

# Japan exports the American

The tremendous growth of the Japanese economy and its international influence, and now the emergence of Japan as a world political force, have left some Americans fearing that the bogey of "Japanese competition" could take on even greater proportions. The reality of what Japan is seeking to do in terms of the United States, however, is 180 degrees different than the "yellow peril" scare stories too often appearing in financial and popular press alike.

The latest proof came last week, when the Japanese government, in collaboration with its West German allies, let it be known that the two nations intend to impose a two-tier interest rate structure on the entire hotbed of free-floating Eurodollars — on the understanding that sopping up of this speculative hotbed into productive, long-term investment will provide the basis for a strong dollar.

More generally, the Japanese are providing an object lesson to the world in drawing the implications of the "American System" of high-technology growth for foreign and monetary policy, at a time when the United States' leadership is proclaiming from the rooftops its unwillingness to live up to the policies of development that built America in the first place.

The Japanese and their European allies are moving to rectify the situation in the U.S., and the latest plan for the Eurodollar mess is part of their strategy.

The idea is to use a two-tier rate structure on the entire \$600 billion Eurodollar pool so that massive, dollar-denominated loans from Japan and West Germany's central bank reserves can be made available for Third World industrial development at Japanese and German domestic rates. These rates are *half* the current usurious Euromarket rates!

The Japan Finance Ministry announced what it termed the "consolidation plan" Oct. 30, saying that it will officially be presented to the U.S. and other governments at the end of the month. According to official West German sources, this creation of a "development dollar" is intended to forge a "dollar-EMS link" referring to the European Monetary System, the institutional core of the full range of European, Japanese, and allied efforts for a world-wide development axis. Through this linkage, the U.S. would be gently but firmly forced into joining the new

EMS, due to come on line Jan. 1, 1979. And by penalizing speculative "hot money" in favor of productive investment, the Japanese-German plan opens the way to stabilize the U.S. dollar, and rescue the U.S. economy, permanently.

For Americans still in the dark about the goals and the outlook of their Japanese allies, the following report should prove helpful. *Executive Intelligence Review* correspondent Peter Ennis, has recently returned from a trip to Japan, and provided the following analysis of how Japanese leaders view their emerging international role, and an exclusive interview with former Japanese Prime Minister Takeo Miki in which he reviews Japan's global foreign policy commitments and the role of industrial development aid in those goals. And to fill out the story of the EMS tie-in, Asia researcher Richard Katz analyzes the phenomenon of the Tokyo capital market, 'Bremen East,' and what it means for international business.

## The Japanese step out into the world

Japan has long been known as a nation "good on economics, weak on politics." Indeed, since Japan's defeat in World War II and the subsequent occupation by the United States, many Japanese leaders have passively shied away from assuming a leadership role in world affairs, choosing instead to concentrate on building the strength of their country's economy while acquiescing, in large part, to a "junior partner" relationship with Washington.

This certainly is no longer the case. Japan is increasingly taking a crucial leadership in the world.

In recent months, Japan's business and political leaders have forcefully stepped from behind the shadow of the U.S. nuclear umbrella, combining their keen sense of history with a superior understanding of the process of economic development, to argue the

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need for a new world order. In Tokyo, the top priority is restoring high growth in the world economy, which the leaders there see as providing the necessary context for world détente based on economic cooperation.

The Japanese have been prompted to act by what they see as a dangerous leadership vacuum in Washington. The last year's continuous crisis in the value of the U.S. dollar has compounded earlier tensions in the U.S.-Japan relationship, and acted as a powerful signal to Tokyo that it can no longer wait for Washington to correct the world economic crisis. If stability is to return to the world, the Japanese have said, we must act to bring it about.

And stability in the world is indeed what the Japanese desire. Having suffered the destruction of their country in the last world war, a war most Japanese see as having stemmed largely from the chaos of the great depression years, all Japanese leaders view world economic instability as the country's greatest threat. It was without the slightest bit of hyperbole that Prime Minister Takeo Fukuda has repeatedly warned during the last year that the ongoing world economic crisis increasingly resembles the years preceding World War II. Fukuda and his colleagues all believe that peace for both Japan and the world can best be secured through continued economic prosperity and cooperation throughout the world, and it is the overwhelming desire for peace that has led Japan to assume a global leadership role.

The center of Japan's drive for peace is the work to establish a new international monetary system, a project Tokyo is already closely coordinating with West Germany and France. Like West German Chancellor Helmut Schmidt and French President Giscard d'Estaing, who together initiated the formation of the new European Monetary System, the Fukuda government views the formation of a new international monetary system as the heart of the efforts to end the world depression and restore high growth.

