

CONFERENCE REPORT

Bilateralism afflicts U.S.-Japan talks

by Richard Katz

Together, the American and Japanese economies comprise one-third of the entire world economy. What these two nations together do can shape the entire planet. Cooperation on new technologies or infrastructure projects in the Pacific Basin—as discussed in the interview below—could reverse the current downward spiral of the world economy.

Yet, it seems that almost all U.S.-Japanese discussions these days focus strictly on bilateral issues: trade frictions, demands that Japan “do more” on defense, and so forth. More often than not, particularly in trade matters, the bilateral frictions cannot be made manageable without improvement in the world economy. Nonetheless, instead of outflanking the bilateral problems through cooperation on the global scene, the leaders of both countries endlessly rehash debates over how many oranges Japan will import, and how many more anti-submarine planes it will procure.

The myopia inflicted by this “bilateralism” was demonstrated in stark terms at the sixth Shimoda conference Sept. 1-4. The conference—named after the Japanese city in which the first conference was held in 1967—brought together 40 top American and 40 top Japanese political and business leaders for four days of intense closed door interchange. Press was allowed in on the condition that no one’s comments be cited by name.

Sponsored by the Japan Society of New York and Tokyo’s Japan Center for International Exchange, the conference, held in the farm country of Virginia, included such prominent Americans as David Rockefeller, Under Secretary of State W. Allen Wallis, Hewlett Packard Co. chairman and former Defense Deputy Secretary David Packard, former Treasury Assistant Secretary Fred Bergsten, Exxon Senior Vice-President Jack Clarke, and former United Auto Workers President Douglas Fraser. Japanese discussants included former Ambassador to the United States Nobuhiko Ushiba, Ministry of International Trade and Industry (MITI) “elder statesman” Naohiro Amaya, Fuji Xerox President Yotaro Kobayashi, former Foreign Minister Saburo Okita, and Sony chairman Akio Morita.

The conference seemed almost like a television re-run of a negotiating session, with very few new ideas or proposals. The sharpest debate of the conference was one among the Japanese participants about how to respond to American trade demands.

The discussants took little time to evaluate the potential for new technologies, the decline in world trade, or the inter-

national debt crisis. There was some probing about the U.S. situation when Japanese participants inquired whether U.S. production growth would expand beyond consumer durables into investment. Several American business and political leaders replied it would not, certainly not in 1983 or early 1984. They also warned that no major initiatives to remedy American economic difficulties could be taken until after the 1984 elections. Several Japanese criticized the high level of U.S. interest rates, but they focused primarily on the effect on the yen-dollar exchange rate, and secondarily on American capital investment, rather than on the world economy.

The security discussion, or rather “negotiation,” seemed as though it might have taken place any time in the last four years. The strategic reality outside the conference hall—Euromissiles, Mideast strife, or the political ramifications of the KAL 007 downing by the Soviet Union—was hardly mentioned. Nor was there discussion of how to reduce East-West tensions and other instabilities. Conference participants simply wanted to negotiate Japanese military buildup under presumption of continually growing tensions.

Some American economists repeatedly brought up a proposal that Japan deal with the U.S.-Japan trade imbalance by artificially raising the value of the yen. Tokyo could accomplish this by restricting capital outflow from Japan and promoting capital inflow. The entire presumption of this proposal was that little could be done to heal the basic economic illnesses that create currency turmoil. After hours of such discussion, an American participant brought the conference back to reality: Brazil, he pointed out, was going from crisis to crisis each day, and might even declare a debt moratorium one day; any restriction of Japanese capital outflow would only increase that danger.

This year’s conference was markedly different from the lively exchange of ideas at the 1981 Shimoda conference [see *EIR* Oct. 13, 1981]. Perhaps because that conference was a discussion of differing evaluations of the Soviet Union, the China Card policy, the Middle East, North-South relations, and the world economy, and what the appropriate responses would be to these nations and policies. Perhaps the more limited bilateral focus of this year’s agenda is responsible for the different results.

Shimoda ‘Summary of Discussion’

Editors and rapporteurs at the Shimoda conference drafted a “Summary of Discussion” which, they report, “aims at

providing the reader with a sense of the major issues, and the major points of view, expressed during the two and half days of intensive discussion. It . . . should not be taken to represent a consensus view of the participants in the conference."

