

# U.S.: no Tokyo dollar credit

## *Trade blackmail aimed against development loans*

New tough talk came from Treasury Secretary Michael Blumenthal during last week's talks in Tokyo — including the threat of a “forced-by-Congress” 15 percent import surcharge against Japanese goods. Behind the noise lies a critical shift in the focus of U.S. demands on Japan.

No longer are the primary goals — for which protectionist threats are a lever — forcing Japan to reflate, to reach current-accounts balance, and upvalue. Now, the priority has shifted to the strategic sphere of international finance and monetary policy. Blumenthal is pressuring Japan to make the yen a reserve currency, to shift its international lending from dollars to yen, and to allow U.S. banks to increase inroads into a Japanese domestic banking system. This would entail a new high-interest rate structure for Japan itself.

According to Washington sources, Blumenthal wants to suffocate the growing role of the Tokyo International Capital Market as a de facto partner to the European Monetary System (EMS) in stabilizing the dollar through recycling dollars into long-term-lower-interest development loans, increasingly. Instead, he is pushing yen-denominated loans as one transition to an economic order in which the dollar is replaced as the reserve currency by something like the SDRs (Special Drawing Rights) of the IMF (International Monetary Fund). Blumenthal has consistently denounced the Tokyo Capital Market's functioning as “credit dumping.”

During his March 4-5 discussions in Tokyo, Blumenthal emphasized four main demands, according to reliable sources:

1) Increase Japanese loans to developing countries, but make them in yen rather than dollars, and turn the conditions over to such international institutions as the World Bank-IMF and the Asian Development Bank rather than the Tokyo commercial market. This demand was also presented publicly two weeks ago at a Washington conference by Phil Tresize of the Brookings Institution, a thinktank whose staff permeates the Carter Administration. Acceptance would strike at the heart of the Tokyo Capital Market and the EMS, since it is

only by once again making the dollar an instrument of productive international investment and trade that its value can be maintained.

2) “Reform” Japan's domestic banking structure to allow greater inroads by U.S. and other foreign banks, e.g. through allowing U.S. banks to acquire large amounts of yen through issuance of certificates of deposits. At present, foreign banks are limited to a cumulative total of the equivalent of \$3.5 billion in locally acquired yen in a market in which new loans total well over \$100 billion equivalent per year. Japan's monetary authorities have long resisted such proposals as eroding their dirigist influence over credit allocation and interest rates.

3) Offer trade concessions, with a laundry list from U.S. Trade Ambassador Strauss now expanded to include the strategically key telecommunications and computer sectors.

4) Increase domestic consumer loans so as to direct demand away from exports, such as capital goods, into domestic demand.

Informed figures in Japan, as well as EMS spokesmen in France and West Germany, are well aware of the link between the revival of protectionist threats and the Blumenthal-Brookings' pressure on international financial policy. On Feb. 12, the German daily *Frankfurter Allgemeine Zeitung* (FAZ) commented on President Carter's threat to boycott the Tokyo summit of Western heads of state this summer unless Japan capitulated on trade issues. *FAZ* charged that Washington's intention is to block a “still confidential” proposal Japan will make for a new credit system based on the principles of the European Monetary System, known as the “consolidation plan.” This proposal first surfaced following the October 1978 meeting of then-Premier Takeo Fukuda and Chancellor Helmut Schmidt.

Japanese government sources told EIR: “Strauss presented a big list of trade demands very sternly (in February). He looks strong. But now we know Strauss; we're more used to him. Blumenthal appears more sincere but in reality his demands are stronger than Strauss's.... They are less concerned now with the inter-

nal economic policy of Japan or the 7 percent growth rate. Now, Blumenthal wants us to let in American banks." He added, "the U.S. still misunderstands Japan.... Japan will continue to explain to the U.S. its intentions...." In undiplomatic language, this means Japan has no intention of going along with Blumenthal's demands. At the March 6-7 IMF meeting, Bank of Japan Governor Morinaga made the point softly, saying Japan has no objection to increasing yen-denominated international bonds, but he did not counterpose this to dollar loans, adding later that there was "no need to implement the substitution account at this time, given the strength of the dollar."

