U.S. Tells Japan 'Surrender On Trade Issues'

The Carter Administration informed Japan on Nov. 21 that it had three weeks to accede to U.S. conditions on trade relations — or face a series of protectionist measures. Richard Rivers, general counsel to U.S. Trade Negotiator Robert Strauss, strongly "suggested" to officials in Tokyo that within three weeks Japan should: 1) set a definite date for moving its current account surplus into a deficit; 2) announce specific measures to increase imports and to restrain exports; and 3) produce a list of immediate and long-term measures to facilitate a fundamental restructuring of trade, including raising imports of manufactured goods from current 20 percent of total to as much as 40 percent.

Japanese officials cited by the *Washington Post* noted that the last measure would require Japan to institute a planned economy. To prevent anyone from missing the point, Rivers emphasized that the announcement must be made before the mid-December vacations of U.S. Congressmen who will then face constituents' angry demands for protectionist legislation.

The U.S. delegation scoffed at all compromise overtures by the Japanese, who were genuinely shocked at what they regarded as a U.S. ultimatum. Japan repeated its offer for emergency imports worth $3 billion worldwide, including $1 billion in uranium purchased from the U.S. Speaking to a visiting opposition party delegation from Japan, Strauss's deputy Alan Wolff dismissed the Japanese offers as "nothing more than a wisecrack." When export-dependent Japan refused to commit economic hara-kiri, Rivers packed up his bags and returned to Washington. Strauss's office then announced that the trade negotiator would not continue talks in Japan unless he were guaranteed Japanese acquiesence in advance.

Both the London and New York investment houses behind Strauss reinforced the ultimatum with a renewed assault on the yen. They rigged several hundred million dollars per day of currency flows to smash through the currency controls the Bank of Japan imposed last week, sending the yen to a record 241 per dollar as of this writing vs. 245 before currency controls were imposed. U.S. press sources report that U.S. Treasury Secretary Michael Blumenthal is aiming at a level of 200 —210, which would decimate the Japanese economy. Mitsubishi Bank had already issued a report saying that "economic panic" had set in in Japan due to the 240 yen level.

Strauss's ultimatums and Blumenthal's currency manipulations make it clear that the Administration is not interested in an amicable settlement of trade disputes, but prefers Japan end its progrowth policies, as a member of the U.S. National Security Council admitted to the West German daily *Frankfurter Allgemeine Zeitung* Nov. 21. Other Administration spokesmen including Vice President Mondale, have gone out of they way to insult Japan for allegedly breaking promises on trade issues. Significantly, Mondale's statement, like Wolff's remarks, were made to a visiting delegation from the Japanese opposition Komeito party, a zero-growth oriented Bhuddist party.

Japan's Judo

In their public response, the Japanese deliberately leaked to the press a report that Prime Minister Takeo Fukuda told his cabinet that emergency measures had to be taken within a month to avoid censure by President Carter. But this should be seen for what it is: a deception operation to gain time.

Meanwhile Japan is working to set up an international arrangement that will enable it to escape financial warfare. The key to this is an attempt to set up healthy economic ties with both China and the USSR. The Administration has attempted to set up Japan relations with China against the USSR. Only last week Assistant Secretary of State Phillip Habib told the Komei delegation that the U.S. wanted Japan to sign the treaty with China containing an "antihegemony" clause specifying that neither nation would seek to be a preponderant influence over others. Such a clause is generally seen as an anti-Soviet statement since the hegemony clauses in the past have been used to refer to the Soviet Union. Signing such a treaty would disrupt the joint Japan-USSR energy/economic pact now in progress or under negotiation. Habib, however, noted that signing the treaty would improve U.S.-Japan relations.

Foreign Minister Ichiro Hatoyama told the press that Japan instead wants to simultaneously sign the China treaty and a treaty with the USSR. *Yomiuri Daily News* suggested Japan outflank the antihegemony clause by including the same clause in the Soviet treaty, thus erasing its character as an anti-Soviet codeword.

Kreps Favors Energy-Trade Pacts

Faced with increasing pressure from sections of the Carter Administration motivated by protectionist schemes, Japan is hoping to influence the sane factions of the U.S. Administration to cooperate with Japan on energy policy. Toward this end, Japan's Science and Technology Agency chairman Sosuke Uno told the press that when U.S. Energy Department chairman representative Edwin Kintner visits Japan this month, he will propose that the U.S. and Japan work out a joint agreement on fusion power development.

Evidence of a division in the Administration came with Commerce Secretary Juanita Kreps's endorsement of triangular development cooperation such as Japan's recent invitation to U.S. companies to participate in developing Soviet resources with a $20 billion gas project. Although Schlesinger repudiated Kreps's remarks Nov. 21 by telling reporters he was against increasing U.S. imports of natural gas, Krep's remarks provide the Japanese with the direction on which to continue focussing their efforts.

