

JINGOISM COULD BACKFIRE ON CLINTON

WASHINGTON is playing poker with Japan without realising that Tokyo's backroom strategists plan for the long term. The stakes are high, but the historical record provides a clear warning of the consequences of gambling with Japan. The secret strategy now unfolding is a re-run of the "free trade" game that transformed Japan from a feudal country into a leading industrial power. Unfortunately, US diplomats have failed to warn the Clinton Administration that their gameplan could severely disadvantage the US economy.

The story goes back to the gunboat diplomacy of Commodore Perry, who dropped anchor off Japan and insisted - with his canon trained on the mysterious mist-shrouded shores - that the country be opened up to American products. The emperor, shrewdly supported by his civil servants, leaped out of history and into modernity with sweeping reforms that mobilised a nation of rice growers into a dynamic powerhouse that was to leave its mark on the 20th century. One of the primary reforms was in public finance. In 1867 the landlords were brusquely shoved aside, and the emperor adopted a tax on the rental value of land which stimulated economic development by encouraging investment in industry.

Now it is happening again. President Clinton, seeking new markets for US manufacturers, terminated trade talks to express his dissatisfaction with Prime Minister Morihiro Hosokawa's efforts to boost the Japanese economy and boost demand for US products. Then, on March 3, Clinton signed an executive order resurrecting the Super 301 provision of US trade law, to enable the US to impose trade sanctions on Japan.

"This action will help us reach our objective: open markets that will create better jobs and increase wages at home and abroad," said President Clinton. He is miscalculating. For the political pressure is driving Japan's bureaucrats into formulating plans that will further streamline their capacity to outsell US products on world markets. The Tokyo government's wish to accommodate Washington is being met with fierce resistance by the Ministry of Finance and other ministries which are determined to preserve Japan's competitive advantage.

The Ministry of International Trade and Industry is quietly planning a "new market creation" pro-

gramme aimed at stimulating eight promising industries into becoming world-beaters. MITI has

- targeted the telecommunications and information and biotechnology sectors, which are forecasted to treble output in less than 10 years;

- poured a Yen 2 trillion subsidy into solar energy systems; and

- provided "positive business prospects" to four other promising sectors, including environment-related matters and product safety businesses.

Japan's industrial leaders, while shell-shocked by the recession, are nonetheless taking a long view. A more open economy will stimulate them into even greater productivity! An industrial advisory panel has urged the prime minister to ease or lift about 500 regulatory restrictions. Tactically, this makes sense: it lulls Washington into thinking that it is exacting

President Clinton's trade pressure on Japan is playing into the hands of strategic planners in Tokyo, who are helping their corporations to retain market supremacy in the 21st century.

benefits for US exporters, but this buys vital time to enable Japanese manufacturers to tool up for the next growth cycle.

Reforms are also being instituted in the land market, which helped to drive the economy into the industrial era a century ago. A law that previously discouraged owners from leasing their land has been altered. Result: a boom in housing, as families acquire 50-year leases on land to build homes.

The average price of a house, including land, in Tokyo is still ¥53 million (\$514,563) - about seven times more than the income of an average middle-aged household. Leasing the land means families can acquire a house for half the price of a purchased property. This reform, coupled with the new land tax on paddy fields in urban areas, has helped to boost the construction industry. The sale of condos in Tokyo has been particularly buoyant.

Behind these reforms is a strategic plan to keep Japan ahead of the world. Forcing open the domestic markets is welcomed by Tokyo's civil servants who have no intention of letting US producers get the better of them. As US Ambassador Walter Mondale acknowledged: "Your bureaucrats are highly skilled and are seasoned. I know them and all, and get along fine on a personal basis. But boy, are they tough."

Admiral Perry, in opening Japan, thought he was doing the US economy a favour. In fact, he triggered a process that has led to a bilateral imbalance of trade with the US of \$60 billion - in Japan's favour!