U.S. aims guns at Japan's industry

Will the United States impose a 15 percent import surcharge on all imports from Japan? This question will be debated in hearings beginning in September before Congress's Joint Economic Committee (JEC). A months-long study of Japan's trading practices by the General Accounting Office will be presented to the JEC later this month and provide the basis for the hearings.

Officially, the Carter administration deplores the congressional move. Passage of such discriminatory across-the-board legislation is virtually unprecedented. Used against one of the U.S.'s most important allies, it could have irreversible repercussions for the U.S. political, economic and security position in Asia and the Pacific. Coming at a time when the U.S. itself is heading into a possible deep recession, such trade-war measures could provoke worldwide effects as disastrous as the Smoot-Hawley Tariff of 1930.

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State Department and Treasury officials whine that Congress is under irresistible pressure from southern textile producers, California citrus farmers and Pittsburgh steelworkers. Yet, investigation of the upcoming hearings reveals that the administration itself is playing the leading role in the new round of what its advocates term "Jap-bashing." But the administration "Jap-bashers" are not concerned with protecting U.S. jobs. Rather, operating under the policy guidance of London's International Institute for Strategic Studies, they are seeking levers to force Japan to halt its rapid technological progress, and are particularly fearful that Japan will assume leadership in the export of nuclear technology to the developing sector, and leadership in the world computer and microprocessor industries—the latter a particular fixation of London policymakers.

As former Deputy Special Trade Representative and current Washington consultant Harald Malmgren recently observed, "The press overstates the initiatives and independence of Congress. It can be led, and prefers to be led, actually, but nobody's talking to Congress about the Japanese problem in an articulate way." Malmgren understates the latter point. Says a top staffer on the House Trade Subcommittee, the fount of protectionist sentiment on that side of the Hill: "There is a group in the Treasury around [Deputy Secretary Anthony] Solomon and [Assistant Secretary C. Fred] Bergsten working very closely with the House subcommittee on this. This group is hot to get Japan on the trade issue."

In short, the administration sets the tone for Congress on the protectionism issue, not the other way around. The core of the protectionist lobby in Washington is a political faction based primarily among certain officials of the Treasury Department and pervading other sections of the Carter administration, including the National Security Council and Cyrus Vance's appointees at State, as well.

This faction is using trade war measures to coerce Japan into "restructuring its economy" away from the advanced, technology-led high growth, high capital formation model that produced the Japanese economic miracle of the 1950s and 1960s. Above all, this grouping is determined to prevent Japan from carrying out its 1971 strategy of moving into the "knowledge-intensive" era of computers and fusion power—a strategy that would have made Japan the world's largest economy by the 1990s (barring a U.S. reorientation toward technological growth). This Treasury-centered group is manipulating the Congress into carrying out the *Carter administration's* trade-war policy. In this process, Special Trade Representative Robert Strauss— aptly described as "not a strategic thinker, but the man who can get a message to Congress"—is acting as the Treasury's "enforcer."

The impetus for the congressional import surcharge hearings against Japan comes from none other than Strauss himself, and goes back to last October when Strauss held yet another meeting on bilateral trade issues with Japan's External Economic Affairs Minister Nobohiko Ushiba.

At each of the previous meetings, each time Japan agreed to the previous list of U.S. demands, Strauss presented a new list. He told Ushiba that no matter what individual items were agreed upon—beef, citrus, multilateral trade negotiations (MTN), etc.—the talks would have to continue for years, because Japan was not "restructuring its economy" away from export-reliance rapidly enough.

According to accounts by Malmgren, "Ushiba answered, 'I'm tired of new lists. I want to know what you really want. No more new lists after each agreement." Strauss said nothing, but he got really angry. Now, when Strauss gets angry, he doesn't get fierce, he gets icy cold. ... Since then he's been letting Congress know he's angry. This tends to get everybody on Capitol Hill angry and fired up against Japan, even Congressmen and Senators with no vested interest against Japan in their district."

