

# Japan's uneasy role as economic superpower

by David Goldman

A sort of turning point in postwar economic history came with the economic agreement announced Oct. 31 by Japanese Finance Minister Miyazawa and his American counterpart, Treasury Secretary James Baker III. It marked the first time that the U.S. government has asked for economic policy assistance from another government for electoral purposes. As such, the agreement did not amount to much, and has been forgotten in the wake of the dollar's continuing weakness on foreign-exchange markets. But it marked official acknowledgement that Japan, with the world's largest trade surplus, has become a special sort of world superpower.

President Reagan did a favor for Japanese Prime Minister Yasuhiro Nakasone last June, well-informed Tokyo sources explain, by easing pressure on the Japanese trade surplus just before the June elections which returned Nakasone with a strong majority. The prime minister, as well as Finance Minister Miyazawa, wanted to return the favor to Reagan, a valued political ally. The favor came in the form of the Oct. 31 agreement. There is both more and less to this agreement than meets the eye. The government action was the signal for a coordinated move into American markets by Japanese institutions, which had begun to reduce their American presence sharply during the third quarter.

Tokyo policymakers, in informal discussion, formulated the problem as follows: Japan is subsidizing the American economy by shipping a net \$50 billion worth of goods to the United States per year, and investing the proceeds in U.S. securities. The word, "subsidy," would never be used in public, but the fact that America now imports net one-fifth of its total consumption of physical goods can bear no other description.

Tokyo is painfully aware that this cannot last indefinitely. However, policymakers estimate—correctly—that a sudden stop in Japanese financial flows into the United States would produce a shock that would probably bring down the American banking system. The repercussions of this would hurt Japan as well; therefore, the Japanese cannot simply cut off the flow.

Japan's superb trade performance, *EIR* showed in a cover story published Aug. 8, reflects, to an alarming extent, the weakness of the world trading system. Japan's exports to the OECD (industrial nations) rose from 46.3% of exports in 1976, to 56% in 1984, and further since then. Exports to the

U.S.A. alone rose from 23.7% of the total in 1976, to 35.6% in 1984.

At the same time, exports to Japan's natural market, the developing nations, declined sharply as a percentage of the total—from 55% in 1976 to only 44% in 1984, as financial crisis engulfed the Third World.

The United States now produces only 80% of its total physical consumption; the rest is obtained by net imports. Japan's trade surplus derives from that country's role in filling that deficit, in the context of declining overall world trade. American imports rose from \$256 billion in 1980, to \$361 billion in 1985. But total world trade *minus* the \$104 billion increase in U.S. imports was only \$1.663 trillion, *lower* than the supposed nadir of international trade in 1983, when exports fell to \$1.667 trillion. World trade contracted apart from the U.S. deficit, and Japan's exports showed a net 20% swing toward the industrial nations as a result.

## Window-dressing

Through the Oct. 31 agreement, Japan demonstratively cut its discount rate to a postwar low of 3% from 3.5%, a purely symbolic action which could not, by itself, have any impact on foreign-exchange markets. Japanese investors agreed, meanwhile, to continue to throw the proceeds of the country's \$50 billion trade surplus into American securities.

In return, the Americans agreed to sell Japan a big piece of the store, namely, the \$120 billion-per-day market in U.S. Treasury securities. Since then, the Treasury has authorized three Japanese brokerage houses as primary dealers in U.S. Treasury securities.

The U.S. banks and investment houses are facing enormous competitive pressure from the huge Japanese trading houses such as Nomura, Daiwa, and such in the U.S. Treasury market. In what observers characterize as "open warfare," the Japanese are believed moving to use their investments in U.S. government debt to increase their control of the U.S. financial market.

As the largest primary purchasers of U.S. Treasury securities, the Japanese have the leverage to dominate the primary dealerships as well. One wire-service account quotes an unnamed Merrill Lynch executive complaining, "We were always afraid of becoming Nomura-Merrill Lynch."

Neither can they maintain it indefinitely. The objective which Tokyo has set for itself is to gradually reduce the level of net flows to zero over the next 12 months. That implies the same collapse, but at a slower pace.

Japan's dilemma is straightforward: In order to maintain an export market which, as the yen rises, is already declining, it must mortgage its banking system to finance the United States. Any attempt to disengage will produce a disruption. The question remains: Will Japan use its enormous trading and financial power to persuade the United States to change a policy leading to disaster for both nations?