

the leaders of the major economies convened at all to discuss pressing multilateral issues.⁶⁴ At least the existence of common problems was recognized by them. In spite of its deviance from the other participants on North-South issues and its stress on its Asian status, the introduction of Japan into the Western style of negotiations started with the summit talks. Rather than emphasizing Japanese particularities as had often been done in previous international conferences, Japan accentuated its "commonality" in facing the various problems. Shared responsibility was felt acutely by the Japanese Prime Minister. The bilateral frictions between Japan and other nations appeared to be set aside. