

Minister and LDP faction leader Yasuhiro Nakasone and former Foreign Minister (under Miki) Kiichi Miyazawa.

Nakasone is an important nationalist figure, known for his strong pronuclear position and his advocacy of closer Japan-Arab ties. His entry would strengthen the Soviet option and provide a tough stance toward U.S. pressure tactics. Miyazawa is a centrist politician, and an often mentioned candidate for Prime Minister, but disliked by Peking for his involvement under Miki in blocking the signing of the antihegemony treaty.

The reshuffle should be watched extremely closely under any circumstance. At the least, big things are in store for U.S.-Japan relations, particularly if the Carter Administration continues to treat Japan not as an ally but as an enemy. The Japanese memory of the 1930s and the view that Japan was forced into war by U.S. policies (the oil embargo and the like) is never far from the surface among Japanese leaders who date from that era.

— Daniel Sneider

## Strauss Aide Demands That Japan Dismantle Its Industrial Structure

*The following are excerpts from a speech given by Alan Wolff, U.S. Deputy Special Representative for Trade Negotiations, before the Japan Society Nov. 7. Wolff is deputy to Robert Strauss, whose office has been a prime promoter of protectionist measures by the Carter Administration. His speech was widely regarded as precedent-shattering, since he indicated that ad hoc measures by Japan to alleviate its trade surplus were insufficient. Instead, he demanded that Japan dismantle the structure of close collaboration among government, industry, and finance which, in fact, has been the key to Japan's postwar "economic miracle."*

...As Japan's exports of manufactures increased and achieved considerable diversity and as her current account surpluses grew, it became less and less understandable that Japanese imports of manufactures which compete with domestic production were kept so small. Manufactures account for only 20 percent of Japanese imports — the comparable figure for the U.S. is 53 percent, for . . . the United Kingdom 52 percent (and Britain is, after all, also an island with limited natural resources) . . .

I do not accept as a satisfactory answer that Western businessmen do not understand the Japanese market . . . But the relative values of currencies, the maintenance of inappropriately higher levels of tariffs, restrictions on credit and other non-tariff barriers, the inefficiencies of the distribution system, and the close interrelationship of the producing, banking, and trading elements of the Japanese economy are more understandable reasons for the stark difference in the composition of Japanese imports compared with other developed countries.

The other side of the immediate trade question concerns Japanese exports . . . The tradition of lifetime employment and high debt-equity ratio result in strong pressures to seek out foreign markets aggressively when domestic demand is weak...The potential for future harm is increased where investment continues in additional capacity where demand does not warrant it...

Near-term Japanese measures in some of the policy areas I have discussed would go a long way toward containing rising protectionist pressures not only in the

U.S. but in Europe as well . . .

Japan could usefully seek to address the high entry barriers to imports which compete with Japanese domestic production — entry barriers which derive from the close linkages among Japanese producers, trading companies, banks and distribution channels.

### 'Dulles Brinksmanship In Economics'

*The following is taken from an interview with an official in Strauss's office who is well informed on Wolff's thinking. The interview was provided to this journal by an independent research organization.*

**Q:** In the speech Mr. Wolff gave before the Japan Society, he focused for the first time on the structure of the Japanese economy as impeding imports, e.g., the close links among producers, traders, bankers. What kind of measures do you think the Japanese should take?

**A:** There are structural organizations of the Japanese economy which hinder imports, but are not normally thought of as imports barriers in the usual sense. Usually people think of tariffs and such, but these structures are even more important. For example, an electrical machinery maker is in the same business group as an electrical machinery consumer, and they are both linked to a trading company. So foreign exporters don't stand a chance.

**Q:** What do you suggest be done?

**A:** First of all, there must be rigorous enforcement of existing antitrust laws by the Fair Trade Commission. And no exemptions. For example, none of these anti-recession cartels where they share markets and cut production to keep prices up. But more important, a radical reform of the structure to end the close links among producers, traders, and bankers. In addition, when MITI (the Trade and Industry Ministry) makes allocations for capital investment, they should include

foreigners. The government should facilitate the setting up of a trading company that deals solely in imports.

**Q:** The Japanese government should actively aid imports?

**A:** Why not? They help the existing companies now.

**Q:** What else?

**A:** The government should aid foreigners to increase direct investment, particularly helping American retailers get into the Japanese retail business.

**Q:** Well, you know what you're saying is very difficult. The last Prime Minister, Takeo Miki, spent two years trying a very minor thing compared to what you're saying; he tried to strengthen the anti-trust laws and increase the power of the Fair Trade Commission. This contributed a great deal to his being removed from power. So, what you're asking is almost politically impossible.

**A:** I think it would be a lot easier politically if it is made clear to Japan that unless it takes these measures, it will be frozen out of world markets. That's a fact, and the Japanese should be informed of it. Look at the protectionist measures in Europe and the U.S. Unless the Japanese take steps, the U.S. Administration will adopt a posture of making it easier to push orderly marketing agreements, antidumping suits, etc.

**Q:** Earlier, Strauss had opposed private agreements and preferred relying on the U.S. antidumping law.

**A:** Yes, that is because if Congress gets into the act, they will screw it up; they will be even more protectionist.

**Q:** But many of the criticisms you have of the Japanese structure are not illegal under U.S. law.

**A:** Yes, but they have the effect of not allowing equal opportunity for U.S. imports and the U.S. government will have to warn that the products of these Japanese firms will be frozen out of U.S. markets unless radical reforms are taken.

**Q:** Wolff also said that the structure of the economy, particularly the lifetime employment system and the high debt-equity ratio, causes them to increase capital investment even when demand is weak. Are you saying that as part of restructuring Japan has to lower its capital formation ratio?

**A:** If Wolff means that, then I disagree. What we are saying is that sometimes MITI and the Japanese firms increase capital investment based on expectation of future sales, without regard to what other firms and other countries are doing. This sometimes causes overcapacity. This is a problem that should be taken into account. But we are not asking them to lower capital formation. However, they should spur investment, not by exports, but by domestic social infrastructure investments, housing, etc.

**Q:** The Japanese press says that other people in the administration are more conciliatory, that they will accept a Japanese offer to buy \$3 billion in emergency imports, including special stockpiles of uranium.

**A:** Absolutely, not true. There is no one who will accept that one-shot deal. Also, there is no one wanting to sell them the extra uranium since that interferes with Carter energy policy.

**Q:** What has been the reaction from Japan?

**A:** We haven't had one yet since we've only begun speaking that way.

**Q:** Look, no Japanese government can accept these ideas?

**A:** They will have to if they don't want their export markets to be closed up.

**Q:** This sounds like Dulles brinkmanship in international economics.

**A:** That's true.

**Q:** You expect the other guy to blink first?

**A:** Yes.

**Q:** You think the Japanese will surrender?

**A:** Yes, I do.

**Q:** Do you think you have unanimity in U.S. and Europe for this?

**A:** Yes I do. You know we're only asking Japan to allow equal opportunity for imports.

**Q:** You mean you don't think it will severely hurt their economy?

**A:** Well, it will be very difficult for them, but they have to do it.