While not a formal member of the new European Monetary System, Japan has been intimately involved with the formation of that institution, and has worked closely with especially West Germany to establish an

Asian counterpart to the EMS, the Tokyo capital market. The key to both institutions is the "soaking up" of excess dollars throughout the world and channeling them into long-term, capital-intensive development projects in the developing sector. Moreover, both institutions are understood to be the seeds of a broader international monetary system, which government officials in Tokyo say Japan and West Germany intend to make the key agenda item at the Tokyo summit of industrial countries scheduled for next June.

For Japan, the close relationship with West Germany that has developed this year has been key in enabling the country to emerge on the world political scene. Always fearful of being "isolated," especially by the anti-Japan attitudes of the London-run "Brookings crowd," the Japanese have been acting with the confidence that they are fully allied with Bonn, Washington's closest ally. The unprecedented visit to Tokyo last month of Chancellor Helmut Schmidt was a very significant event in solidifying the West German-Japan alliance, as the two nations publicly proclaimed their joint political drive to save the U.S. dollar.

Any visitor to Tokyo who has contact with senior Japanese political, government and business leaders quickly learns that Japan's eyes are fixed worriedly toward America's shores. In the minds of the Japanese, and their West German friends as well, the goal is not to engage in confrontation with Washington — both nations have learned the futility of such plans. Despite both nations' evident frustrations with the suicidal behavior of the U.S. political leadership, their determination is to create the international environment to transform the thinking in the confused U.S. capital, and to draw the United States fully into their efforts for a global "grand design."

## Three pillars of foreign policy

Like most countries, Japan approaches its foreign policy from the standpoint of national security. What is unique about Japan, however, is that the country is constitutionally barred from ever again becoming a

military power.

In the postwar period, Japan has depended almost entirely on the United States for military defense. While Japanese officials emphasize that there is little danger of a military threat to Japan at this time, the country has nevertheless felt easier being inside the U.S. nuclear umbrella.

But Japan's national security concerns stretch far beyond military matters. As the second most powerful economy in the OECD, Japan has widespread global concerns, compounded by the country's high degree of dependence on imports of oil and raw materials and export of finished products, which combine to make Japan highly vulnerable to the effects of shifts and disturbances in the world or regional political situations. Traditionally Tokyo has had little political leverage to influence international events that concerned Japan, and has looked to Washington to maintain the global stability necessary for Japan's continued prosperity. The Fukuda government is now implementing a foreign policy with three main pillars however, designed to give Tokyo an independent voice in maintaining global stability.

The three pillars are first, international cooperation to solve the world's energy crisis, with particular emphasis on developing nuclear energy; second, a fundamental solution to the North-South controversy, through the transfer of advanced technology to the developing countries; and third, East-West détente based on economic cooperation, involving both the Soviet Union and China.

The Japanese shudder at the thought of another oil embargo, for Japan imports 99 percent of oil requirements, and the country has entered into a unique relationship with the Arab oil-producing countries designed to ensure an uninterrupted flow of oil to Japan. The heart of the program, known as "resource diplomacy," is exchanging oil for advanced technology.

The "resource diplomacy" policy first began in 1974 during the oil crisis, under the direction of then Prime Minister K. Tanaka, and has been expanded by his two successors, Takeo Miki and Takeo Fukuda. Fukuda himself visited the Middle East in September and signed major technology transfer deals with Saudi Arabia.

Most important, Japanese officials, especially Foreign Minister Sunao Sonoda, have emphasized that Japan's transfer of advanced technology to the Middle East will play a crucial role in bringing peace to the region by "stabilizing" the economies of the area. Japan has fully endorsed the need for a comprehensive solution to the Middle East crisis, including the establishment of an independent Palestinian state.

While working to shore up their more immediate supply of energy sources, the Japanese have become the world's leading proponents of an international effort to develop alternative sources of energy, particularly thermonuclear fusion. Business and

government officials in Tokyo repeatedly emphasize to visitors that fusion is the "obvious" energy source of the future, and the Fukuda government recently announced that it will double the country's fusion budget next year — making the Japanese fusion program larger than that of the United States.

Significantly, Japan has launched a sophisticated political campaign to build support for fusion in the United States. Earlier this year Prime Minister Fukuda publicly told a New York audience that humanity will soon be able to produce "a miniature sun on earth," and called for the formation of a \$1 billion joint fund between the United States and Japan to research fusion and other future energy sources. Japanese government officials say that their proposal will eventually be accepted by Washington, despite the well-known hostility of the Carter Administration's low-growth energy czar, James Schlesinger.

Japanese science officials have also discussed fusion cooperation with the Soviet Union, showing the possibility for joint fusion research among the three largest economies in the world.

Finally, the Japanese are continuing to promote the development of conventional nuclear power as a transition to fusion, especially for the developing countries. In their October joint communiqué, Prime Minister Fukuda and Chancellor Schmidt gave the full support of their respective governments to Third World efforts to acquire nuclear technology.

