An Economic Pearl Harbor?

The present world situation is being compared, in Tokyo, to that of the 1930s, by spokesmen as prominent as Japanese Prime Minister Takeo Fukuda. Fukuda told a dinner audience in Tokyo last week that unless the U.S., Japan, and West Germany understand each other and cooperate, as opposed to the trade war atmosphere and "global monetary uneasiness" now prevailing, a repitition of World War II cannot be avoided.

JAPAN

While some Americans may view such dark predictions as overdrawn, there is no such illusion prevailing in Tokyo. While there are no Japanese military men now planning a surprise attack on Pearl Harbor, it is highly likely that the economic and political equivalent of that is in the minds of more than a few in ruling Japanese circles.

Japanese thinking about the world is increasingly dominated by the questions of trade war and Japan's economic survival. The massive speculative attack on the yen over the past few months, which continues to escalate beyond all expectations, combined with an outright protectionist and hostile stance toward U.S.-Japan economic relations on the part of the Carter Administration, have brought this situation about. If the yen continues at its present rate, — a rise orchestrated by the financial interests centered in London and New York — Japan's entire export based industry is threatened with bankruptcy, and the basic foundations of postwar Japanese progress are at stake.

It is the stance of the Carter Administration, and its efforts to rope the Europeans into the same stance, that sends Tokyo up the wall. Carter Administration policy is being formulated and directed out of the office of Special Trade Representative Robert Strauss, the former head of the Democratic National Committee, and lately a power broker in the White House. Strauss's office is the center of the campaign of antidumping suits against Japanese steel producers, and of actively encouraging American business to take such initiatives, and more, against Japanese exporters. While Washington makes its periodic pledges in support of "free trade," it is obvious in Tokyo and other capitals that real policy is bordering on outright trade war.

The American effort of Strauss is also aimed at pulling in the Europeans. Europe has been divided, with Britain leading up the anti-Japanese protectionist vanguard, France following more cautiously behind, and the key country, West Germany, presenting an often contradictory position. A couple of months ago West German Foreign Minister Genscher visited Japan and made clear antiprotectionist statements, essentially backing the Japanese stance that they are not engaging in unfair trade practices. However, U.S. pressure — offers of a front to "get the Japanese first" — seems to have yielded some results as evidenced by a recent statement by Bundesbank head Otmar Emminger attacking Japanese export policy. It is known that the West German steel industry feels some degree of antagonism toward the Japanese and has been a stronghold of protectionist sentiment in Germany.

What is most alarming in all these recent developments is revealed in the accompanying statements from Strauss's office. Strauss aide Alan Wolff, in a speech given before the Japan Society in New York and expanded on by another aide in a telephone interview, went beyond calls for trade restrictions against Japanese exports to the U.S., to demand that Japan alter its internal economic and industrial structure. The target of these demands is the Japanese system of close interlinks within the corporate structure — between industry, banking and the unique "trading companies" — and between government and industry. This system — sometimes simplistically called Japan, Inc. — is often criticized by American businessmen as providing unfair advantages to the Japanese exporter, in the form of government export subsidies, production subsidies, cheap credits, closed markets to external competition, and government encouragement of antirecession cartels and similar rationalization measures.

The real target is a system long developed in Japan where the government takes on the responsibility for a directive role in the economy, with the aim of fostering high levels of capital formation (Japan has been the highest in the OECD), technological modernization and creation of new industries to replace outmoded labor-intensive industry. The government, and related private institutions, consciously take the responsibility for providing cheaper credit for these purposes, and ministries like the Ministry of International Trade and Industry actively intervene to force sometimes reluctant corporations to carry out mergers and shifts in production that are in the overall national interest.

No doubt some American businessmen, committed to nonsensical notions of "free enterprise," find all this totally alien and bordering on "socialism." In fact the Japanese are carrying out their version of the "American system." The roots of the Japanese government-industry relationship lie in the latter half of the 19th century following Japan's overthrow of the feudal order and the 1868 Mejii restoration, following which Japan undertook one of the most amazing transitions to industrialization and modernization in world history. The government created new industries and sold them to private owners, provided cheap credit for new ventures, and similar measures. The guiding conception for this effort was drawn directly from our own Alexander Hamilton and his First National Bank (and his earlier private bank). In the 1880s a vigorous debate was conducted between factions of Japanese business and political circles over what kind of banking system Japan should have. One side, already tied to British banks, advocated the "European" mercantile banking mode, while the other advocated Hamilton's Bank as a model, citing its role in providing credit for industry as the proper function of a banking system.

