Japan goes political: the new financial and technological offensive takes shape

by Richard Katz

"Little Sony salesmen" (Henry Kissinger's formulation) or, more charitably, "strong on economics, weak on politics" are two of the epithets commonly thrown at Japan. For too long, the complaint goes, Japan has been content to let the United States bear the burden of making the world safe for Japan's trade-based economic miracle.

Tokyo has indeed sat by and let the U.S. business elite and successive Washington administrations shape the world for better or worse. If U.S. policies happened to be forging world economic advancement, then Japan benefited. If a Jimmy Carter became President and decided to help Khomeini come to power, then Japan had no choice but to *adjust*, to lower its oil imports.

This is no longer the case. The second greatest economic power in the non-communist world is beginning to take on a political role commensurate with its economic strength—even if this sometimes means challenging U.S. policies.

Prime Minister Zenko Suzuki has now made a political intervention into the area of relations between the advanced and developing countries, which Tokyo sees as perhaps the most important long-run determinant of global political and economic stability (see article, page 34). Suzuki has agreed to requests by such nations as Nigeria, Saudi Arabia, and Bangladesh to mediate between advanced and developing countries at the Oct. 22-23 summit in Cancún, Mexico. He is expected to try to persuade President Reagan to abandon Treasury Secretary Donald Regan's proposed reduction of credit and aid to the underdeveloped nations (see *EIR*, Oct. 20).

Abandoning Japan's posture of letting Washington alone handle the Middle East, Suzuki has made a strong push for the Saudi Arabian proposal known as the Fahd Plan, saying a "broader standpoint" is needed alongside Camp David. The Saudi plan calls for mutual recognition by the Israelis and Palestinians. Suzuki pressed visiting Palestine Liberation Organization (PLO) Chairman Yasser Arafat to accept it during an Oct. 14 meeting. At the request of Arafat, of the government of Iraq and of other Arabs to mediate between them and Washington, Suzuki is expected to urge Reagan to accept the Saudi Plan. At the same time, Tokyo announced "serious consideration" of a $650 million economic aid package to Egypt in order to ensure that country remains stable following the Sadat assassination.

Banking and technology

Japan is situated to effect many of the changes it wants, because its strong economy is a vehicle for the lending and investment which many Japanese leaders believe to be the prerequisite for restoring global stability.

As of June 1981, Japan's banks held approximately $105 billion in Eurodollar deposits, an astounding 65 percent rise from the year before. This places them third, behind the banks of the U.S. and Britain. If the pace continues, a year from now Japan's banks will be number one, which would have immense effects on the pattern of world trade and investment, i.e., who gets the contracts for what kinds of projects and products.

The new financial clout is matched by an even more impressive stride into the ranks of technological leadership. In contrast with years of stagnation in American R&D, Japan's government has declared the 1980s "the decade of technology." With an accelerating rise in R&D investment, Japan, already the world leader in industrial robots, has surpassed U.S. firms in semiconductors and has begun to challenge IBM in mainframe computers. Even the U.S. Department of Defense is asking Japanese firms to supply electronics technology unavailable in the United States. Should Japan become the world's foremost technological power 5 to 10 years from now, its leadership will shape the direction of the world's economy. Other economies will have to adjust to the momentum caused by the kinds of products and modes of production Japan chooses to undertake.

As a result of these changes, Japan's every economic movement causes ripples, and sometimes waves, in other nations' economies and politics—often with reciprocal effects upon Japan. For example, did a belief, no matter whether mistaken, that Japanese exports increased French unemployment make a marginal contribution to the electoral defeat of President Giscard d'Estaing, who is a friend of Japan? Japan has no choice but to intervene deliberately in the political effects of its economic activities if it wants to avoid unwanted repercussions.

Preventing the return of the 1940s

As shown at the Shimoda U.S.-Japan Conference of Sept. 2-4 (see *EIR*, Oct. 13), Japanese leaders increasingly worry that the era of U.S. world leadership may be over. Moreover, they see America's economic, political, and military decline entailing serious errors of omission and commission. If the U.S. cannot be relied upon, then Tokyo itself must begin to act. Europe, particularly Germany, becomes more important, as do independent ties in the Middle East. At the same time, in the belief that no nation can replace the U.S. role, efforts are made to persuade America to change its course, e.g., Suzuki's mediation at Cancún.