The full text of this and other documents from the conference will be presented in a book to be published by the Japan Society of New York and the Japan Center for International Exchange in Tokyo. Excerpts follow:

[The conference attendees recognized] the extreme difficulty of agreeing on positive proposals for resolving these problems [in the Japan-U.S. relationship]. Everyone recognized the need to bring exchange rates into better alignment, to develop macroeconomic policies with an eye to the needs of the global economic system and not solely the domestic political one, to find ways to ease the human pain of adjusting the structures of our economies, and to resist the deceptively alluring palliative of protectionism. But it would be wrong to suggest that these several hours of discussion have brought us much closer to finding ways to accomplish these goals. There was a tendency of both Americans and Japanese to regard their own political constraints as insuperable, and to be disappointed in the lack of flexibility by the other. . . .

[In regard to trade and economic issues] there was a tone of greater urgency about the threat of American protectionism in the face of still very high U.S. unemployment and a bilateral trade deficit reaching almost \$20 billion. . . . Of special danger to the U.S.-Japan relationship is the high budget deficit, requiring the United States to maintain high interest rates to prevent a resurgence of inflation. . . .

Japanese participants were especially concerned that continued high interest rates, causing exchange rate "misalignment," will continue to fuel the trade imbalance, that Japan will be blamed for this imbalance and become a lightning rod for complaints about the massive global trade deficit the high dollar value is causing. . . . Both sides recognized that Japan had continued to take many liberalizing measures. U.S. participants, however, noted that most Americans still hold the perception that their market is wide open, while Japan's remains relatively closed. . . .

Some Americans suggested that trade tensions might be eased and adjustment facilitated if it was agreed, on an industry-by-industry basis, to limit imports temporarily to a certain market share. This proposal was vigorously opposed by other Americans and Japanese who argued that in the long term such arrangements would sap the competitive vitality of U.S. and Japanese industries, eventually leading to higher inflation and slower growth. . . .

[T]here was great concern about increased competition from the less-developed countries, and broad agreement that in the face of this increased competition, both the United States and Japan must move into more knowledge-intensive industries. It was pointed out, however, that in the United States, many workers in the industries most severely affected by imports are minorities without the education and technical skills to shift into the high-growth, knowledge-intensive in-

dustries. Some doubted whether the high technology industries would provide enough employment to absorb the displaced workers. . . .

In regard to North-South relations, participants agreed that . . . both Japan and the United States have a stake in the ability of those nations to pay their debts and to continue their economic growth. . . . Some concern was expressed that American aid policies were rigid and unsympathetic to the needs of Third World countries. . . . In response to these criticisms several American participants argued that the United States has always met its commitments to multilateral financial institutions . . . it was argued [that developing country] proposals in UNCTAD [United Nations Committee on Trade and Development] have been unrealistic and should not be accommodated. . . . Several Americans noted . . . the major American contribution to the development of Third World countries brought about by trade policies that result in the United States being the recipient for half of the [exported] manufactured products of the entire developing world.

There was criticism expressed at Japan's failure to raise the percentage of GNP it spent on Official Development Assistance. . . .

[Regarding security issues] although Japanese perceive threats in local and regional terms, while the United States sees them in global terms, there is no question but that the Soviet invasion of Afghanistan, the rapid and extensive buildup of the Soviet fleet, and the potential shift of Soviet SS-20s from Soviet Europe to the Soviet Far East have all contributed to a heightened sense of threat, and a greater understanding of the indivisibility of the West on security issues.

But Japanese participants, while noting these changes, also stressed the limits on Japan's defense buildup . . . and that the tentative consensus that has been forged on defense could easily crumble under external pressure. . . . Many [participants] warned against embracing unrealistic expectations about what Japan would actually do in the military area for the foreseeable future. . . . Even the most enthusiastic supporters of a Japanese role in sea lane defense recognized that developing a capability to play a significant role would take a considerable amount of time and that it could not fully relieve the U.S. Seventh Fleet of its responsibilities in this area. . . .

[S]ome participants warned that, counter-productive or not, Japan's comparatively low level of defense spending would inevitably become the target of American criticism, particularly in light of the huge and growing imbalance in bilateral trade. . . .

Criticism was voiced, however, over the much more fundamental question of how much emphasis should be placed on the military dimension of security. Several participants argued that Japan's security contribution to the Western alliance could best be made in non-military areas. Strategic economic assistance, for example, to Turkey, Egypt, Pakistan, Jamaica, Thailand, and elsewhere has represented a real contribution to mutual security.