The fruits of this policy are amply demonstrated in Japan today. The competitiveness of Japanese exports is not the result of cheap labor, or "unfair practices" (although, admittedly, some dumping does occur), but of a higher level of technological modernization and productivity of industry. The Japanese steel industry is characterized by the fact that no Japanese blast furnace is over 15 years old, while the American steel industry (which now prefers real estate speculation to producing steel) is antiquated and relatively unproductive. If the Japanese have done this through "unfair advantages" it would behove American business to seek the same "advantages" here.

The Japanese Seek A Way Out

The Japanese face a severe dilemma as a result of American stupidity and barbarity. No Japanese government, no matter how inclined to appease American pressure and power, can follow for long a policy which jeopardizes its industrial growth and prosperity. The Fukuda Administration is perhaps the most pro-American government imaginable, even within conservative circles of Japan's ruling Democratic Party, but even they have drawn certain lines. They and most Japanese ruling circles seek to avoid at all costs any outright confrontation with the U.S., with whom Japan carries out a quarter of its trade and on whom Japan depends for its military security. They will carry out all sorts of measures to appease, but at a certain point they will move rapidly in another direction.

What direction can Japan take? That is the question of the hour in Tokyo, and has been increasingly on their minds since the 1971 "Nixon shock." While a sneak attack on Pearl Harbor is not on the agenda, other things are.

The Japanese must secure two basic items — new energy sources and markets for Japanese capital goods exports. On energy, the Fukuda government, reflecting a broad Japanese consensus, is unalterably committed to rapid development of nuclear energy, including advanced breeder fission technology and controlled thermonuclear fusion, as well as technology for oil deals in the Mideast, Indochina, and Mexico. On markets, there is a broad commitment to encouraging industrial development, though mainly of the raw materials processing variety, in the developing sector, with emphasis on Southeast and South Asia.

The focus of Japanese interest now — especially in terms of sending a message to Washington that could be as effective as dropping bombs — is relations with the Soviet Union and China. In recent weeks some very important signals have been issued from Tokyo indicating a significant warming of relations with the Soviet Union. These signals are in the form of agreements signed or on the way to being signed for cooperation in nuclear energy, including fusion development, and renewed interest in joint cooperation on development of Siberian resources, including oil, natural gas, and coal. If the Japanese want to really shake things up, they have the option of signing a long delayed Peace Treaty with the Soviet Union, resolving the ridiculous dispute over the four Northern Islands taken over by the Soviets after the war.

Resistance to this course in Japan comes from the vocal and powerful pro-Peking lobby, which is pushing for the signing of the long-delayed Japan-China Peace and Friendship treaty. The point of dispute has been Chinese insistence on the inclusion of an "anti-hegemony clause," which everyone recognizes as directed against the Soviet Union. The Chinese option has always had U.S. favor, and supposedly carries the lure of trade with China and access to Chinese oil. Many Japanese businessmen, while desirous of trade with China, know that the Soviet Union offers a much better and more stable market for Japanese capital goods despite the fact that the Soviets have a reputation in Japanese circles as "tough bargainers."

The preferred formula in many Japanese circles is to have the best of both worlds. The Fukuda Administration, and Fukuda in particular, have indicated the Administration will move on the China front very soon — perhaps within a couple of months. They are also saying they want the treaty with the Soviets. They would like to convince the Soviet Union that the China treaty is not a threat; this they probably could not do without committing themselves to the Soviet treaty as well, including not previously offered Japanese concessions on the Northern Islands issue. Such a double package could sell best within Japan.

The Japanese would also prefer that this not take place on anything resembling an anti-American basis, although that is not out of question (but Fukuda himself is highly unlikely to initiate this). They have repeatedly asked for U.S. participation in Siberian development, at the least because they lack the capital themselves to finance the massive projects the Soviets want to carry out. A meeting of Japanese, Soviet, and U.S. representatives (El Paso and Occidental Oil were present, with the Commerce Department) took place this past week in California on this subject — the main obstacle being the U.S. policy, specifically the restrictions on Export-Import Bank financing and the Jackson amendment blocks. A shift in U.S. policy on this would be well received in Tokyo.

