

Business Briefs

Trade

Carter vs. Japan on autos—and more

Electioneering in Detroit on the way to Tokyo for the funeral of Prime Minister Masayoshi Ohira, President Carter promised aid to the U.S. auto industry including acceleration of an International Trade Commission review of whether Japanese exports have damaged the American industry. Auto is the most prominent issue now, given the 300,000 layoffs in the U.S.

Japan now outproduces the U.S. in autos, with 5.4 million units in January-June against only 4.4 million for the U.S. Moreover, Japan now exports the majority of its car production and has achieved a 23 percent market share in the U.S.

The United Autoworkers Union has demanded that Congress legislate requirements for Japanese firms to manufacture in the U.S. any models that sell more than 200,000 per year there. Carter is expected to inform Japan that they should agree to this demand voluntarily, rather than see it imposed by Congress.

After stern demands made by Secretary of State Muskie to Foreign Minister Saburo Okita during their recent meeting in Malaysia, Japan's Ministry of International Trade and Industry (MITI) officially denied that Japanese firms had plans to increase production capacity by 2 million units, while Toyota announced a production cut of 7 million units for the second half of 1980. Nissan is expected to follow.

The auto issue is most explosive politically in the public mind. But from the long-range strategic point of view, the trade friction over computers is far more important. Carter will demand once more that Japan's government-owned Nippon Telegraph and Telephone allow procurements by U.S. firms in advanced-technology areas.

The motivation here is to prevent Japan from gaining the technological wherewithal to challenge IBM. The Japanese challenge has become dramatic in this area with Fujitsu's announcement last week that it will have commercially

available by 1985 a gallium aluminum arsenide computer chip with 25 times the speed capacity of the standard silicon chips now used. The production cost is much cheaper than that of alternative chips. Since Japan plans to make computers and numerically controlled machine tools the export products of the future, Washington's actions in this sphere have the most significant effect on market shares in the mid-to-late 1980s.

Japanese computer execs say of recent Japanese advances in microchip technology and computer controls for machine tools, "We have no intention of trying to compete with IBM on its home ground. But we will be able to take the dominant position in Third World markets."

Gold

Soviets debate gold's monetary role

A spirited debate has broken out in Soviet government and academic circles over the proper role of gold in the international monetary system. The essential question underlying this debate is whether or not the Soviets should seek closer collaboration with the European Monetary System (EMS), the gold-backed European currency arrangement.

The April issue of the Soviet Journal *Ekonomicheskoye nauki* (*Economic Science*) reports that the Moscow Institute of Finance held a conference in 1979, which was devoted entirely to discussion of gold's role in the Western monetary system. The speakers representing IMEMO (the Institute of the World Economy and International Relations) all sounded very much like U.S. Treasury officials, insisting that gold had been demonetized during the 1970s and would never return. Speakers who contended that gold's monetary role is in the process of being restored included a representative of the Gosbank (the Soviet agency which markets Soviet gold), a member of the Institute of Economics of the Soviet Academy of Science, and MFI personnel.

In the May issue of *Kommunist*, Gos-

bank chairman V. Alkhimov dropped a strong hint that the Soviets are prepared to cooperate with Western European governments in using gold to restore stability to the world monetary system:

"The U.S.S.R., as a gold-producing country, uses the sale of gold to increase imports, particularly to overcome disproportions in the national economy caused by unforeseen circumstances. It should be noted that we frequently have to solve all these problems of currency and economic relations under conditions of deep collapse in the Western countries' economy, increasingly frequent bankruptcies of firms and banks, and monetary instability.

"Therefore, it is necessary for our banks to constantly perfect their activity, find flexible and stable forms of working with clients and correspondents, monitor carefully all events in the economic, monetary, and financial spheres, as well as cooperate closely with the banks of other countries, especially those which support progressive changes and tendencies in the international division of labor."

Corporate finance

GM billion bond soon on market

Inside reports are that General Motors will come onto the New York bond market for a whopping \$1 billion debt issue some time this fall. Eager investment houses are confident the bond will go well, on a combination of GM's reputation and price. The expected issue will seal 1980 as a record year for U.S. corporate bond issues. Investment houses are now intent on pulling in greater volume of foreign capital into this market than ever before.

For foreign investors, top traders report, U.S. investments are highly secure, and perhaps more important, at just the right price. Using GM as an example, one investment house pointed out that GM is on its way to becoming the leading auto company of the 1990s, in the sense of its unprecedented size and market weight for that industry; and at the same

time, its share price is still "cheap."

