ("Bin Laden's Victory," The Guardian, March 21, 2003).

The English ethologist and biologist asked this apparently after listening to Bush complain, on March 18: "Saddam Hussein and his sons must leave Iraq within 48 hours. Their refusal to do so will result in military conflict commenced at a time of our choosing."

Wasn't it clear that Bush was drunk fancying himself to be a lawman Hollywood moviemakers' Wild West? "The United States Has Gone Mad," another Briton, John le Carré, had decided two months earlier: "America has entered one of its periods of historical madness, but this is the worst I can remember: worse than McCarthyism, worse than the Bay of Pigs and in the long term potentially more disastrous than the Vietnam War" (The Times, Jan. 15, 2003).

Rich was moved to write "Iraq Everlasting" by Michael Hastings' posthu-

ous book "The Last Magazine." The book describes how the belligerents at the author's employer, Newsweek, and elsewhere shifted their stance en masse to support Bush's war, from 2002 to 2003.

John R. MacArthur was similarly moved by the same book to write "In Praise of Michael Hastings" (Harper's, June 19, 2014). In doing so, he quotes another mindless pronouncement: Fareed Zakaria writing in the real Newsweek: "I believe that the Bush administration is right; this war will look better when it's over.... Weapons of mass destruction will be found."

MacArthur notes "some omissions" in Hastings' account. One of them is David Remnick, editor of The New Yorker, and that reminds me: In the fall of 2004, I went to Town Hall when The New Yorker held an event for the publication of Seymour Hersh's "Chain of Command: The Road from 9/11 to Abu Ghraib." In the book, Hersh, only too famous for his 1969 expose of the My Lai Massacre, meticulously describes Bush's willful ignorance, indifference, swagger and the resulting brutality that led to the Abu Ghraib torture.

Remnick served as emcee on that occasion. Did he admit to his error on stage? No. Worse, what he said in his introduction to Hersh's book was patently contradictory and absurd.