Close observers of Japanese politics have their eyes on an upcoming event which could well indicate which way the present regime will move. Fukuda is expected to reshuffle his cabinet in December, moving the present Ministers of Finance, Foreign Affairs, International Trade and Industry, and the Chief Cabinet Secretary. Rumors in Tokyo predict that two key political figures may enter the cabinet — former International Trade

Minister and LDP faction leader Yasuhiro Nakasone and former Foreign Minister (under Miki) Kiichi Miyazawa.

Nakasone is an important nationalist figure, known for his strong pronuclear position and his advocacy of closer Japan-Arab ties. His entry would strengthen the Soviet option and provide a tough stance toward U.S. pressure tactics. Miyazawa is a centrist politician, and an often mentioned candidate for Prime Minister, but disliked by Peking for his involvement under Miki in blocking the signing of the antihegemony treaty.

The reshuffle should be watched extremely closely under any circumstance. At the least, big things are in store for U.S.-Japan relations, particularly if the Carter Administration continues to treat Japan not as an ally but as an enemy. The Japanese memory of the 1930s and the view that Japan was forced into war by U.S. policies (the oil embargo and the like) is never far from the surface among Japanese leaders who date from that era.

— Daniel Sneider

Strauss Aide Demands That Japan Dismantle Its Industrial Structure

The following are excerpts from a speech given by Alan Wolff, U.S. Deputy Special Representative for Trade Negotiations, before the Japan Society Nov. 7. Wolff is deputy to Robert Strauss, whose office has been a prime promoter of protectionist measures by the Carter Administration. His speech was widely regarded as precedent-shattering, since he indicated that ad hoc measures by Japan to alleviate its trade surplus were insufficient. Instead, he demanded that Japan dismantle the structure of close collaboration among government, industry, and finance which, in fact, has been the key to Japan's postwar "economic miracle."

...As Japan's exports of manufactures increased and achieved considerable diversity and as her current account surpluses grew, it became less and less understandable that Japanese imports of manufactures which compete with domestic production were kept so small. Manufactures account for only 20 percent of Japanese imports — the comparable figure for the U.S. is 53 percent, for . . . the United Kingdom 52 percent (and Britain is, after all, also an island with limited natural resources) . . .

I do not accept as a satisfactory answer that Western businessmen do not understand the Japanese market . . . But the relative values of currencies, the maintenance of inappropriately higher levels of tariffs, restrictions on credit and other non-tariff barriers, the inefficiencies of the distribution system, and the close interrelationship of the producing, banking, and trading elements of the Japanese economy are more understandable reasons for the stark difference in the composition of Japanese imports compared with other developed countries.

The other side of the immediate trade question concerns Japanese exports . . . The tradition of lifetime employment and high debt-equity ratio result in strong pressures to seek out foreign markets aggressively when domestic demand is weak...The potential for future harm is increased where investment continues in additional capacity where demand does not warrant it...

Near-term Japanese measures in some of the policy areas I have discussed would go a long way toward containing rising protectionist pressures not only in the U.S. but in Europe as well . . .

Japan could usefully seek to address the high entry barriers to imports which compete with Japanese domestic production — entry barriers which derive from the close linkages among Japanese producers, trading companies, banks and distribution channels.

'Dulles Brinksmanship In Economics'

The following is taken from an interview with an official in Strauss's office who is well informed on Wolff's thinking. The interview was provided to this journal by an independent research organization.

Q: In the speech Mr. Wolff gave before the Japan Society, he focused for the first time on the structure of the Japanese economy as impeding imports, e.g., the close links among producers, traders, bankers. What kind of measures do you think the Japanese should take?
A: There are structural organizations of the Japanese economy which hinder imports, but are not normally thought of as imports barriers in the usual sense. Usually people think of tariffs and such, but these structures are even more important. For example, an electrical machinery maker is in the same business group as an electrical machinery consumer, and they are both linked to a trading company. So foreign exporters don't stand a chance.

Q: What do you suggest be done?
A: First of all, there must be rigorous enforcement of existing antitrust laws by the Fair Trade Commission. And no exemptions. For example, none of these anti-recession cartels where they share markets and cut production to keep prices up. But more important, a radical reform of the structure to end the close links among producers, traders, and bankers. In addition, when MITI (the Trade and Industry Ministry) makes allocations for capital investment, they should include