

High-technology trade war against Japan launched by U.S. post-industrialists

by Richard Katz

The United States "must find a way to stop the Japanese from spreading their economic tentacles all over Asia." These are not the words of some 1890s 'Yellow Peril' hatchet-job in a Hearst newspaper or a pre-World War II Hollywood propaganda film. They are the remarks of the U.S. Undersecretary of Commerce for International Trade, Lionel Olmer, in a Nov. 2 interview with the *Asian Wall Street Journal*. The next day, Olmer told Congress that Japan's national commitment to technological advancement could have adverse ramifications for U.S. national security! Olmer's rhetorical flair is matched by that of his boss, Commerce Secretary Malcolm Baldrige, who told the *Los Angeles Times* Nov. 7 that "the Japanese better open up their damn markets to us" or face serious repercussions.

Is this just a penchant for rhetoric on the part of overzealous officials? It seems not. The last few months have seen a series of actions that amount to virtual trade war against Japan, particularly in the critical high-technology *civilian* areas that Olmer termed a national-security issue.

In early November AT&T (American Telephone & Telegraph) denied Japan's Fujitsu an \$80 million contract for optical fibers, even though Fujitsu had the lowest bid, after the Chairman of the House Telecommunications Subcommittee suggested that U.S. national defenses might be "compromised" by giving the contract for a civilian phone line to a foreign company. The Senate meanwhile passed a bill (S.898) which would deny Japanese companies the ability to sell *any* telecommunications equipment in the United States if the Commerce Department or Special Trade Office determined that Japan denied U.S. firms reciprocity in *any single area* of telecommunications—e.g. fiber optics! The administration has not taken a stand on this bill, now before the House, even though this and previous administrations usually oppose what one House Commerce Committee source labelled "meat-axe" legislation. Indeed, Com-

merce Department Deputy Assistant Secretary Clyde Prestowitz told *EIR*, "I'm not saying I endorse the bill, but Congress is concerned that Japan's markets aren't open and Japan should be aware of this concern."

The 'post-industrial era'

One must not imagine that these trade warriors are concerned about U.S. export positions. Indeed, Commerce officials Baldrige and Olmer publicly indicated they were quite content to see the downgrading of the U.S. Export-Import Bank and the end of its "subsidized" low interest rates, despite the fact that as Special Trade Office official Douglas Newkirk told *EIR*, high export rates have repeatedly cost U.S. industry major export contracts. Moreover, Commerce Department sources told *EIR* that even though Baldrige publicly endorsed limits on Japanese auto shipments to the United States last spring, in fact, "Baldrige supports the use of Japanese imports to force U.S. automobile producers to streamline their production and *cut back their capacity*." (emphasis added).

Baldrige, Olmer and their allies have no particular commitment to either "free trade" or "protectionism" as such, and certainly not to U.S. industry. Rather they are part of a faction within certain business circles and some sections of the administration committed to what they call a "post-industrial era." Under such rubrics as "sunrise vs. sunset industries," "information and services economy," etc., the post-industrial era proponents propose that the United States scrap basic heavy industry such as steel, auto and housing in favor of computers, electronics, casinos, and so forth. The effect of the Volcker high interest rates—defended to *EIR* by Prestowitz as a necessary "anti-inflation" measure—has been to propel this shift to the post-industrial era. The overall scenario is to shift the world economy into the Club of Rome's Utopia of no more than 1-2 percent GNP growth and zero population growth.

One of the post-industrial faction's biggest political obstacles is the nation of Japan. With U.S. computer-telecommunications capacities controlled by companies committed to the Club of Rome ideal, such as IBM, AT&T and ITT, most of this advanced technology has been restricted to the information, bureaucratic and service sectors. Japan, on the other hand, devotes a great deal of its computer capacity to computer-assisted design and production in basic manufacturing.

Japan moved from negligible machine tool production in 1970 to a level of 60 percent of U.S. production and a major export position, by concentrating on numerically controlled (computerized) machine tools that it used to modernize industry. Japan leads the world in industrial robots, which are used to automate assembly lines in the auto sector and elsewhere. As Olmer himself admitted, such modernization means Japanese auto workers can produce an auto in 95 hours, compared to 120 in the United States. While U.S. steel shuts down its capacity, with Baldrige's blessing, on the grounds that steel is too energy-intensive, Japanese firms simply use the modern technique of continuous casting to save energy and keep producing steel.