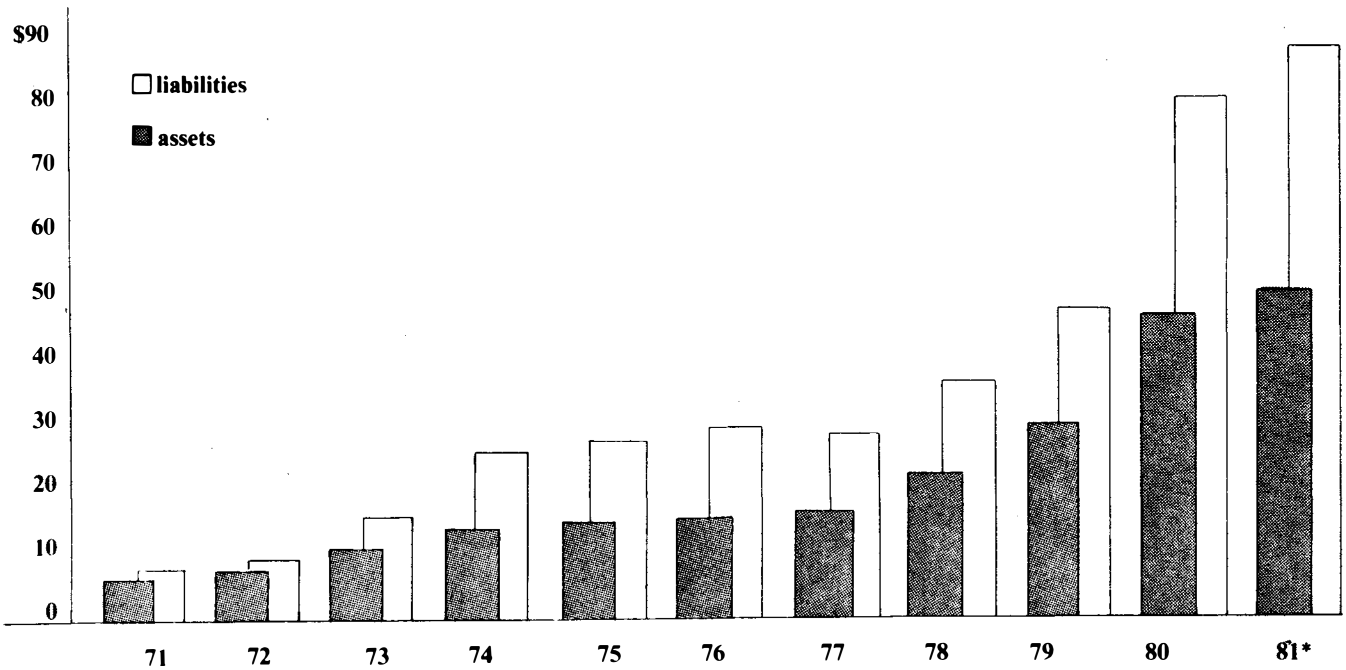
Former Prime Minister Takeo Fukuda, the power behind the throne in the Suzuki administration, has repeatedly stated that the economics of the 1930s led to the wars of the 1940s, and that the current international situation is the worst conjuncture since then. Suzuki motivated his planned intervention at Cancún in an Oct. 5 Diet speech by declaring, "It is essential to world peace and stability that the industrialized countries contribute to the improvement of the peoples' lives in the developing countries and to ending the causes of political instability, thereby contributing to their economic development."

Since the beginning of the 1970s, officials of the powerful Ministry of International Trade and Industry (MITI) have believed that both war-avoidance and the economic health of the advanced sector depend on industrialization of the underdeveloped nations. Without the momentum provided by the markets and new products of industrializing Third World countries, the advanced sector itself would surely begin to stagnate,

Figure 1

Japanese banks' overseas short-term liabilities and assets, 1970-81

(billions of current dollars)



* Cumulative as of June 1981; other figures are cumulative total as of December of that year.

