### **WORLD TRADE REVIEW**

# Did Blumenthal rig failure of Japan-China trade talks?

As of this writing, Peking is still refusing to approve an \$8 billion loan package offered by a consortium of 22 Japanese banks. If accepted, the loans will be China's first major commercial borrowing and will be on terms surprisingly generous for a country noted for political instability and a shaky payback capacity.

The Japanese banks, led by the Bank of Tokyo and Sanwa Bank, have offered \$2 billion in project credits for five years at only 0.625 percent over LIBOR (London Interbank Rate). This compares to 0.5 percent for advanced country borrowers and up to 1 percent or more even for such developing country borrowers as South Korea or Mexico. In addition, the banks have offered \$6 billion in six-month trade credits at a low 0.375 percent over LIBOR. Moreover, the loans would all be denominated only in dollars, rather than half in dollars and half in ven. This means that the Japanese lenders would take all foreign exchange losses should the yen resume its rise.

Nevertheless, China has demanded still lower rates on the long-term loans, threatening to get loans elsewhere otherwise.

#### Blumenthal behind rejection?

Why has capital-starved China rejected a quite generous loan offer from Japan, and done so just two weeks after China's equally rude suspension of over \$2 billion worth of projects from Japan?

According to one Japanese banker, "one of the main reasons for the failure of the loan talks was the interference by U.S. Treasury Secretary Blumenthal. Blumenthal (who stopped in Tokyo during his return from China in early March ed.) told Japan that it would be unwise to have competition among the free nations for China loans and projects, particularly between Japan and the U.S. He insisted that there be coordination and cooperation for both projects and loans between our two countries. He also said the U.S. would not like Japan to lend at the

### **COMMODITIES**

## 'Common Fund' gets the can

Recent developments around the United Nations Commission on Trade and Development (UNCTAD) certify that the proposal to create a global "Common Fund" buffer stock for commodity price stabilization is finished.

The death knell was sounded by the "Francophone" West African states in Tanzania last month. There, at a mid-February Group of 77 meeting (the "third World side" of UNCTAD) French-allied Ivory Coast and Senegal demanded that

the Common Fund be turned into a global development bank to finance high technology transfers and industrial development loans.

This move by French allies in western Africa, who have been in continuous diplomatic consultation with the French government on raw materials policy since last year, signals another defeat for commodity trading houses and their spokesmen, such as the highly publicized Peter George from Johannesburg, South Africa, who have been attempting to trigger a

sustained boom in commodity prices for 1979.

Although the Common Fund's success - which would have been doubtful in any case — is not necessary to kick off a price boom on the speculative open markets, the concept behind the Common Fund, authored in 1976 by the London School of Economics, is.

#### Inflation pays debt

The idea behind the Common Fund is that commodity price fixing is sufficient to guarantee Third World debt repayment. Simultaneously, the organizations and bureaucracies proposed to run the Common Fund are known to be British-controlled, so that, if enacted, centralization of price arrangements under a Common Fund purchasing bureaucracy would give to British trading and banking networks vast power over "rationing" of continually depleting raw materials supplies.

The recent efforts of London-

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low interest rates China was demanding."

Amazingly, while Blumenthal told Japan to insist on a minimal interest rate floor, the week before, in Peking, he had encouraged China to insist on lower rates, according to Washington and Tokyo sources.

Japan's Ministry of Finance advised Japanese banks not to accede to China's demands - for credit risk considerations. But according to Japanese banks, "the Chinese told us they were sure they could get easier terms from other Western nations if we didn't give in." Unconfirmed rumors in the New York banking community are that British banks offered China loans at 0.25 percent — this from a country accusing Japan of "credit dumping."

Geopolitical considerations not nationalistic competition — are guiding force behind Blumenthal's curious actions. Blumenthal is out to force Japan to subordinate its economic dealings with China to the constraints of Brzezinski's "China card" policy. In this effort Blumenthal has three main objectives:

- 1. To force Japan to "coordinate" loans and project deals with the U.S. administration, giving the Blumenthal- Schlesinger- Brzezinski policy grouping more leverage to compel Japan to adhere to the China card.
- 2. To shift the content of Japan-China economic cooperation away from the heavy industry-oriented "Japan model" proposed by the Japan Economic Research Center in favor of emphasis on light industry and agriculture. One Japanese observer remarked, "Teng's (vicepremier Teng Hsiao-ping's) policy is not the proclaimed 'four modernizations' but one modernization military."
- 3. By forcing Japan to go along with coordination with the Carter administration's military orientation toward China, Blumenthal wants to put Japan's trade deals with China into the hands of

businessmen and advisors surrounding current Prime Minister Masayoshi Ohira who are more willing to go along with Washington on the China issue. At present Japan's China trade is coordinated by the Ministry of International Trade and Industry (MITI) and the Japan-China Economic Association (JCEA), a private industry group led by the ex-chairman of Nippon Steel, Yoshihiro Inayama. The MITI-JCEA group is orienting toward a "Japan model" policy for China and they want nothing to do with a "China card" policy. Inayama heads the Japan-East Germany Economic Cooperation Committee and the JCEA.

In this effort, Blumenthal faces a tough problem. Japan's political and business leaders are convinced that Carter and Teng made an irrational miscalculation by invading Vietnam. Ohira's lukewarm support of Washington during the crisis did little for his political credibility inside Japan.

connected commodity houses to kick off a sustained 1979 boom in open market prices (which went through its first round during a sixweek period starting mid-January) has the same political and economic effect as implementation of the Common Fund: namely, if prices do reach the heights London financial columns have predicted, triple-digit inflation on materials costs to the advanced sector will create funds with which the Third World may pay its debt accounts. The resultant recession in advanced sector industry will then force raw materials production cuts to the point that shortages become inevitable.

In May, the final UNCTAD decision on the Common Fund will be worked out at a full membership conference in Manila. At the close of French President Giscard's Feb. 28-March 3 historic state visit to Mexico, it was announced that France and Mexico would hold consultative meetings to jointly work

out their tactics for the Manila UN-CTAD meeting. Presumably, they will strive to garner further support for rejection of the Common Fund in behalf of a development bank design.

Commodities traders in New York and London do not include consideration of these political deliberations in their speculative price analyses.

The effect of France's political show of force in the Third World has only shown up indirectly, in the form of an obvious bout of nervousness and confusion, especially on the metals market, in the aftermath of the January price climbs.

Copper traders, for example, are issuing widely divergent reports about the prospects of a new round of copper price rises, now at \$.85 per pound.

The disagreements about copper revolve around the issue of stockpiling. Sources on both sides of the fence are equally emphatic that the copper bought from mid-January through February either did or did not simply reflect a shift of unutilized stockpiles from the London metals exchange to U.S. and other industrial consumers.

For the first time, however, on March 14 one investment house, Smith Barney, Harris Upham, began to dispell the euphoria in the financial community about metals by pointing out that even the relatively modest hike in prices of the first two months of this year registers as a major factor behind U.S. double-digit inflation figures.

Obviously concerned that an uncontrolled price takeoff could trigger an early breakdown in metals purchasing, and result in an all-toosudden collapse of commodity prices, Smith Barney recommends to speculators a "safe" copper price of \$1.00 per pound in 1980, much lower than the \$1.20-1.50 predicted by the financial press.

– Renée Sigerson