Were U.S. firms, such as IBM, committed to the post-industrial era, to continue to dominate the world in computer-telecommunications technology, then it would be possible to restrict such technology to the information and service areas. If Japanese firms—in the only national sector capable of challenging IBM's dominance—match or beat IBM's technology and also begin to out-market it in the developing countries, Europe, and then the United States itself, there is no doubt computer technology can be used to propel a revolutionary modernization of basic heavy industry on behalf of high growth.

Japanese government and business have made it clear that they are committed to this approach, and Prime Minister Zenko Suzuki stressed at the Cancún, Mexico North-South summit that this modernization presupposed the transfer of basic industry to the currently underdeveloped countries. This was the basic difference at Cancún between Suzuki and U.S. Treasury Secretary Donald Regan. It is not coincidental that the Merrill Foundation, attached to Regan's Merrill Lynch, is a major funder of environmental and anti-nuclear crusades.

Commerce is led by committed post-industrial factioneers, who see Japan as a threat. Baldrige himself, during his 1962-81 presidency of the Connecticut-based Scoville, Inc., showed exactly how the post-industrial factions manage industry. He converted Scoville from a major heavy industry manufacturer of copper and brass into a maker of light electrical housing products, a switch aided by a 1977 \$10 million loan guarantee from the Connecticut Development Authority that included

provisions for a three-year wage freeze and no-strike pledge. Scoville President Herman Bladh summed it up: "Mac Baldrige converted me from an engineer to a marketing man."

Baldrige's deputy, Joseph Wright, Jr., served in 1976-81 as a top executive of Citibank, whose entire financial strategy is based on the shift to a post-industrial era, a strategy Wright helped fashion.

Lionel Olmer, after a period as a commander in U.S. Naval Intelligence, served under Henry Kissinger as a staff director of the Foreign Intelligence Advisory Board. During the Carter years he spent time as the Washington representative of Motorola, Inc., a major producer of semiconductors which has long been engaged in trade battles with Japan.

Olmer: development a political threat to U.S.

Olmer's Nov. 3 testimony before the House Trade Subcommittee dwelt on what he insisted were "national-security" problems caused by Japan's commitment to technological progress and its commitment to industrializing the developing nations. Olmer's testimony also makes it clearer why the sudden flare-up in the intensity of U.S. attacks on Japan occurred following Suzuki's presentation in Cancún, and why the Commerce Department blasts at Japan have focused much more intensely on the high-technology areas rather than basic U.S. industry.

"Japan has targeted high technology goods and capital goods as the direction of the future," Olmer declared. "The Ministry of International Trade and Industry's [MITI] 'Vision of the 1980s' . . . placed the emphasis for the 1980s on . . . not only computers, semiconductors, and robotics—all of which the Japanese are well into already—but also aircraft and biotechnology."

"These are areas where the Japanese government is putting financial assistance and technical encouragement. But it goes far beyond that. There has been a national consensus in Japan that their economic future depends on a rapid evolution into a knowledge-intensive and technology-intensive economy. Japan can see that nations like Korea, Taiwan, Brazil, Mexico, and many other LDCs will increasingly move into steel, shipbuilding, autos, and other industries where Japan currently acquires most of its export earnings. Japan is determined to move into new areas where it will not be so easy for other nations to compete with it. I believe that the real challenge from Japan is just beginning."

Olmer then indicated that, like his mentor Kissinger, he regarded the industrialization of the Third World as a political threat to the United States, in contrast to Japan, which regards such industrialization as both economically stimulating and politically stabilizing. "As developing countries expand their manufacturing capa-

bilities . . . the industrial nations and some advanced developing countries are moving to develop high-technology industries. . . But that means that these nations will be more directly in competition with the United States. . . . If we do not keep pace . . . we will lose technological leadership in the world. . . . *This has ramifications for our foreign policy and our national security* (emphasis added).”