The North-South controversy between the developed and developing countries receives as much attention as energy matters by officials in Tokyo. As the source for most of their raw materials, Japanese officials see the developing sector as an area with which they must retain close relations. Moreover, the developing sector has traditionally been seen by Japan as a natural export market for capital goods, such that Third World industrialization is highly beneficial to Japan.

The orientation of the Japanese toward the developing sector was illustrated openly in the just-concluded visit of Mexican President Lopez Portillo to Japan. (For details, see THIRD WORLD.) Lopez Portillo emerged from the visit impressed with the Japanese commitment to "thinking big" and, not incidentally, with a \$1 billion commitment, for starters, in Japanese credit for the expansion of Mexican oil and gas facilities, including refining, port, and transport infrastructure. Mexican oil is what grabs Japanese attention, but their response, to aid industrialization of Mexico, is revealing of the advanced level of Japanese comprehension of how the advanced-sector nations must respond to Third World needs.

Of course Asia itself remains the main focus of Japanese attention, as it always has, but the spread of that attention now includes the entire Pacific basin, with an extension into the Indian Ocean region. While some talk about the reemergence of the "Greater East Asian Coprosperity Sphere," the Japanese have

learned the lesson well that extension of their influence is best carried out through Japanese economic muscle, not military strength.

The linkage of Japanese to European efforts is proof enough that no reasonable leader in Tokyo business or political circles contemplates an autarkic Japanese "yen bloc" in Asia as a substitute for international solutions to the international monetary crisis. The continued expression of Japanese fear of emergence of protectionist trade blocs in the world economy also is not rhetoric — it is the deadly fear of Japanese leaders who go back to the war era of being forced into having only such autarkic routes available to them.

## The long haul in Asia

A visitor to Japan must be impressed with an element of Japanese thinking about themselves and the world that is generally not understood in the West. The present generation of leadership in Japan understands itself as an extension in conception and identity of the founding fathers of modern Japan — the revolutionaries of Meiji Japan who from the time of the 1868 Meiji Restoration took upon themselves the task of transforming a backward feudal nation, threatened by the encroaching forces of British Imperialism, into a modern industrial nation within the span of one generation. The Meiji transformation is the touchstone of Japanese thinking today, the referent for all current Japanese thinking about what is "possible" and "necessary" today. This is still history that is fresh in their minds — Fukuda himself is a man born in the Meiji era.

Meiji, and the extension of that experience in the incredible postwar "economic miracle" of Japan, means development and the "American System" of industrial promotion. The Meiji founding fathers had as their explicit model America, and in the first years of the New Japan, it was Alexander Hamilton and Henry Carey who were the guiding lights of Japanese economic thinking. From America came the idea of industrial protection, the creation of a national bank to promote industrial capital formation, and the development through science and mass education of the skills of the population.

From this the Japanese have gained the certain belief that through the mastery of science, technology, and a total national commitment to building an educated, industrially oriented population, backwardness can be overcome. For Japan this is not a process with a beginning and an end — it is still going on.

At the highest levels of Japanese thinking there is a master plan for their future development. The core of that is captured in the phrase "knowledge intensification." In brief, this means that the Japanese have now pushed their economy to the higher stages of industrial technology and capital-intensiveness — they have finally "caught up" and even gone beyond.

Now they must provide for further economic growth and technological transformation by shifting the emphasis of the economy to areas of more highly skill-intensive production — "knowledge-intensive" that is — which is usually explained in concrete terms as areas like computer technology, nuclear energy, and highly sophisticated heavy industry with increasing use of computerized production processes.

This plan for development is coupled in the Japanese mind with the transfer of their present level of industrial technology, particularly in areas like raw materials processing, steel, and chemicals, to the developing sector. The best circles in Japanese business (but not all — the Japanese have their own stupidity problem) are looking not for equity investment in the Third World but to sales of entire plant and equipment, with Japanese technical aid.

These Meiji humanist thinkers are not thinking in the short term; they do not look to their quarterly balance sheets for guidance on what to do next. They are in for the long haul and beyond.

## Japan looks at China

The Japanese approach toward China is our last point of examination of the new Japanese role in the world. While the barbarians in Washington debate how, where, and what to play the "China card," the Japanese privately laugh. They know perfectly well that China is no one's card to play. But they also know that China today is hardly a stable entity, that the leadership in Peking has still only a tenuous hold over its own population, due to one key factor — the incredible backwardness, social and economic, of China.

Every Japanese will make this point with great emphasis — China is incredibly poor and backward and the new leadership's commitment to reversing the idiocies of Maoist peasantism and going full blast for industrial and scientific modernization has yet to fully be accepted among the population. There are no rose-colored glasses in Tokyo on this question. Discussions with business leaders deeply involved in the present massive expansion of Japanese technical and industrial assistance to China find virtual unanimity on the idea that China will take a long haul, into the next century and beyond, to approach the present levels of Japanese industrial development.

