

Japan's Business Community Opens Trade Deals With Iraq, USSR, Europe

In the past week the Japanese business community increased its activities toward strengthening ties with the Arab nations, the Soviet Union, and Europe in three specific areas: (1) the securing of firm Japanese technological and credit commitments to Arab nations, notably Iraq, in return for secure oil supplies; (2) the rapid expansion of Japan-Soviet economic development projects; and (3) increased Japanese-European cooperation on nuclear energy development.

The Middle East

Iraqi Vice President Marouf's visit to Japan last week concluded successfully with an agreement by Japan to extend another \$1 billion credit line to Iraq. On Jan. 21 the Japan Ex-Im bank and private banks agreed to grant the new loan which will be repayable over ten years (two year grace period) at 6.3 per cent annually. The Ex-Im bank also granted a 14,539 million yen loan for the construction of a new thermal power plant to be built by Mitsubishi. This loan came from part of an earlier \$1 billion loan Japan gave Iraq in 1974. Combining both loans, Iraq now has approximately \$1.5 billion in unused Japanese credits, which it will use mainly to develop its petroleum industry, particularly its ability to produce liquified petroleum gas. Iraq is also planning to construct a 300,000 barrel-per-day oil refinery.

Now that the deals are concluded, Japan will shift its focus to improving ties with Saudi Arabia. In early February a major business mission, led by Japan Chamber of Commerce head Shigeo Nagano, will visit Riyadh to push for acquisition of new oil fields for Japan in return for Japanese economic assistance, notably in the development of Saudi Arabia's rail facilities. One such project under study would link Riyadh and another big city (possibly Jiddah) in what the Jan. 25 *Japan Economic Journal* estimates would be a "huge" project involving over 1,000 billion yen in new investments.

The Soviet Union

The Japanese are learning that good manners don't necessarily pay. Both the Jan. 28 *Journal of Commerce* and the Jan. 25 *Japan Economic Journal* comment that Japan's decision at the last San Juan summit meet to enter a "gentlemen's agreement" with the West to offer the USSR export credits only at a high 7.75 per cent annual rate is getting them nowhere. While the Japanese have so far stuck to the Washington-dictated agreement, the "wiley Occidentals" have not. The Japanese have lost at least two big deals to British and French consortia

for projects in the Soviet Union because the European firms, using credits issued by their governments to the Soviets two and three years ago, offered cheaper payment terms. Now the Soviets are dangling even more tempting offers at Nippon.

A Soviet delegation will visit Japan in early February for talks with Japan's steel majors. The Soviets need steel for pipelines that will transport liquified natural gas from Siberia to Leningrad and points beyond. But the deal won't go through unless the Japanese government forks over some low-interest bank loans for the sale.

To heighten the tension, a Soviet automobile delegation is already in Japan seeing whether the Japanese can help Moscow increase its vehicle production from the present 1.9 million units to 2.3 million in Japanese equipment for cars under a deal between a Nissan Motor affiliate and the Kama truck plant.

A few weeks ago Japan's papers carried a story from Nippon Steel sources warning that unless the Ex-Im bank gave in Japan would lose the Soviet orders. Given the depressed state of the economy, particularly the steel industry where production cutbacks are already in effect for the first quarter, Prime Minister Fukuda will be under enormous pressure from business to back off from the San Juan restrictive rates. Any shift in the Ex-Im loan policy will be a signal of how much leverage the business community has over Fukuda and should be watched.

Europe

A West German mission consisting of various industrial nuclear energy experts visited Japan late in January to finalize talks with the Japan Atomic Energy Research Institute for joint development of a nuclear reactor. The Japan-German agreement "will form the world's first system of international cooperation concerning studies to develop such a nuclear power reactor," reported the Jan. 18 *Japan Economic Journal*. The Tokyo meeting, however, is only one part of joint Japanese-European moves to develop nuclear power in defiance of the "conservation" policy of U.S. President Carter and his Cabinet.

Japan's electric power industry will send a mission led by Kansai Electric Power vice-president Shunichi Suzuki beginning Feb. 25 on a European tour to coordinate a joint, anti-U.S. nuclear policy before the March meeting of the nuclear nations in London.

