Japan: building up 'Bremen East'

Japan is now building a solid Asian counterpart to the European Monetary System, a "Bremen East," implementing the strategy forged in discussions with West Germany during the weeks prior to the July Bremen meeting. The essence of the approach is to recycle into capital-development projects dollars now used mainly for rollover of debts, speculation or other unproductive purposes.

The American observer of this process should not look for a spectacular meeting à la Bremen in which a grand new institution is announced — the Japanese simply do not work that way as yet. Instead, Japan is quietly building development alliances with strategic countries such as Mexico and OPEC in which trade is transformed from mere bilateral exchanges into politically determined developmental planning. Though the individual actions may at first appear as somewhat routine, albeit more sizeable deals, the actual content is much more.

As Japanese Prime Minister Takeo Fukuda told Mexican newsmen last week, "Japan depends on exports of industrial products and capital goods while Mexico has oil and other natural resources and is promoting industrial projects. *Thus, economic relations between the two are not limited only to trade. Rather, we hope to broaden economic cooperation and to offer Mexico the financial and technological means for agricultural and industrial development*" (emphasis added).

At the same time, Mexico mandated four Japanese banks — Industrial Bank of Japan, Mitsubishi, Sanwa and Dai-ichi Kangyo — to organize a $500 million loan, since doubled to $1 billion, to finance capital development projects in Mexico. One quarter, to be handled by Mitsubishi, will be a ten-year yen-denominated loan at an astounding 6 percent interest rate — far below Eurodollar rates.

Mexican President López Portillo will visit Japan beginning Oct. 17 to consolidate the development alliance.

Similarly, in describing Fukuda's mid-September 10-day tour of the Mideast, Japan's *Mainichi Daily News* editorialized Sept. 6, "It will be of significance for him to discuss the feasibility of tripartite cooperation combining the funds of oil countries, Japanese technology and the manpower of non-oil countries." This is exactly what Fukuda negotiated during his trip. On the same day that Fukuda addressed Japan's Diet upon his return, Sept. 21, the Dubai-based Bank of Oman announced it will soon open a deposit-accepting branch in Hong Kong — the first wholly OPEC-owned bank to do so — in order to pool Japanese and OPEC funds to finance projects in Asia and the Mideast. The announcement said the aim was to take advantage of Japanese, Korean and Philippines technology. Petrochemical projects and oil-for-technology agreements were announced during the trip as well as a common determination to stabilize the dollar.

Japan-German coordination

Japan's current actions were planned in intensive discussions held over the April-July period between Japanese and German officials and businessmen, according to Japanese banking sources. These discussions were part of the lead-up to the July Bremen accords which created the European Monetary System. They also planned out a "Bremen East."

The key figures on the Japanese side were unofficial emissaries of Prime Minister Fukuda, individuals within the Industrial Bank of Japan, and sections of the Mitsubishi business group. The alliance between the latter two business groups and their political allies in the ruling Liberal-Democratic party (Fukuda and Yasuhiro Nakasone) is the basis of Japan's forthright moves over the last few months. On the German side, the key representatives were emissaries of Helmut Schmidt — who has had a personal relationship with Japan and Fukuda since both Schmidt and Fukuda were finance ministers, along with France's Giscard, in 1973 — as well as Deutsche Bank and German business association head Otto Wolf von Amerongen. Both have longstanding business ties to Japan.

Sometime in the spring, according to the Japanese sources, Japan and Germany decided that Treasury Secretary Michael Blumenthal's grip on the U.S. Administration was too strong to reverse the U.S. weak dollar policy. Therefore, the two countries and France would have to act independently of the U.S. both to stabilize the dollar and to create the environment in which the U.S. situation could be transformed.

The European wing of this strategy was the Bremen accords themselves, which set up a credit facility to recycle Eurodollars into productive trade activity. The content of Japan's activities was to be the same, but in a somewhat less direct form. The Germans, particularly Deutsche Bank, advised Japan to step up the role of the Tokyo international capital market in order to eliminate current domination of the Asia dollar market by British-controlled Hong Kong and Singapore as well as to add Japan's financial might to the Europeans' development efforts. Three steps were discussed:

1) Yen-denominated loans should be expanded. Nomura Research Institute reported last week that in the year ending March 1979 yen loans will double the 1977-78 figures to reach the equivalent of $5 billion. They can increase at least 20 percent annually thereafter if restrictions are removed.

2) Dollar loans should be expanded. Due to London-organized speculation, Japan's dollar reserves have soared to $29 billion. In recent months, the Bank of Japan has lent dollars to selected commercial banks at slightly below Eurodollar market interest rates. These funds are being lent out long term for capital development projects — exactly the content of the European Monetary Fund. Without these concessionary rate deposits, long-term lending is very limited.

