

Industrial giants of Japan and Germany link up for mega-projects

by Lydia Cherry

Representatives of the two largest industrial groups in the world, Japan's Mitsubishi and Germany's Daimler-Benz AG, met in Tokyo the third week in September to map out a program of cooperation. "All the 11 projects are large and expensive projects which take time. I think we have done satisfactory work for the last six months," said Shinroku Morohashi, Mitsubishi president, on Sept. 25. Although the agreement between the two sides to form a global business alliance was made six months ago, this first high-level meeting, in which Daimler chairman Edzard Reuter arrived in Tokyo with a 70-man delegation to discuss the specifics of the cooperation, caused no small stir, particularly in the United States and Britain.

The significance of the hookup between the two giants is not just a question of economic power, as is understood in Tokyo circles. Toshiaki Matsumoto, writing in the monthly *This Is* in July, predicted that the link will have an "incalculable effect" on the world economy. The two conglomerates, like the two countries, are similar, Matsumoto, the author of several books on economic and military affairs, suggests. Both countries have acquired confidence through their tremendous economic strength.

Among the agreements initially announced was a pact for Mercedes-Benz and Mitsubishi Motors to jointly design a range of four-wheel-drive vehicles. Daimler and trading house Mitsubishi Corp. will cooperate to procure parts. In some cases, commitments have just been made to further study areas of possible future cooperation.

Britain, U.S. lash out

One of the major tasks for the new alliance is to gain international strength in high technology and machinery, according to Matsumoto. In the aerospace field, Mitsubishi is anticipating acquiring the expertise to produce space laboratories, which one of the Daimler-Benz companies, MBB, is manufacturing and operating. The *Wall Street Journal* acknowledged on Sept. 19 that it is the aerospace hookup which the U.S. is particularly concerned about. According to a German source, Washington has already begun putting tremendous pressure on Japan to block aerospace cooperation with Europe. The *Journal* points to concern by U.S. government officials that "the Japanese are beginning to loosen their exclusive relationship with U.S. aerospace companies."

One of Britain's responses to the shifting alliances was

to lead a run on the Japanese banks out of Canada and Hong Kong, according to a former senior State Department official. The goal of the flight capital effort, the former official thinks, is to precipitate a "Black Monday," crippling both the Japanese stock market and major Japanese banks within 60 days of the start of the fourth quarter. This is intended to block Tokyo's participation in the emerging Berlin-Moscow economic cooperation.

The United States has taken out its full arsenal of trade war weapons against Germany and Japan. In the case of Japan, this includes more than 60 pieces of anti-Japanese trade and other legislation, in different stages of enactment. Most blatant was the House action Sept. 12 in approving a resolution to the defense authorization bill by a lopsided 370-53 vote, which was influenced by a U.S. media barrage that Japan wasn't doing its share in the Anglo-American military buildup in the Persian Gulf. If passed by the Senate, the resolution would force Japan to foot the full cost of stationing U.S. troops in Japan. Refusal to do so would mean the phased withdrawal of all American troops from Japan. This was a bit much for the normally conciliatory Japanese government. "Go ahead and go home! We have never asked [the U.S. military] to remain in Japan," the head of the Japanese Defense Agency, Yoso Ishikawa, retorted.

Orientation toward Europe

That the Mitsubishi/Daimler-Benz tie-up will be a strong force in Europe, Matsumoto makes clear, is the thinking in Tokyo. He quotes one of Mitsubishi's top executives stating that Mitsubishi's interlocking companies plan to "concentrate on Europe from now on," and will pull back from the United States.

The U.K. and U.S. are particularly concerned about the Eastern Europe component of the arrangement. They cannot have been much reassured by remarks by A. Belousov, the director of the Moscow Academy of Economic Sciences, on Oct. 1. He was quoted by the Soviet press stating that the economies of West Germany and Japan are "the models for the future Soviet Union." Belousov also hinted—as numerous Soviet leaders have hinted recently—that the Soviet Union and Japan would soon settle the dispute over the southern Kurile islands. At least some economic exchanges are apparently back on track between Japanese companies and Russia, and the U.S.S.R. recently paid Japanese trading

houses \$207 million of what it owed Japan for steel imports. The U.S.S.R. and Japanese trading houses have recently concluded contracts for the Soviet Union to sell aluminum to Japan. This is important because ensuring stable supplies of raw aluminum has become a serious problem for Japan.