Another mission, headed by Tokyo Electric's managing director Hiroshi Narita, will tour the U.S. and Canada starting March 15. Washington sources said that

Narita is trying to meet with U.S. energy czar James Schlesinger to voice Japanese opposition to any U.S. anti-nuclear policies. The Japanese visit to Canada will follow up on the talks concerning the transfer of nuclear technology now underway in Tokyo with Canadian officials.

The Japanese-European moves have led to a cooling off of some of the Common Market's protectionist fervor against Japan. Indications of this shift came in a document that the West German Economics Ministry is preparing as an official memorandum to the EEC in February. The West Germans, according to the Jan. 26 *Journal of Commerce*, warn that simple restrictions of Japanese exports to the EEC alone cannot solve the Europeans' problem. Since "confrontation can hardly provide desired results," the West Germans will call on the EEC nations to compete with Japan by exporting

high-technology goods to Japanese buyers. The West Germans point out that Japan has recently eased some of its tight import restrictions in response to EEC requests and that with continued pressure the Japanese will open up even more.

Finally, Japan's powerful Ministry of International Trade and Industry (MITI) is also looking West. MITI has decided to set up its own domestically financed oil major modeled after Italy's ENI. The MITI plan, which involves the creation of a federation of domestic corporations around the government-controlled Japan Petroleum Development Corporation, "is similar in nature to Italy's powerful hydrocarbon corporation ENI, or what may be alluded to as becoming an international oil company of a 'Japanese origin,'" commented the Jan. 18 *Japan Economic Journal*.

China Political Front Strangely Silent; Regime Boosts Science And Technology

Last week marked the fourth week of a political silence that settled on Peking in the aftermath of the demonstrations of Jan. 8-16 that demanded the restoration of Teng Hsiao-ping to power and the purge of additional Maoists. During this period, no high-level policy statements or significant public speeches have been made by any of China's top leaders.

The failure of Teng, who is supported by the senior Army commanders and most of the Communist Party apparatus, to appear following the popular call for his return, is regarded as mysterious, and can only mean that there is some last-ditch opposition to him within the Politburo, perhaps including Party Chairman Hua Kuo-feng himself. If the long silence means what similar silences have meant in the recent past, dramatic leadership changes may be in the offing, but so far no substantial clues have appeared to indicate what such changes might be.

In contrast to the political hiatus, press releases concerning science and the economy have continued to flow, laying out the new anti-Maoist policies. Reprinted below are excerpts from several New China News Agency (NCNA) releases on the need to upgrade the economy and to put special emphasis on advanced technology.

The degree of China's commitment to employ advanced technology in industry was revealed by Roland Berger, a British trade consultant who represents a large group of British firms doing business with China and who returned Dec. 1 from his latest visit to China. As reported in the *Christian Science Monitor*, Berger said that most of 1977 will be needed to recover from the disruption of recent years after which there will be "a rather speedy takeoff" toward modernization. Before his delegation's departure for China in November, Berger said they were instructed: "Don't bring anything we've seen before.

Bring only sophisticated equipment." The delegation brought high-technology goods that hadn't even been shown in Britain.

China had requested 29 highly specialized lectures from the British groups, and brought people from far-flung provinces to attend. More than \$3 million worth of equipment was purchased on the spot. Moreover, the Chinese minister for foreign trade answered a question on whether China would resume imports of entire plants from the West by saying, "Certainly. It is in our minds to buy complete plants." Berger said the top priority fields of the Chinese are in aerospace, petrochemicals, high-precision instruments, and certain transportation sectors.

Sketchy reports from Tokyo indicate that China cannot yet afford to increase its oil exports beyond the 6 mt in 1976, but a Japanese delegation negotiating the oil purchase said that this was because China needs the oil this year to rectify damage done to the economy; China is preparing for much larger oil sales by 1978, the delegation said, in an article in the *London Financial Times*.

Indicating a new emphasis on large-scale water control and conservation projects largely abandoned in the last 15 years, a Jan. 19 article discussed several such large projects and implied that much more was needed in this area in the future.

In a major break with the Maoist era, the *People's Daily* Jan. 21 published on its front page letters of criticism of the paper from its readers. The comments permitted indicated a commitment to revise the style and content of the paper eliminating the features that have made the press little more than a deadening thought-control instrument against the Chinese population for the past decade. One factory worker lambasted an article