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What if Japan suddenly pulled the plug on the U.S.?

by William Engdahl

The fellows in Washington determining American trade relations with its most important economic ally, Japan, appear to have gone "bonkers." On March 14 in Tokyo, following heated talks with U.S. Commerce Secretary Robert Mosbacher over U.S. trade demands, Japan's Foreign Minister Taro Nakayama issued what, for a normally reserved Japanese diplomat, is an alarming statement.

"We should recognize this as a matter of crisis control in the Japan-U.S. relationship," he told reporters. "The mounting discontent in the U.S. Congress against the huge Japan-U.S. trade imbalance can be said to be in a hair-trigger situation." He added that this threatens not only the most important single bilateral relations for world monetary and economic stability in the world today, but that the rupture on U.S.-Japan trade ties could threaten the entirety of multilateral trade issues. In short, the world is teetering on the brink of a chaotic trade war which will make Washington's foolishness of the Smoot-Hawley Tariff of 1930 pale by comparison.

Most of the Washington-Tokyo trade agenda misses the point. The U.S. refuses to improve its national industrial policy to encourage the kind of qualitative upgrading in labor and production technology required. Rather, it uses monetary weapons such as dollar devaluations or interest rate pressures on trade partners. The result has been the creation of the world's largest debtor nation in the five years since 1985. But while attention has focused on the "threat" of Japanese takeover of the United States economy, the role of British direct investment in the U.S. has gone largely unnoticed. In 1989, U.K. investment totaled $123 billion, according to Commerce Department data. Japanese holdings were a distant second at $66.1 billion.

Japan's continuing financing, to its own detriment, of U.S. budget and trade imbalances, could suddenly shrink. In recent months, Japanese investment houses and trust funds have bought 25-35% of U.S. government Treasury bond debt. A halt to this is looming, according to reliable reports from large Tokyo brokerage houses, with the new Japanese fiscal year which starts April 1. If that happens, U.S. interest rates will go through the ceiling and the dollar through the floor, as the greatest economic depression in American history is detonated by the stupidity of some gentlemen in Washington and New York.

U.S.-Japan trade profile

In the past decade, the world's two largest export nations have been Japan and West Germany, with the United States third in dollar terms. In 1987, Japanese exports totaled $265 billion worldwide. But unlike West Germany, which exports more than 60% of its goods to other West European countries, Japan has developed an overwhelming dependence on export to the U.S. market since the early 1980s. By 1989, fully 70% of total Japanese trade surplus (exports minus imports) worldwide, according to a Japanese Finance Ministry estimate, was with the United States. Japan exported some $90 billion worth of goods that year to the U.S., half of it automobiles; most of the rest was precision manufactures including machine tools, industrial robots, and computer chips.

In return, the United States sends to Japan not advanced industrial goods for the most part, but bulk raw materials such as lumber, textiles, ethyl alcohol, and copper ore. More and more, the relation of Japan to the United States is becoming that of an advanced industrial nation to an underdeveloped one. In 1989, Japan exported to the U.S. some $50 billion more in goods than it imported from the United States.

Measured in dollar terms, Japanese overall exports in-

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creased by 77% between 1980 and 1987, from $130 billion to $265 billion. In the same period, according to JETRO official statistics, Japanese exports to the United States increased 166% to $90 billion.

Most telling is the picture for Japanese exports to Western Europe. Were Japan the industrial colossus, or savage trading power, that American and, too often, European media make it to be, export to Western Europe, an advanced industrial market like the United States, would have grown far more than it did during the past decade. While the nominal value of export to the European Community from 1980 increased by an apparently impressive 126%, in actual fact, the volumes were tiny. In 1980 Japan sent $16 billion worth of exports, mostly autos, to the EC. By 1987 this had gone up to $38 billion, less than 5% of the approximately $800 billion imported into the 12 EC nations annually.

It has not been because Japanese engineering and manufacture quality has been so high. Japanese firms have merely followed quality control and manufacture texts they got from American universities or industry consultants in the 1950s (e.g., Frederick Deming). Under pressures of financial market liberalization since the 1970s, most U.S. corporate managers have been forced to ignore those standard lessons, in a fight for sheer survival.