To the extent that foreign investors have not rushed to pour funds into the U.S. corporate bond market, a major reason is the federal withholding tax on corporate debt holdings of foreign interests. Investment houses are closely watching Congressman Al Ullman (D-Wash.) who has just introduced a recommendation that the withholding tax be dropped. New York investment houses are hoping that once it goes, Arab, European and Latin American dollars will flow into New York in unprecedented volume.

To set the mood for such large-scale capital inflows, financial networks are circulating the line that international investors prefer American paper "because the U.S. is the last real bastion of capitalism." This line—which will amuse businessmen in such nations as Germany, France and Japan—was launched by *Forbes* magazine, which titled a lengthy feature on growing German capital investment in the U.S. this week "Drang nach U.S.A."

Foreign exchange

U.S. dollar battered again

Foreign investors dumped dollars last week in the wake of the Federal Reserve's July 4 move to lift the credit control regulations imposed in March. The pound sterling hit a five-year high against the dollar on July 7, surpassing \$2.38. On the following day, the dollar slumped badly against the major European currencies and fell to as low as 1.73 deutschemarks, before it was steadied by "substantial" central bank intervention.

According to a British banker, foreign investors view the Fed's lifting of credit controls—although of little significance in and of itself—as a signal that the Fed will seek to reflate the economy in order to ensure Carter's reelection. Since the underlying inflation rate is still high, at about 10 percent, this is considered a sure prescription for another dollar crisis.

Meanwhile, the pound's strength reflects the July 3 decision of the Bank of England to lower its minimum lending rate from 17 percent to 16 percent. The Bank of England's strategy is to revive the flagging gilts (government paper) market by reducing interest rates very gradually, thus encouraging investors to lock in high yields while they still can.

Resources

Soviets plan biggest ever water diversion project

Fifteen years ago, an American engineering company proposed a project to divert more than 130 cubic kilometers of water annually from Alaska and Canada to the U.S. and Mexico through a network of canals and reservoirs including an 800 kilometer trench reservoir in the Rocky Mountains. Today a project like the North American Water and Power Alliance Project could more likely be built on the moon than in the U.S., RAND Corporation researcher Than Gustafson wrote in *Science* magazine recently. But ground may be broken on a project of similar scope—which would be the most expensive and complicated engineering project ever undertaken—in the Soviet Union in as little as five years.

There are currently two major diversion projects under discussion in the Soviet Union, Gustafson reports, to reroute the flow of several northern lakes and rivers to support agricultural development in the south and to halt the decline of the Caspian and Aral seas, and generally lay the basis for further industrial development of the southern regions. The largest, the Central Asian Diversion Project, would divert a portion of the Ob River in Western Siberia southward, over the Turgai Divide into Central Asia and the Arab Sea basin. The project would require the construction of a canal about 1500 kilometers long. The first stage is estimated to cost 30 billion rubles—equivalent to one-quarter of total capital investments in the Soviet economy in 1979, and approximately equal to the total 1979 investment in agriculture.

Briefly

● **FORD MOTOR** Company's chief economist, William Niskennen, lost his job last month. A monetarist-leaning economist who worked closely with Milton Friedman, he refused to draft a change-of-line statement calling for higher tariffs on car imports.

● **FRENCH OBSERVERS** of American politics expect the next American President will have to strike a deal on gold with Western Europe, *Le Monde* commentator Paul Fabra said in a recent conversation. Fabra thinks that the pro-gold stance of Reagan adviser Arthur Laffer points to an inevitable trend.

● **DR. EDWARD TELLER** of the Hoover Institute at Stanford University is convinced that the Carter administration's no-policy stance on energy is even more dangerous than a wrong policy. Favoring nuclear fission and fusion, Teller permitted a recent Hoover conference to promote coal-based synthetic fuels in the hope that the Carter Department of Energy would pick up on something, even if not the most desirable energy approach.

● **OFFICE OF TECHNOLOGY** Assessment officials deride the White House's recent statements on industrial policy as "just buzzwords" and "obviously political." Carter isn't doing anything on innovation policy, OTA officials believe. OTA reports directly to Congress.

● **ARAB MONETARY** officials, 25 from all the leading countries, showed up at the West German Bundesbank on July 9 for intensive but informal discussions.

● **CHEMTREE** Corporation chief executive officer William Cornelius Hall has been unseated in the midst of a Securities and Exchange Commission lawsuit against the company, which produced a revolutionary high-hydrogen formula for iron oxide mortar.