This policy has driven London up the wall. The September issue of the Rothschild-published *International Currency Review* fiercely attacked this practice as credit-dumping. "It could well turn out," *ICR* warned, "that the origins of the 'crash of 1979' should be sought not in Saudi Arabia, but in the challenge to the Western banking system coming from the Far East." U.S. commercial banks — fearful of losing deals to Japanese — pressured Vice-Finance Minister Matsukawa to stop this practice during the latter's August trip to the U.S. These same banks have meekly tolerated Blumenthal's weak dollar, IMF dictatorship policy.

Due to this pressure, Japan has so far limited the concessionary loans to an estimated $400-500 million per month — far below development needs.

3) Japan and OPEC should pool funds. This is exactly what Fukuda discussed on his Mideast tour and what the Bank of Oman move into Hong Kong represents.

The speed and manner with which Japan moves ahead with this program is determined by the degree of support it obtains from Europe, OPEC, and U.S. industrialist forces, particularly the Chicago group. One Japanese banker told the *Executive Intelligence Review*, "There is a great deal of pressure that can be applied to Japan. For example, the dollars in Japan are hot money which can flow out as easily as it flowed in. What happens if we lend long term and then the dollars are removed from Japan? Furthermore, on some pretext or even genuine tightness of the Eurodollar market — such as during Mideast tension — ways are found to apply a disguised 'Japanese premium' (a higher interest rate to Japanese borrowers than others, first applied during 1974 Herstatt collapse—ed.) Therefore, we are trying to reduce our dolar obligations and will move cautiously on overseas investment and loans unless we are assured of support."

Economic necessity, nonetheless, compels Japan to move aggressively to restore world trade and monetary stability. In the last three months, exports in real terms have staggered 8 percent below 1977 levels — the product of world trade stagnation, the rising yen and "voluntary" export restraint. So far this year 72 major multimillion dollar projects have been lost to competitors due to the rising yen. The effort to prevent this loss from crippling Japan's export-dependent economy has strained the credit system to the utmost. Banks are now receiving negative interest margins on most funds.

Businessmen and bureaucrats in Japan are now debating to what extent to risk London's wrath by moving with Bremen East.

The Case of Mexico

Japan's economic diplomacy over the past few months shows it is moving ahead with the Bremen East policy. The case of Mexico is quite striking. Mexico, under President López Portillo, has a commitment to industrialization comparable to Japan's own during the late 19th century "Meiji" period. Last week, Japan's leading business federation, Keidanren, led by Toshio Doko, visited Mexico to secure oil deals and promote economic cooperation. State-owned PEMEX oil chief Diaz Serrano has indicated that beginning in 1982 Japan could purchase 200,000 barrels per day, or 20 percent of Mexico's projected production. He emphasized to a Sept. 27 press conference, "We have great interest in having Japan's cooperation in other areas . . . in very specific areas of industrialization, such as capital goods and heavy industry where Japan has a great deal of experience."

Some of the members of the Keidanren mission, took a "hard-nosed businessman's" approach to Mexico: 1) they tried to pressure Mexico to cut the price of oil; 2) they labeled as obstacles to cooperation Mexico's protective controls over foreign investment (controls not unlike Japan's own); and 3) they attacked Mexico's progressive labor legislation. In addition, they hired as their agent to secure contracts the Business Coordinating Council (CCE) led by Jorge Sanchez Mejorada. The CCE is controlled by the Mont Pelerin Society and the economic faction in Mexico determined to destroy López Portillo's industrialization program.

Mexico, eager to obtain Japan as an economic partner but unwilling to undermine its own development commitments in order to do so, refused to discuss cheapening of oil prices and alteration of investment laws.

More far-seeing government and business layers in Japan have been quick to rectify the Japanese approach. Premier Fukuda, in his interview with the Mexican press, implicitly rejected pressure to change Mexico's laws by saying there were no obstacles to economic cooperation. Simultaneously, the Mitsubishi, Nissan and Matsushita conglomerates each announced interest in expansion of manufacturing projects in Mexico, indicating there was no problem with the investment laws. Japanese banks are providing major financing for Mexico, with the yen-denominated component at very lenient interest rates.

The case of OPEC

As Japan's *Asahi Evening News* reported prior to Fukuda's departure for the Mideast, "He hopes to build up bonds of cooperation with the Arabs in such a way that their oil dollars will be used to stabilize the free world economy." In addition to pooling OPEC and Japanese funds for capital investment, Fukuda announced that the government would support petrochemical projects in Saudi Arabia and Iran, as part of a larger effort at aiding OPEC industrialization. And he reportedly went over the "greening of the deserts" proposal recommended as part of the $500 billion global development report of the Mitsubishi Research Institute.