Strauss and Bentsen

One of those to whom Strauss turned after the October meeting was his good friend from Texas, Sen. Lloyd Bentsen, the chairman of the congressional Joint Economic Committee. Elected in 1970, Bentsen's rise to the powerful post of JEC chairman was swift; but he has powerful sponsors. Bentsen owes his Senate seat from Texas to the backing given by none other than Robert Strauss, as well as Strauss's own patron, rabidly protectionist presidential candidate and former Texas Governor John Connally.

Not long after his tête-à-tête with Strauss, Bentsen ordered Congress's research arm, the General Accounting Office (GAO) to conduct a study of Japan's trading practices. Bentsen warned that he would propose a bill to impose an across-the-board 15 percent import surcharge on Japanese imports if the study showed that "unfair trading practices" were behind Japan's trade surplus with the United States.

A high official in Strauss's office leaked the following story, asking that his name not be used, but clearly anxious that the story be circulated: "Strauss talked to Bentsen about this recently. He told Bentsen that it would be bad if the bill were passed before the recent Multilateral Trade Negotiations (MTN) agreements were ratified—but
practices afterwards, then Strauss might even support that bill."

A look at the GAO study that Bentsen commissioned begins to shed light on the deeper political process. The study covers overall trade plus special concentration on six industries: (1) computers; (2) telecommunications; (3) automobiles; (4) consumer electronics; (5) logs and lumber; and (6) soybeans. The study is to be a "factual study" of Japan's practices in these areas. It was conducted by consulting with U.S. firms in these industries and then asking Japanese government and corporate officials to respond to their comments. Bentsen's committee will then hold hearings to determine if these practices are unfair and are responsible for Japan's surplus.

The real guiding conception behind the report is even more fundamental, however, according to several staff members. The study is headed by Eleanor Hadley. Not so well known these days, Hadley made her name when she served as a State Department official during the U.S. occupation of Japan in the late 1940s. She was part of the faction of the U.S. occupation which argued—here explicitly, there implicitly—that Japan should never be allowed to become an industrial powerhouse again: its factories should be dismantled and shipped abroad. Hadley's own job was attempting to bust up the "Zaibatsu," the large industrial combines that made Japan's rapid industrialization possible.

Hadley's views have not changed in 30 years, according to members of her staff. The viewpoint underlying the research is that the brunt of Japan's surplus cannot be attributed to specific "unfair" trading practices. Rather, the surplus is the unavoidable result of Japan's economic structure, which emphasizes technology-led high growth with a strong export orientation. "But what was all right when Japan was a small economy is no longer tolerable to the world when Japan is its second largest economic power. Unless the basic economic structure of Japan changes, trade imbalances will continue," added the staffer.

Treasury and the Vanik report

The same views certainly pervade Strauss's staff. Staffer Dick Rivers provoked an international scandal by bluntly demanding that Japan "restructure its economy" during his trip to Tokyo last year. But Strauss is really a point man for Treasury. While Strauss haggles on such items as oranges, TV's, and computers, the Treasury crew uses Strauss's blunter threats to "urge" Japan to "restructure its economy," "open up its banking system," "reduce the government-banking-industry collaboration," and "invest more in domestic service and less on exports."

The thinking in Treasury is what determines how Congress really responds on the trade issue. Many Democratic Party congressmen rely for staffing and proposals on the same Brookings Institution whose officials now comprise so much of the leading Carter administration staff (Bergsten at Treasury is a notable example). Moreover, Anthony Solomon served only a few years ago as a consultant to the very congressional committee (House Ways and Means) whose Trade Subcommittee is running the protectionist campaign against Japan on the House side—a typical pattern throughout Congress. Nowhere has Treasury's influence over the thinking of Congress been more clear than in that subcommittee's January 1979 "Report of the Task Force on U.S.-Japan Trade." The subcommittee is chaired by Charles Vanik, who launched the congressional campaign for an import surcharge against Japan in a July 1978 letter to Strauss. In the letter Vanik urged "full consideration" of the President's using his powers under the 1974 Trade Act to impose a temporary 15 percent surcharge against Japan. Vanik said he saw "few alternatives."

Vanik claims he is motivated by the interests of the steelworkers in his native Ohio. The real story betrays the hand of Treasury pulling Vanik's strings.

