U.S.-Japan Relations

Tokyo's overtures and Washington's line

by Richard Katz

Essential American firms for whom the Volcker interest rates are a death sentence, such as agricultural machinery producer International Harvester, may soon be able to avoid execution by obtaining low-interest loans from Japan. Necessary industrial infrastructure now postponed or cancelled, such as electricity grids or water transport, may soon be able to do the same. All this would be possible under a proposal by Zentaro Kosaka, formerly Japan's Foreign Minister and currently an executive of the ruling Liberal Democratic Party (LDP).

Speaking at the New York Japan Society on April 5, Kosaka zeroed in on the fact that high interest rates were hurting the American economy, and offered a plan to allow American firms and communities to borrow in Japan at commercial rates, now about 8 percent compared with 16 to 17 percent in the United States, as a way of helping to alleviate current economic frictions between the two countries. Informal sources told *EIR* that Prime Minister Suzuki approved Kosaka's proposal.

"A problem of high importance in the world today is the high interest rates in the United States," Kosaka declared. "Although I have no intention of interfering with this country's economic policies . . . it seems to me that what the United States needs is greater incentive to invest and revitalize its production." Referring to his experience as a former businessman, Kosaka added, "Through my experience in those days, I have been deeply impressed by the fact that obtaining capital with low interest rates . . . served as an incentive for productivity."

Kosaka proposed that the governors of each state screen proposals from communities and corporations for "high-priority projects" that enhance productivity. Within limits, Japan would allow such firms or communities or states to borrow in Japan's domestic *commercial* yen credit market at market rates, now about 7 to 8 percent. "I am not talking about government funds, and I would never want this to be seen as a donation," Kosaka stressed. Since such yen funds would have to be turned into dollars in the foreign-exchange markets in order to be useable in this country, an avalanche of such loans would lower the value of the yen, which is one of the reasons why up to now it has been virtually impossible for foreign corporations to borrow extensively in Japan's yen market.

Kosaka stressed that discussions on both sides of the Pacific were needed to work out details of eligibility for such loans, but he stressed that "productive-enhancing" projects were the criterion. Representatives of the governors of Florida and Illinois, and an official of the National Governors Association attending Kosaka's speech told *EIR* they were very interested in the proposal, and already had some projects in mind.

Should the plan go through, it would not only help American firms facing collapse and help rebuild this country's depleted infrastructure, but also add to the pressure on the Federal Reserve to lower interest rates here as well. Small surprise, then, that the next day Paul Volcker's allies in the Commerce Department attacked Kosaka's proposal. "We are only kidding ourselves to think that Japanese low-cost financing to U.S. companies will change the fundamentals in our trade relations," Commerce Deputy Secretary Clyde Prestowitz told the New York *Journal of Commerce,* "To the extent that this might be regarded as a solution, it could actually become an *obstacle* to the improvement of our trade relations [emphasis added]."

Prestowitz's boss, Commerce Undersecretary Lionel Olmer, had made it clear in a speech to the Japan Society two weeks earlier that, in fact, improved trade has little to do with the administration's emotion-charged demands for Japan to "open its markets," and its support for punitive "reciprocity" trade bills now before Congress. This was made evident by Olmer's startling declaration that, *rather* than lifting specific non-tariff barriers, the way for Japan "to provide market access in its broadest and truest sense" is, among other things, "encouragement of foreign acquisition of Japanese companies." In other words, Olmer demands that the same multinational companies which, in the United States, have diversified out of industrial production into real-estate, commodity futures, or electronic games, be aided by the Japanese government to buy up Japanese industrial companies, presumably to diversify them in the same direction!

Asked by *EIR* his response to Olmer's demand, Kosaka said that even if Japan lifted every tariff and non-tariff import barrier—it just announced the lifting of 73 such barriers in response to 99 complaints from Washington—that would have only a minor effect on the $15 billion U.S. trade deficit with Japan, which is mainly caused by high interest rates and structural factors. He added, "I am opposed to aiding the foreign takeover of Japanese firms. Japanese corporations do not even sell themselves to each other. Instead, the way to resolve frictions is, for example, to cooperate in joint ventures in high-technology industries or in the loan fund I have proposed."