This graph covers short-term assets and liabilities only. The inclusion of long-term assets and liabilities would take the total significantly higher, e.g., total assets and liabilities as of June 1981 were approximately $105 billion. The significant chronic short-fall in short-term assets vis-à-vis liabilities is accounted for by the fact that the banks have been using short-term liabilities to invest long term, and in the oil shock years had to borrow abroad to cover large current-account payments deficits.

Source: Japan Ministry of Finance.

MITI officials believe. What is required is a florescence of "new Japans," along the model of South Korea.

Due to an inrush of OPEC and other funds in recent years (see Figure 1) which has given Japanese banks the $105 billion in Eurodollar holdings cited above, Japan is now in a position to help finance such industrialization efforts. It can act, to some extent, even if America's Treasury Secretary demands a credit reduction.

Private bank lending overseas is a political factional issue in Japan that will be determined by private-government policy discussion. The banks, like other corporations, must abide by the government's "administrative guidance" in certain matters, one of which is government ceilings on the gross levels of lending abroad. Following a decision by the Suzuki administration this spring to lift previous low ceilings, Tokyo undertook a flood of private overseas loans.

Mexico alone received approximately $3.5 billion in syndicated loans during July-September, not counting additional export credits. Other recent loans include: $250 million to Brazil (half private, half government) for the Carajas iron ore project; $350 million to the Philippines for a phosphate fertilizer project, half of whose produce will be exported; $60 million to help finance a nuclear project in the Philippines; and $300 million for energy projects in Indonesia.

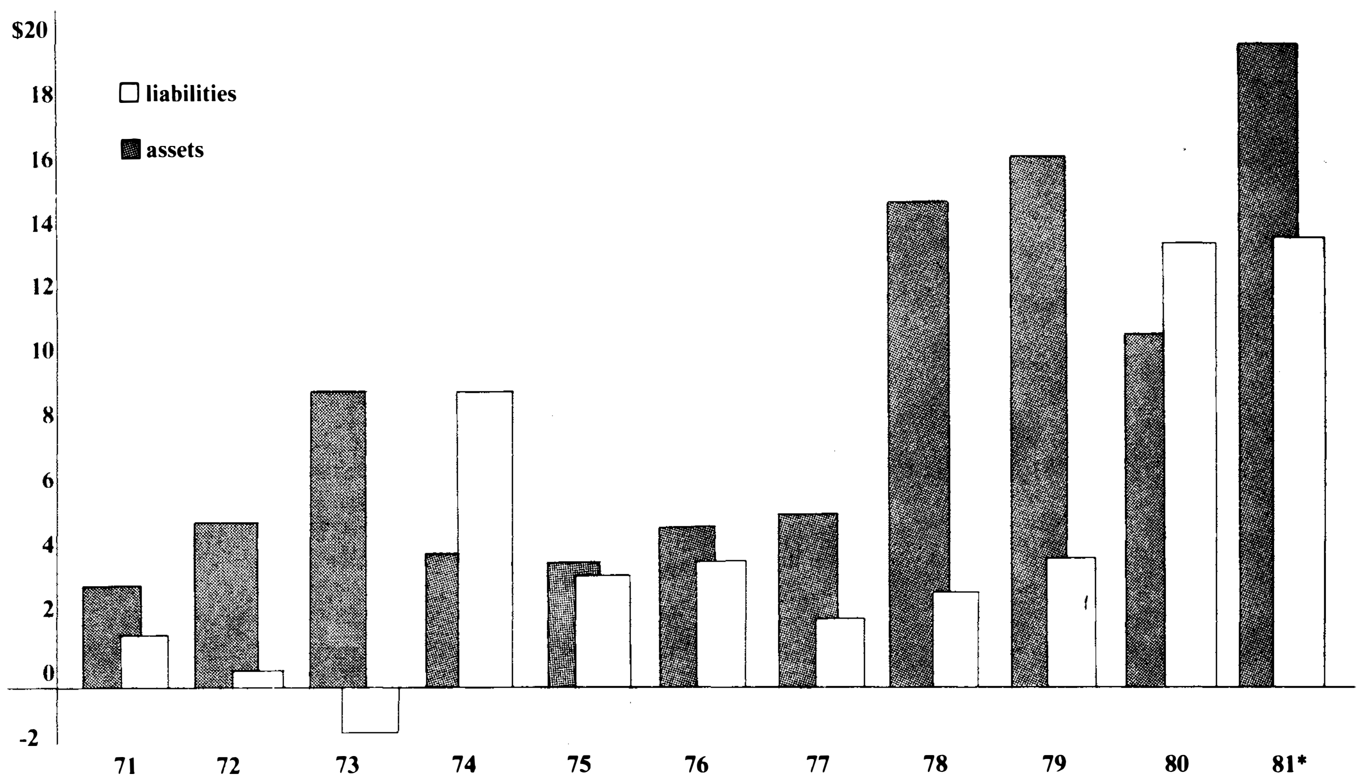
Overall, $10 billion was lent out in the April-September period, according to a Japanese banker who reports that the ceiling has been doubled to $20 billion during the October 1981-March 1982 six-month period.

Not all the overseas loans go to the developing nations, of course. About half the $105 billion in Eurodollar funds is lent or invested in the advanced sector. Most goes for resource projects, such as coal or uranium or minerals, or for manufacturing subsidiaries. On the other hand, some more dubious loans—such as

Figure 2

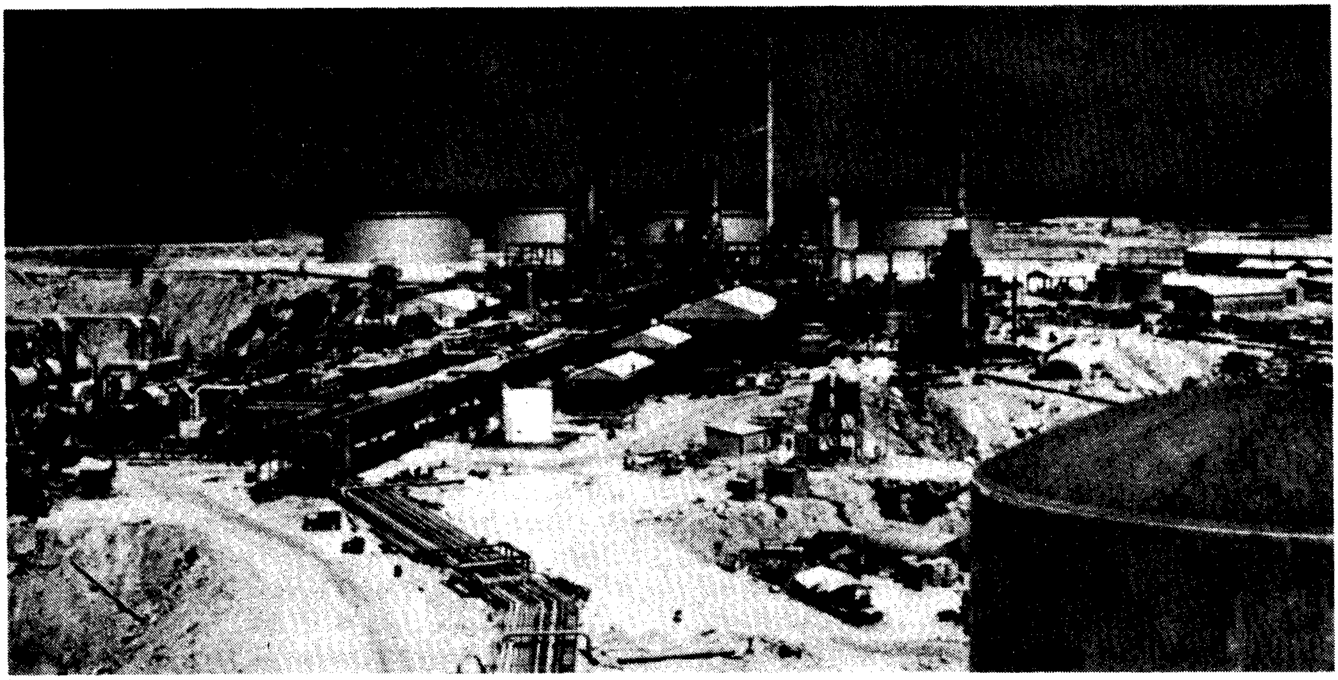
Japan's long-term capital balance of payments account, 1970-81

(billions of current dollars)



* 1981 figure is simple projection based on doubling the actual January-June 1981 figures. Actual results for 1981 are likely to be higher.

These figures for the long-term capital account of the balance of payments only partially reflect the absolute amount of Japan's international financial activities and do not include much of the Eurodollar and European activities. They do, however, indicate the trend of international flows.



Courtesy of JETRO

A Japanese-built LPG sulphur complex in pre-Khomeini Iran: Japanese leaders intend to take political leadership against devolution.

the $800 million to fund corporate takeovers by U.S. firms of each other—also creep in.

The trend of the loan activity—i.e., what kind of countries get what proportion for what kinds of projects—is determined by political debates in Japan's government and private sector.

In the 1970s, MITI's Industrial Structure Council—comprised by the chiefs of Japan's largest industrial combines—determined that Japan's task in the world economy was to transfer industrial technology to the developing countries and key advanced equipment to other developed countries. MITI proposed that plant and equipment exports should rise to at least 20 percent of exports, in place of previous emphasis on steel or radios.

One result of this program was that Japan, a negligible exporter of machine tools as of 1974, captured 13 percent of the world export market in 1980 through emphasis on numerically controlled (computerized) machine tools to the advanced sector.

Capital-goods sales to developing countries grew more slowly—until the 1977-78 administration of Prime Minister Takeo Fukuda.

In 1978, Japan's long-term capital outflow tripled to $14.8 billion and rose again to $16.3 billion in 1979 (see Figure 2). Much of the total went to developing countries. As a result, Japan's plant and equipment exports rose in 1979 to a record $11.4 billion, still only 11 percent of exports.

This momentum was stopped dead not long after Fukuda was replaced by Masayoshi Ohira, the man Henry Kissinger called "my favorite Japanese." When he took power in December 1979, Ohira could not immediately put a halt to Fukuda's successful program. Once the Khomeini oil shock had occurred, however, Ohira used Japan's need to abate the outflow of dollars as a pretext to virtually prohibit overseas syndicated loans, particularly to developing countries. Many in Japan felt his move was actually a response to a series of letters over the previous year from Treasury Secretary Michael Blumenthal which complained that Japan's private overseas loans threatened U.S. and International Monetary Fund "conditionalities" on loans to the developing sector. In 1980, Japan's capital outflow fell to $10.8 billion, syndicated loans to the developing countries fell to $2.0 billion, and plant and equipment exports fell to only $8.9 billion. (Ohira's adherence to Carter's anti-Soviet embargo plus the fall of Pahlavi Iran contributed to the drop in plant and equipment exports.)

Suzuki initially continued Ohira's program. Gradually, however, Suzuki has reversed course and restored government support for a strong overseas lending program. Plant and equipment exports should hit a record $13 to $15 billion in 1981.

Japan's technology offensive

A few years ago, MITI proposed that Japan raise its rate of R&D investment to 3 percent of Gross National Product; currently the rate is 1.8 percent, compared to 2.2 percent in the United States. MITI often provided overall guidance for the direction of research and provided some seed money. However, contrary to popular belief, the Japanese government financial contribution to R&D is significantly smaller than the U.S.—28 percent, as against 36 percent in the U.S. (50 percent in the U.S. if defense R&D, often used later in civilian industry is included).

Gone are the days when Japan's patents were limited to improvements or adaptations of others' technology. In 1970, Hitachi, a major engineering and construction combine, paid out 12 times as much in royalties on the use of other companies' patents, often imported, as it received. In 1980 the ratio had dropped to 2.

This policy has allowed Japan to leapfrog American firms in certain areas. Japan now has matched the U.S. in 64K-bit integrated circuits and is expected to be first in producing a commercially viable 256K-bit chip. Hitachi and another firm, Fujitsu, are beginning to challenge even IBM in mainframe computer areas. Forty percent of the industrial robots in the world are used in Japanese factories, and Japan's Industrial Robot Association, a 14-member company group, is now funding research in "intelligent robots" which have "sight" and "touch." By 1985, they predict 15 percent of robots in use will be "intelligent robots."

Effect on U.S.-Japan relations

The Carter administration had viewed Japan's growing strength, and particularly its use of that strength to create "new Japans" in the Third World as a political threat to both Washington's leverage over Japan, and to Carter's anti-industrial policy toward the Third World. Carter's bludgeoning approach to Japan on trade issues was motivated by this belief, as expressed more openly in the January 1979 "U.S.-Japan Trade Report" of the House of Representatives Trade Subcommittee, which echoed certain Treasury Department voices. After listing Japan's technological orientation, the report states, "We believe that the Japanese threat in these high-technology areas may soon become the most explosive issue between our two countries." The report then attacked Japan's transfer of industrial technology to the developing countries, "We foresee 'Japan trade crises' recurring with other developing countries—the so-called 'New Japans' of the Far East such as Taiwan, Korea, Hong Kong and Singapore—and later other developing nations of the world."

In order to prevent the trade tension in the steel and auto sectors that occurred under Carter from continuing in the high-technology and plant export area, Japan has made marked efforts to cooperate with firms in the United States and Europe on sharing technology and joint export projects to the developing countries.

Mitsubishi and Westinghouse (already partners in a number of fields) are considering joint manufacturing of very large-scale integrated circuits, which would include full disclosure of manufacturing techniques, and have already agreed to joint R&D in robots, integrated circuits, and atomic energy; Hitachi and General Electric have signed a deal in which GE will sell Hitachi-made robots while it acquires Hitachi technology to manufacture its own; Fujitsu and Britain's ICL have reached a pact for ICL to purchase Fujitsu-made computer and semiconductor techniques; Toray Textile and Elf-Aquitaine of France will enter joint work in production and marketing of synthetic textiles.

The same type of cooperative approach has been applied to exports to the developing countries. Mitsubishi will join a bid by Westinghouse (its nuclear licensee) for construction of two 1-gigawatt nuclear reactors, for Mexico; an international consortium of American, French, and Japanese firms won a $1 billion oil refinery order from Saudi Arabia at Al-Jubail; Hitachi Shipbuilding and Engineering signed a five-year pact with Germany's Kloeckner-Humboldt-Deutz AG to seek joint orders for cement plants from 25 countries in the Middle East, Southeast Asia, and other areas, the first such ongoing Japan-Germany venture.

A congressional source who recently visited Japan during the Shimoda Conference said that such efforts are "not just tokenism. The Japanese are making a real effort to prevent unmanageable trade frictions from developing in these new high-technology areas." He pointed out that Japan had just reached an agreement with the United States for mutually lower tariffs on semiconductors.

Unlike Carter, the Reagan administration has so far tried to handle even such bitter issues as the auto situation in a businesslike, if tough, manner. However, if the U.S. continues its decline while Japan advances, such trade frictions will rapidly become unmanageable.

More important than the bilateral trade frictions, in Japan's view, would be the global effects of any sustained U.S. economic decline and of continued conflict between Washington and Tokyo on the issue of Third World industrialization. One Japanese banker said Japan's Third World finance efforts would not work without a reversal of the Blumenthal-Regan policy. "Japan cannot do it alone." he said. "We haven't the funds. Besides, if many of the developing countries go bankrupt, we cannot avoid the disaster."

The primary purpose of Japan's cooperative efforts in high-technology and export projects areas is not the avoidance of trade friction, though that is a very important motivation. Rather, the same cooperation that is needed to avoid trade friction is the proper policy for the more profound purpose of ensuring global economic advancement and, therefore, political stability. How Mr. Reagan responds to Japanese initiatives in this regard will go a long way to shaping both the world and U.S.-Japan ties for years to come.