Several months prior to the issuance of the House task force report, Solomon and Bergsten coined a new phrase, "the new Japans." In speeches to the Conference Board of New York and the Brazilian-American Chamber of Commerce, the two officials complained that countries like South Korea, Brazil and Mexico were turning into "new Japans" capable of producing important amounts of steel, chemicals and other industrial products both for export and domestic consumption. At the same time, they were using "Japanese-like protective methods" to enable their newly developing industries to grow unhampered by U.S. and European-based multinationals. Bergsten and Solomon said this posed a potential new major economic threat.

A year later, one of the key sections of the Vanik report is headlined, "A Recurring Trade Crisis with Japan to be Repeated by the 'New Japans'?" This section of the report begins, "Part of the certainty of a recurrent trade crisis with Japan is due to Japan's industrial policy, which has recently targeted or set as a goal Japanese leadership in high technology fields currently dominated by the U.S. and constituting our areas of strongest exports, computers, advanced electronics, telecommunications equipment, industrial robots, possibly aircraft (at least in the co-production stage), etc...."

The next section was surprisingly sophisticated for a Committee ostensibly concerned mainly with protecting the jobs of steelworkers in Ohio and shoemakers in Kalamazoo. "It has long been a theory of those who support open trade between nations that, as a high-technology/capital-intensive nation, the U.S. should lead in developing new technologies and that more labor-intensive, less technology-intensive industries would be taken up by other nations. Thus, there would be an economic gain as American workers continually moved into the higher-technology/higher-value-added industries. ..." For those familiar with Japanese thinking, the words practically jump from the page: the theory being attacked in the report was the view behind the 1971 Long Term Plan of the Industrial Structure Council of Japan, an advisory body to MITI. This was a plan to move Japan into the "knowledge-intensive era" of computers and fusion power while helping the developing countries industrialize. The increased division of labor, the report envisioned, would help both advanced and developing countries.

The task force report continued, "If through subsidies and restrictive practices, Japan assumed leadership on these [advanced] technologies, the disturbing question will be raised, 'What industrial goods will America produce for export?' "

Then, in words almost identical to those of Solomon and Bergsten, the Vanik report concludes with an attack not only on Japan's strategy but on those countries that look to Japan's development success as a model. "We believe that the Japanese threat in these high technology areas may soon become the most explosive issue between our two countries. ... Further, 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."

The attack on knowledge-intensivity is one reason the administration has singled out computers for special attention, as in the Nippon Telegraph and Telephone case (see Corporate Strategy).

Knowledge intensity versus "Project 1980s"

The hostility toward Japan by the political forces running the Carter administration goes back to no later than 1971, when MITI produced the Long Term Plan attacked in the Vanik report. By the late 1960s, Japan—shattered at the end of World War II—was producing 16 percent annual rates of real growth, with capital formation reaching a worldwide high of 30 to 35 percent of GNP. Japan's economic "miracle" was based on a commitment to ever-advancing levels of technology. Compared, for example, to U.S. steelmakers, who rarely built new plants in the postwar period, but only patched up old ones, postwar Japan repeatedly scrapped plants around 15 years old because Japanese engineers could economically build new plants that were bigger and better. Number-two Japanese steelmaker Nippon Kokkan's oldest plant was built in 1962! As a result of this policy, Japan's steelmakers got 3.5 times as much increased tonnage for every dollar they invested compared to U.S. makers. Each ton uses 30 percent less energy and 30 percent less coking coal. This, and not the mythical low wages or unfair trading practices, is why the Japanese can outsell U.S. makers, as the United Steelworkers acknowledged last year.

Japanese government and business leaders intend to go even further. They have planned to organize capital investment around the perspective of moving into the "knowledge-intensive" era dominated by fusion power, computers, advanced electronics, fine chemicals, and so forth. One MITI official predicts that "Japan will supply half the world's energy in the year 2000 through mass production of fusion power reactors." Integral to this Long Term Plan was transferring such industries as auto assembly, basic steel, etc. to newly industrializing countries of Southeast Asia and Latin America such as Korea and Mexico. Hitherto reliant upon imports of technology from the U.S., Japan responded to the slowing pace of U.S. research by planning to increase its own Research and Development 20-fold to $80 billion per year! They expected to surpass the U.S. in absolute GNP by 1990.