For Japan this defines the long view. Its leaders know that ultimately the present irrationalities of the Chinese leadership, its "Great Han chauvinism," can only be overcome through modernization and the increasing involvement of China in rational relationships based on economic cooperation with outside nations. As one businessman put it, "This is the first time in Chinese history that there is a national leadership committed to modernization firmly in power." The Japanese will watch carefully and see which way

China goes.

The Chinese have paid grudging tribute to their need for Japan by telling visitors who express skepticism about the scale of Chinese industrialization plans that their model for accomplishing this is the quarter-century effort of Meiji Japan.

For most of these Japanese circles, their relations with China are not counterposed to relations with the Soviet Union. Japanese know they must live with both their huge neighbors, and involve both in economic cooperation with themselves as the best guarantees of their security. In fact, rather than any rush into a "tilt" toward China, the dominant discussion in Japanese leadership layers right now is the urgent need to improve relations with Moscow, to ensure that no deterioration in those ties results from the conclusion of the Japan-China peace treaty. While warm feelings about their northern neighbors are hard to come by, a very practical attitude prevails on this question. In certain corners Japanese can be heard expressing the not uncommon view that in 10 or 20 years, when China has milked Japan of all it needs

in economic help, they will turn to rationalize their relations with the Soviet Union, this time from a position of greater strength. This view is cited as motivation for accelerating Japan-Soviet cooperation, particularly in the development of the vast resources of Siberia, an area foremost on the list of Japanese "resource diplomacy" targets. As these Japanese see it they cannot afford to be left out of anything — or left holding Mr. Brzezinski's empty pack of cards.

Hard words will be spoken from Moscow, and maybe even from Tokyo, and certainly from Peking, in the months and even years ahead...but do not watch the hands and feet. Underneath, a fundamental process is underway, which ultimately must lead, if Japan has its way, to a stable Asian scene characterized by vast panoramas of economic construction, regional cooperation, and solution to the problems of the Korean peninsula and Indochina (where Japanese mediation is being quietly pushed forward). And if you look carefully at the tiny print at the bottom of this vista, you will find there — "Made in Japan."

—Peter Ennis

## Building 'Bremen East'

**Early September:** Right before Fukuda's visit to the Mideast a meeting of the Middle East Cooperation Center was held in Istanbul.

The business group, headed by Industrial Bank of Japan advisor Sohei Nakayama, met to map out a full business strategy for the region. As part of that strategy a meeting was also held in September in Egypt between Japanese and Egyptian business leaders. Heading the Japanese delegation was top business spokesman Shigeo Nagano.

**Mid-September:** While in the Middle East Fukuda works out agreements committing Japan to construct major petrochemical facilities in Iran and Saudi Arabia.

The Iranian projects are being planned by the Mitsui group, while construction in Saudi Arabia is being headed up by the Mitsubishi heavy industry group.

**Mid-September:** Japanese leaders tell Washington to support the dollar.

On the eve of the IMF meeting in

Washington the Japanese Ministry of Finance sends two top officials, including Takehiro Sagami, a strong supporter of Helmut Schmidt's monetary plans, to Washington for meetings with Richard Cooper of the State Department and Anthony Solomon of the Treasury to demand a strong U.S. dollar-support policy.

**Sept. 27:** The Asahi Evening News comments on the EMS and IMF:

"The EMS is a regional variation of what some people call the Miyazawa plan (named for Kiichi Miyazawa, former foreign minister under Takeo Miki and the current head of the Economic Planning Agency under Fukuda — ed.) and this may explain the Japanese comments welcoming the EMS ... The IMF's prestige and authority have dropped badly. The EMS, if it materializes, would be an action outside the IMF system."

**October 28:** Keidanren head Doko meets with Fukuda, the Foreign Minister, the head of MITI, and the director-general of the Science and Technology Agency, as well as the

heads of the Science Council of Japan and the Science and Technology Council, to map out a major drive for nuclear fusion power.

The meeting is reported on in a page-one story in the Mainichi Daily News. A major topic of the meeting is getting the United States actively involved in cooperating with Japan on fusion power development.

**Upcoming:** A series of secret meetings between top Soviet and Japanese trade and economic officials has been arranged.

Victor Spandarian, the Soviet Union's trade representative in Japan, and Shigeo Nagano, head of the Japan-USSR Businessman's Committee, have agreed to hold a major conference on Japan-Soviet economic development beginning Dec. 7 in Tokyo.

In November the head of Japan's Export-Import Bank, Sumita, will visit Moscow to discuss the issuance of cheap Exim-bank loans to the Soviet Union to finance Siberian development.

Another leading businessman, Mr. Anzai of Tokyo Gas and Electric, will also travel to Moscow in November.