Here is part of Kreps's Nov. 15 press statement favoring U.S. participation in energy developing projects.

...But of all the areas that exist for expanding and strengthening the economic relationship between the

United States and the Soviet Union, the opportunities in which U.S. corporations have showed the most interest are joint projects for the development of the Soviet Union's vast natural gas and raw material resources.

The Soviet Union possesses large, and largely untapped, reserves not only of natural gas, but of copper, nickel, platinum group metals, timber and other resources. Development of these resources through joint ventures would benefit not just the United States and the Soviet Union but consumers of these products the world over. This is especially true with respect to natural gas....

The prospect of U.S. firms participating in the development of Soviet natural gas reserves is potentially attractive on several counts....

Regardless of which alternative developed, the effect would be to enlarge world supplies of energy, mitigate upward pressure on world prices, and reduce the potential for the kind of political divisiveness to which competiton for vital scarce commodities can lead....

The question of Government financing is important but not controlling. U.S. Government participation would facilitate agreements, and have favorable balance of payments effects, but Government financing is not a *sine qua non*.

Perhaps the single greatest obstacle to the consummation of cooperative energy development is, and has been, uncertainty. This uncertainty has not been over commercial viability, but over whether a venture, once assembled, would be approved by the U.S. Government....

I know that American businessmen would like to be able to put together joint ventures with the Soviet Union, apply for Government approval and be assured that the projects would be treated as any similar project with any other country might be treated. For various reasons, such approval may be too much to ask....

How The ExIm Bank Can Solve The Trade Crisis

Under the powers granted it by Congress, the Export-Import Bank of the United States is equipped to get the world out of the trade-depression that hit during the third quarter of this year. The Eximbank can intervene in world markets to channel the huge amounts of liquidity that are now being used for speculation and debt refinancing into productive trade and investment. With a couple of almost routine authorizations by Congress, the Eximbank could begin this job first thing Monday morning—if the Executive Branch of the federal government wants to.

At present the Eximbank plays a minor (but essential) role in American trade. It borrows funds from the federal government's Federal Financing Bank, and uses them to make direct loans or guarantee U.S. exports, at the present rate of about $9 billion a year.

But this activity constitutes only a small portion of the scope of operation defined for the bank in the Export-Import Bank Act of 1945. The first paragraph of the bank's charter states:

"...the Bank is authorized and empowered to do a general banking business...; to receive deposits; to purchase, discount, rediscount, sell, and negotiate, with or without its endorsement or guaranty, and to guarantee notes, drafts, checks, bills of exchange, acceptances, including bankers' acceptances, cable transfers, and other evidences of indebtedness; and to guarantee, insure, coinsure, and reinsure against political and credit risks of loss; to purchase, sell, and guarantee securities ... to purchase and sell coin, bullion, and exchange; to borrow and to lend money...."

In other words, the Eximbank can legally perform every conceivable banking function. These powers have not been used, according to Eximbank legal staff, because they were designed for emergency circumstances. But a 10 percent dropoff of industrial countries' exports in a single quarter — a 40 percent annual rate — is an emergency by anyone's definition.

This particular institution is eminently well equipped to take on the causes of the trade collapse. The problem is not insufficient credit or liquidity in the international monetary system. On the contrary, the system is flooded with liquidity. However, the international banks who make up most trade and related financing are not lending for trade, but for refinancing of preexisting debts, and other speculative operations.

Statistics just released by the Bank for International Settlements show that bank lending to developing countries has ***almost totally excluded trade***. During the second quarter of 1977, according to the BIS, nominal bank lending to the developing countries rose by $13 billion. However, almost all of this money — $12.7 billion — went back to the banks immediately in the form of deposits from the borrowing countries. The point of this paper-shuffling operation is Third World debt service, now at an annual rate of more than $40 billion.

Since second-quarter lending normally finances third- and fourth-quarter trade, the result of the shutoff of *net* lending was the trade collapse during the third quarter. Despite the collapse of trade, however, the world supply of liquidity did not stop growing. One basic measure, the reserves of central banks, continued to grow at a 10 percent annual clip; another measure, the combined money supply of industrial countries, grew at a 9.7 percent annual rate as of August 1977.

More dollars in circulation backed by fewer goods in international trade means a weak dollar. This created the objective basis for the dollar's collapse, enabling British agent Treasury Secretary Blumenthal to start a round of dollar-dumping in late July. The main beneficiary of the dollar collapse was the City of London, which sucked in a stupendous $17 billion of loose international funds this year. That sum is about equal to the absolute dropoff in international trade.

Preliminary indications are that the rate of lending to the developing sector during the third quarter dropped