But the purpose of the program was not surpassing the U.S.; it was developing Japan. The men who run Japan came to maturity in the 1930s and 1940s. Their thinking is

They firmly believe that Japan cannot successfully move into the future without maintaining a partnership with the U.S. Thus, they did not propose simply to surpass the U.S. but, led by Chamber of Commerce and Industry leader Shigeo Nagano, proposed a U.S.-Japan partnership in developing the "Pacific Basin" countries of Asia and Latin America, the U.S.S.R. and China.

In early 1971 this perspective was presented at a meeting of the London International Institute of Strategic Studies (IISS) by Saburo Okita, an advisor to many Japanese Prime Ministers and Chairman of the Japan Economic Research Center. As explained in IISS's Adelphi Papers, the British leaders responded by "warning" that the U.S. would never tolerate Japan's knowledge-intensive strategy because it refused to carry out one itself, and therefore Japan would surpass it. To prevent that, the U.S. would launch trade war, currency warfare, reduce defense commitments in East Asia, etc.

While some figures in the Nixon administration proposed cooperating with the Pacific Basic proposal, beginning with Aug. 15, 1971 their opponents prevailed. Led by Henry Kissinger and John Connally—the forces who agreed with IISS that the U.S. would not and should not adopt a knowledge-intensive strategy of its own—the administration devalued the dollar, imposed a 10 percent import surcharge against all nations, abandoned its program of high-technology U.S. exports, and two years later imposed a soybean embargo on Japan.

What distinguishes the Carter administration is that while previous administrations were mixed in their composition, the Carter administration is exclusively composed of leading officials who are hostile to Japan and its development perspective. The Carter administration was formed out of the Council on Foreign Relations' "Project 1980s" study group led by Blumenthal, Vance, and Brzezinski among others. The Project book "Alternatives to Monetary Disorder" denounces Japan, along with Germany and France, for state/private-sector cooperation for technology-led high growth. It calls for "controlled disintegration" of those economies, stating: "A degree of controlled disintegration in the world economy is a legitimate objective for the 1980's, and may be the most realistic one for a moderate international economic order." A co-author of that book, E.L. Morse, now serves as an aide to Assistant Secretary of State for Monetary Affairs Richard Cooper.

Those who agree with the Project 1980s viewpoint cut across party lines. The anti-Japanese ravings of Republican presidential hopeful John Connally are well known. Certain other Republicans express their views in more subtle ways. One of the best-known "friends of Japan" in the U.S. is President Nixon's ambassador to Tokyo, James Hodgson, a former Lockheed chairman. Hodgson conducts Pacific Basin economic studies at the University of California at Los Angeles, while serving as foreign policy advisor at the American Enterprise Institute, a think tank associated with many mainstream GOPers.

Surprisingly, Hodgson praised both Strauss and the Vanik report as "good jobs." Regarding the Pacific Basin partnership, he commented that "the Japan or Korea route of becoming industrial powerhouses is not applicable to countries with natural resources like Indonesia or Malaysia; they should concentrate on raw materials processing. ... Japan is having to rethink the 1971 Industrial Structure Council plan, but the pace of their thinking is too slow. If Japan were to restructure itself along the lines you suggest, knowledge-intensive, then they would be moving into one of the few strong areas of U.S. competitiveness. They would defeat the attempt to equalize balance of payments difficulties, thus ensuring protectionist legislation." Hodgson insisted he was against protectionism and counterposed to it a "rethought" Pacific Basic based on resource extraction, not manufacturing. Asked who else in the U.S. agreed with him, he answered right away, "Richard Holbrooke," Carter's Assistant Secretary of State for East Asian Affairs.

And in Japan? 'Masayoshi Ohira"—the new prime minister—Hodgson replied. No wonder the Carter administration and Brookings Institution were so happy when Ohira replaced former Premier Takeo Fukuda last December. Those who investigate the actions of U.S. politicians in internal Japanese politics must wonder whether Ohira's surprising victory was the ultimate Carter administration protectionist move against Japan.

— *Richard Katz*