Japan has earned the "gratitude" of the U.S. Congress for its years of financing U.S. government deficits, and supplying the machinery and vehicles that U.S. industry was no longer able to build efficiently, in the strange form of being listed as one of the nations whose trade practices were an affront under the protectionist "Super 301" provisions of the Omnibus Trade and Competitiveness Act of 1988.

The Bush-Kaifu summit in California in March had one point. Washington demanded that Japan, a successful industrial export economy, change its very structure to adopt to the collapsing "standard" of the United States of 1990—by changing Japanese laws relating to land use and corporate ownership as well as the structure of the politically sensitive small retail organization of Japan. The Bush administration calls this, the Structural Impediments Initiative talks.

"The American complaint is in effect that the whole Japanese system is a conspiracy to promote Japanese exports while placing obstacles in the way of imports," noted Dr. John Casey of Cambridge University in a commentary in the March 18 London *Sunday Times* entitled, "Why Americans Fear and Loathe Japan." Casey writes, "The real American complaint is not about such subterfuges. They allege that Japanese trade practices are *structurally* unfair. This means that the whole Japanese culture, intentionally or not, puts obstacles in the way of imports. The idea of 'structural unfairness' is completely open-ended."

The American structural problem

The real structural economic problem is not Japan's. As Casey remarks, "What the Americans really want is for the Japanese to work less hard, to be less disciplined, less well-educated, and less thrifty. The demands for 'structural reforms' are really demands that the Japanese become more like Americans." By every measure, the policy of the U.S. government since the 1970s, and especially since the 1982 debt crisis, has insured the collapse of U.S. industrial and technological capacities. Into this vacuum, Japanese export firms have entered. Japan's central bank has artificially kept the lowest interest rates in the industrial world since 1987, in an attempt to help the United States avoid total financial market collapse after the October 1987 stock market crash.

In response to the August 1982 Mexico debt crisis, the Reagan White House adopted a strategy designed by the large New York banks and financial interests, sacrificing what remained of American technological and industrial quality to "financial expediency." The result has been an economy financed by debt, drawn from a cumulative $1 trillion in foreign borrowings during the decade since Ronald Reagan entered office in 1981. From 1985 to 1987 alone, the United States borrowed $417 billion abroad to finance its deficits and make up for low domestic savings.

Tax laws since 1981, and lax enforcement of corporate anti-trust laws, triggered a speculative binge of hostile corporate takeovers which has left U.S. corporations with the largest debt burden as a ratio to assets in the entire postwar period. However, the debt, unlike that in Western Europe or Japan, has not been taken on by corporations to increase technological capacities or to modernize plant and equipment in order to increase profit margins. During the Reagan and Bush years, debt is a tax deduction, systematically encouraged. A conservative, low-debt, well-run corporation which pays steady stock dividends is a prime target for a hostile corporate raid. This made for a disastrous decline in American industrial competitiveness, a problem worsened by the Paul Volcker Federal Reserve policy which caused the dollar to appreciate between 1979 and 1985 by almost 30% against the yen, and a staggering 55% against the currency of Western Europe's strongest exporter, West Germany. With U.S. industry choking on debt, unable to invest during the the early 1980s depression, Japanese and German imports displaced U.S. industry in sector after sector.

Any nation, to survive and remain healthy, must constantly invest in productive resources, plant and equipment, and education of the productive workforce, with funds from the nation's "savings." U.S. savings, the percentage of annual national income saved by business, government, and households (including private pensions), plunged from the 1970s when it averaged some 8% down to slightly more than 2% by 1985-8. The main cause of the collapse of "savings" during the 1980s was Reagan-Bush policy. The federal contribution to national savings was turned into its opposite by a series of Reagan "supply side" tax cuts, imposed in the early 1980s, amid the worst economic slump since the 1930s. Reagan's commitment to increase defense spending led to

the largest government revenue shortfalls in history. This ballooning of government debt and decline in private savings caused a catastrophic decline in U.S. domestic capital formation. Rather than change policy after the consequences were manifest in early 1981, Washington compounded the insanity.