### **The Administration and the Congress**

Blumenthal told his Japanese hosts that unless they accede to his demands, there is "a real risk" of Congress pushing for an imports surcharge against Japanese goods. Tresize made the same warning three weeks ago; National Security Staffer Henry Owen, formerly of Brookings, and State Department official Robert Hormatz are expected to repeat it when they visit Japan March 16-19, ostensibly to help prepare the Tokyo summit. The Administration claims its hands are tied by Congress, but a staffer for the House Ways and Means Committee, which first raised the imports surcharge in a letter to Carter last year, reports, "it is the Administration, not the Congress, which has shifted on the need for a surcharge." Legally, under the 1974 Trade Act, the Executive, not the Congress, imposes any such surcharges.

Washington insiders described the "hard cop, soft cop" job being pulled on Japan as follows: at a meeting between Strauss and special emissary Ushiba, Strauss told Ushiba it was impossible to reach a definitive settlement but proposed a Kissingeresque three-to-four-year negotiating process. When Ushiba refused such "step-by-step" procedures, Strauss told his friends on Capitol Hill that nothing could be done for several years and the issue was now in the hands of Congress. Strauss's fellow Texan and "good friend", Sen. Lloyd Bentsen of the Joint Economic Committee thereupon ordered a study of Japan's trading practices.

Congressional sources report that the Administration, not Congress, then rushed to shout from the rooftops that Congress was about to impose import surcharges against Japan unless Japan acquiesced to Blumenthal's demands. Bentsen himself is a supporter of the "North American Common Market" proposal to make Mexico a strategic oil reserve for the U.S., keeping Mexico from industrializing while disrupting a potential Japan-Mexico economic partnership. A partnership that epitomizes Tokyo Capital Market policy. Other Administration backup has come from Congressman James Jones (D.-Okla.), who last year ordered a study of

foreign banking practices that singled out Japan for "lack of reciprocity" toward American banks.

### **Stop the Tokyo Capital Market**

Now, interest rate warfare on the Euromarket has enabled the Blumenthal group to partially achieve what Japan will not accept willingly. After a fivefold rise in dollar lending abroad in 1978 to \$11 billion, the Bank of Japan estimated that January-March dollar lending will fall 30 percent to \$3 billion from the October-December \$4 billion level. In contrast February yen international lending rose to the equivalent of \$1.5 billion, five times the monthly rate for 1978.

The Tokyo Capital Market has worked as follows: When billions of dollars flowed into Japan due to Blumenthal-instigated speculation, the Bank of Japan relent (approximately \$500-600 million per month) at rates slightly but importantly lower than the London Interbank rates that have set the pace for international and domestic U.S. credit. The funds were then relent largely for productive development projects to Third World countries, the Mideast, and so forth. Japanese and European spokesmen propose to lend such dollars internationally at rates tied to their own domestic prime rates of 4-7 percent in order to establish a two-tier credit system that will ultimately force down the interest rates of the entire Euromarket structure. This means that Japan and Western Europe can proceed to do what they think the U.S. should join them in doing — exponentially expanding very-high technology industrial, infrastructural and energy-development exports to the rest of the world.

If the Carter Administration and London and New York strategists succeed in perpetuating the current short-term, high-interest skew in the capital markets, on the other hand, dollar-recycling development credits get squeezed out. At present, 70 to 80 percent of Japanese dollar lending comes from the Euromarkets. The bidup of Eurorates, along with some success for Blumenthal's "credit dumping" pressures, accounts for this year's first-quarter lending by Japanese banks.

And the Bank of Japan's ability to funnel to Japanese commercial banks relatively cheap funds for the other 20-30 percent of their loans is also in jeopardy. Commodity price hikes have now impelled a partially import-based inflation in Japan, leading to a tightening of credit there. After a year without wholesale inflation, January saw an 0.6 percent rise (of which half was due to imports) and an 0.8 percent monthly rate during February 1-10. This challenges the ability to make cheaper loans based upon domestic interest rates since domestic rates are being raised in response.

—Richard Katz