“Technological leadership, and economic leadership generally, can translate into political, diplomatic, and military leadership. . . . As our technological lead diminishes, our political influence is reduced as other nations look elsewhere for technology. . . .

“Technological leadership is also a key to our national security. Our ability to produce modern military systems can be compromised if we are dependent on foreign sources for the most modern technology. I would not want to contemplate the implications of *dependence on foreign sources for our defense technology*.” As Olmer was speaking, the Pentagon was heavily pressuring Japan to overcome its prohibitions against the export of arms in order to sell the United States military-related electronics and laser equipment.

Olmer is quite correct to point out the national security and foreign policy implications of continuing relative U.S. technological and economic decline; however, he offers the opposite of a solution. After warning that U.S. industry is about to lose a billion dollars in orders to Korea due to high interest rates on Export-Import loans compared to other nations, Olmer called, not for lowering U.S. interest rates, but for ending what he called subsidized low-interest credit altogether. In fact, the official U.S. government position now is that Japan must raise its Export-Import Bank rates to a level actually higher than the normal market interest rates in Japan’s domestic market in order to match the high U.S. rates! On the subsidy issue itself, it must be added that the purpose of previously low Export-Import Bank rates was to aid the industrialization of developing countries, not for cutthroat competition among advanced countries.

Olmer’s comments on the developing countries also made clear his opposition to their industrialization. Just as the United States did in the 19th century vis à vis Britain, many developing countries “protect” their infant industries until they are built up to world competitive standards. Otherwise they would be left forever as simply raw materials suppliers. Olmer insisted, “Many LDCs now have strong industrial economies and can no longer claim all of the privileges of developing nations in terms of trade and investment concessions,” i.e. stop protecting infant industry.

In response to persistent Japanese arguments that the U.S. problem is not Japan, but years of high interest rates and bad policy that have led to stagnating invest-

ment and R&D, and now declining productivity, Olmer insisted that Reagan’s economic program would remedy that. Unlike Special Trade Representative Bill Brock, who has repeatedly stated in public the need for interest rates to drop if the program is to work and trade frictions to be managed, Olmer did not mention interest rates; he stressed even more his view that the major problem with Japan in high-technology trade is Japan’s alleged refusal to “open their markets.” Prestowitz told *EIR*, “Japan’s closed markets are a greater factor in poor U.S. exports to Japan in the high-technology areas than U.S. problems with price or quality competitiveness.”

Some congressional sources disagree. A source on the House Trade Subcommittee—which discusses trade issues with Japan constantly—told *EIR* that over the past few years Japan has been gradually opening its market, including in high-technology. This is exemplified by the 1980 agreement to open up procurement on core high technologies by Japan’s government-owned Nippon Telegraph and Telephone (NTT), and by Brock’s successful agreement with Japan this summer on mutual reduction of tariffs on semiconductors. “I’m afraid the progress shown in the NTT case might be undermined by some of these actions,” the source said, referring to the denial of the optical fiber contract to Fujitsu and the Senate bill on a possible ban of Japanese telecommunications equipment.

Psychological warfare: defaming Suzuki

The ability of the post-industrial faction to create an atmosphere in Congress conducive to trade war has been aided by a recent campaign linking the trade issue to Japan’s alleged “free ride” on U.S. defense efforts, and personal attacks on Suzuki.

Part of the ammunition in this campaign was a defamatory memorandum regarding Suzuki and Foreign Minister Sunao Sonoda circulated to approximately 30 senators by Sen. Jesse Helms (R-N.C.). The memo is widely believed to have either been written by, or based on briefings by, an extremely hawkish Japanese figure named Hideaki Kase, a man disowned by more responsible Japanese advocates of a stronger Japanese defense role. Kase’s U.S. appearances are often sponsored by two renowned post-industrial faction institutions, the Heritage Foundation and the Stanford Research Institute.

The memo contained such expressions as, “Suzuki is a former member of the Socialist Party, a weak inexperienced leader, whose closest friends . . . are still opposed to the U.S.-Japan Security Treaty and armaments of any kind. . . . Sonoda has strong leftist convictions.” The memo then suggests one possible way to get Japan to do more on defense is “to ‘threaten’ Japan with trade reprisals. . . .”