Promiscuous corporate "free market" practices since 1981 in the United States have focused industry on maximizing short-term financial results, even to the absurdity of a three-month corporate profits time frame. In a February 1990 report to the Congress, "Competing in Manufacturing: Making Things Better," the congressional Office of Technology Assessment admits, "America's financial environment is generally unfavorable to long-term investments in technology development and diffusion, and government actions that mitigate the effects of this unfavorable environment have lacked commitment. . . . Rather than moving toward an environment more conducive to long-term investment in the development and use of outstanding technology, the U.S. system raised the hurdles."

Trade deficit absurdities

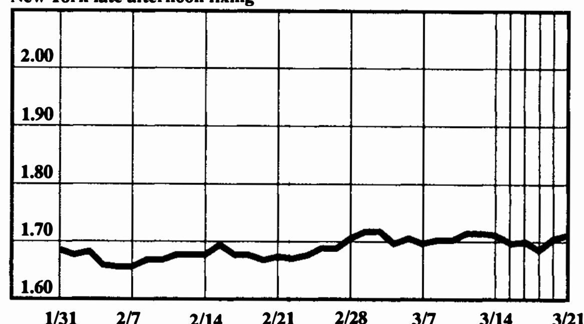
When Washington pressured Japan in the early 1980s to reduce its trade surplus with the U.S., Japan's Ministry of International Trade and Industry (MITI) pushed Japanese firms to build production inside the United States, and limit export growth from Japan. In 1981 MITI imposed a "voluntary restraint" on automobile exports to the United States. In 1982, Honda Motors opened the first Japanese auto production plant in the U.S., in Ohio. By 1989, Japanese auto manufacturers were building 1 million cars in their U.S. production plants, so-called "transplants" accounting for one-third of all Japanese car sales in the U.S. last year. Japan exported 2 million cars to America that same year. These 3 million Japanese cars constituted fully 30% of all U.S. cars purchased in 1989. Japanese businessmen react with biting irony to the fact that in 1980, American United Auto Workers union president Doug Fraser came to Tokyo to threaten that unless Japanese auto makers began building production inside the U.S., his union would threaten a U.S. boycott of Japanese cars.

Last December, the ultimate absurdity developed in the U.S.-Japan trade domain. Responding to increasing Washington pressures, MITI announced that Japan would open its markets to a huge increase in imports. That month MITI issued an "administrative guidance"—something no company in the Japanese system ignores—urging companies to boost imports from the United States in order to reduce trade frictions with Washington. Within weeks, Japanese companies began to send MITI their plans. Toyota plans to import $200 billion worth of products, mostly cars and parts, by fiscal 1992, an increase of 150% from 1988. Nissan Motors will double imports, as will Honda and Mazda. Much of the imports will be from Japanese "transplant" production in the U.S.!

Currency Rates

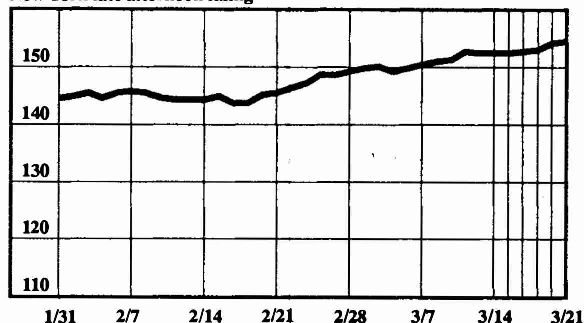
The dollar in deutschemarks

New York late afternoon fixing



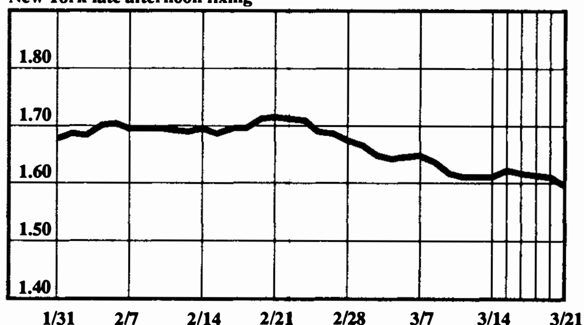
The dollar in yen

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



The dollar in Swiss franks

New York late afternoon fixing