History of two conglomerates

Mitsubishi and Daimler-Benz have similar histories. Matsumoto documents that both have been in the process of emerging from their postwar structures, and that this has happened in both countries at about the same time. "This fact may have provided the two groups with the 'backbone' to approach each other, going over the head of the United States," Matsumoto says. Both—through the various mergers and acquisitions of other companies—have often been accused of violations of anti-monopoly laws, and both have had strong government backing for the mergers and acquisitions they have made.

For example, after Daimler-Benz acquired Messerschmitt-Bölkow-Blohm (MBB) in 1986, virtually consolidating West Germany's aerospace industry, the West German Federal Cartel Bureau ruled that the acquisition was in violation of the anti-monopoly law. But the minister for economics reversed the ruling, which, Matsumoto asserts, was because the merger was in accordance with the wishes of the West German government.

Since becoming U.S. ambassador to Japan, Michael Armacost has been preoccupied with the issue of the interlocking of enterprises in the Mitsubishi Group. This was apparently carried to its utmost absurdity in the Structural Impediments Initiative (SII) talks last February, when the U.S. side insisted that "it is abnormal for one group to account for 3% of the total sales of all Japanese enterprises." The Japanese government has fought this, and Mitsubishi has pretty well ignored the American protests altogether, according to the author. Several days after the conclusion of the fourth Japan-U.S. SII talk, on April 10, Mitsubishi Metal Corp. and Mitsubishi Mining and Cement Company were merged. This merger, Matsumoto asserts, is particularly important, because these two companies were one, prior to World War II. They were split up 40 years ago by the U.S., in its dismantling of the industrial conglomerates of that day, the *zaibatsu*. "Daimler-Benz, supported by the Deutsche Bank and by the German government and by buying up companies involved in dissimilar fields . . . is in the process of becoming comparable to the Japanese *zaibatsu*. And with the tie-up to Mitsubishi, it will acquire more knowledge on planning its strategy as a group," the author says.

Japan can say 'no'

Japanese economic thinkers make no bones about the fact they are talking about a different economic model than are the Anglo-Americans. Matsumoto quotes another Japanese economic thinker, Mamoru Kaido: "The world is looking for

a new system of economy; Japan and Germany are serving as the models for this." Kaido continues that this is the case because the socialist economic system has collapsed, and the future of U.S.-style free-market economy "doesn't look bright."

The Japanese are hitting harder at U.S. economic policy and identifying the debacle it has created. For example, Japanese business leader Shintaro Ishihara, made famous as the "bad guy" in what now appears to be a fraudulently translated book, *The Japan That Can Say No*, took the gloves off the first week in October after touring the Detroit region, and called Chrysler chairman Lee Iacocca "irresponsible, incompetent," and a "liar." In discussing the "Jap-bashing" sentiment he found during the tour, he told an interviewer from *Playboy* that American workers must realize that "American managers are the real problem in America's industry. American management is irresponsible. Look at Mr. Iacocca." He described how Iacocca used the occasion of the devaluation of the yen to raise Chrysler's prices and profits, instead of fighting for market share and creating more jobs. "If he hadn't raised the prices, the difference between Chrysler cars and the Japanese cars would have been substantial—it probably would have meant more people buying his cars."

Ishihara next took aim at the Bush administration's hobbyhorse, the capital gains tax: "In Japan, in order to suppress excesses in money games—paper shuffling to create profits based on nothing—we make it law to impose a high tax on capital gains. Why is there nothing like that in America to discourage companies' being bought and sold and destroyed—with no attention to whether or not they make a good product? How come the United States does not introduce a similar system in order to stop all these excessive mergers and acquisitions conducted on a tactical level by corporations—that have nothing to do with making the corporations stronger over the long term for the employees and for the economy as a whole?"

Ishihara bluntly stated that the abysmal level of education of the American work force was the cause of the crash of a Boeing 747 in Japan—one of the worst air disasters in the world—and that Boeing officials admitted this to Japanese investigators. Japan has proven that it can produce F-15 fighters with fewer defects than American factories, and would do the same with commercial aircraft, which "could save many lives." This is not done, because "the U.S. maintains monopolistic aviation treaties with many countries" which make that hard to do. He endorses reforms described in a paper written by John A. Young of Hewlett-Packard, and in an MIT study, "Made in America."

Ishihara also announced that he will sue the Pentagon for the bootlegged, fraudulent translation of the book co-authored by himself and Akio Morita, founder of Sony Corporation. Ishihara said that he will bring his suit as soon as the authentic translation of the book is released.