Sheik Yamani of Saudi Arabia proposed oil-for-technology deals. He told Fukuda that Saudi Arabia would like to sell oil directly to Japan, bypassing the oil multinationals. In a future oil crisis, he pointed out, Japan could not expect consideration from the multis. Direct deals would be approved only if Japan implemented technology transfers to Saudi Arabia, Yamani added.

Similarly in Iran, Fukuda and Premier Jaafar Sharif-Emami agreed to find ways to sponsor joint research on alternate energy sources, including nuclear power, as well as ensuring a transfer of technology. No specific projects related to this have been announced as yet.

Fukuda told his cabinet that he had won understanding from OPEC for either an oil price freeze or a low increase in order to avoid destabilization of the dollar.

Prior to the Fukuda mission, former Industrial Bank of Japan chairman Sohei Nakayama led the third annual meeting of the Middle East Cooperation Center with representatives from 14 Mideast countries to plan further technology transfer projects.

As a result of the "Bremen East," offensive, Fukuda's political strength is soaring. From a dismal 20 percent popularity in the beginning of the summer, approval

Fukuda: Oil for technology deals for Japan and Mexico

Japanese Prime Minister Takeo Fukuda, in a Tokyo interview with Mexican newsmen Sept. 26, outlined his conception of long-term cooperation for development between his country and Mexico. The interview, excerpts of which appear below, came in the midst of intense preparations for the López Portillo trip to the Far East later this month, including daily interviews and features in the press of the two countries, and a stream of back-and-forth visits by businessmen, congressional deputies and government officials. Excerpts are taken from the mexican dailies El Nacional *and* El Universal.

When President López Portillo visits Japan, I wish to conduct frank conversations with him on the international situation and on the possibility of economic and technological cooperation, including disarmament questions.

In economic terms, I think that our relationship is fundamentally complementary, since Japan has scarce natural resources, depending on the export of industrial products and capital goods, while Mexico is rich in oil and mineral resources and is sponsoring numerous industrial projects. Thus economic relations are not limited just to trade. Rather, we hope for a broadening of economic cooperation in which Japan would offer Mexico the financial and technological means needed for the industrial and agricultural development of that country.

Mexico Responds: "Industrialization in specific areas"

The Japanese interest in Mexico is fully reciprocated at the highest levels of Mexican government, and in strikingly similar terms. Below, the Executive Intelligence Review *presents sections of a press conference held Sept. 27 by Petróleos Mexicanos director Jorge Diaz Serrano, together with the Mexican minister of Natural Resources and Industry, José Andrés de Oteyza. Diáz Serrano endorsed the formulations Fukuda used in his press interview the day before, but firmly rejected the pressure of segments of Japanese business who have demanded that Mexico cut its oil prices as a precondition for increased Japanese investment and trade. Excerpts from Diaz Serrano's remarks follow:*

We have great interest in the market of the Orient, and Japan is the largest international consumer after the United States. We are doing everything possible to find a formula to sell them crude and refined products. We cannot sell cheap, nor lower prices. Even if they should wish it, we cannot do it.

What interests us greatly is having cooperation with Japan in other areas. . . industrialization in very specific areas, such as capital goods and heavy industry, and Japan has a great deal of experience in this field. Hence, during the visit of President López Portillo, we may possibly find some arrangement. . .. in terms of technology exchange, joint investments and investments.

A situation of selling oil just for the selling of it simply doesn't interest Mexico.

rose to 27 percent at a poll taken just prior to his return from the Mideast. A current poll would undoubtedly show a higher figure. Fukuda is virtually certain to defeat an attempt to replace him by London-ally Masayoshi Ohira, currently Liberal-Democrat Party Secretary-General.

The foundation of Fukuda's strength is an alliance of two crucial business-political groups that have often been kept at odds. Fukuda's main backing comes from the Mitsubishi group. Mitsubishi was created during the 1870s as a vehicle for the policies of the dirigist political faction in Japan, a faction closely allied to the U.S. Lincoln Republicans. Following post-World War II trust-busting and reformation, it had been partially infiltrated by antidirigist factions and has since been politically split. Prior to becoming Premier, Fukuda had mostly allied with the antidirigist group and had often criticized the very policies he is now implementing. But since becoming Premier, Fukuda has moved close to the prodevelopment wing of Mitsubishi.

The second axis of the alliance is the Industrial Bank of Japan group, which backs LDP faction leader Yasuhiro Nakasone. Throughout this century, the IBJ has been the core of the prodevelopment faction. Its own influence within Mitsubishi is key to the strength of the latter's prodevelopment wing. IBJ is the prime promoter of both fusion power and policies for Third World industrialization.

Since the spring of this year, IBJ and Mitsubishi — and Fukuda and Nakasone — have formed a firm alliance against Ohira and for the promotion of global development strategies. This alliance is what made possible Japan's close coordination with Germany.

— Richard Katz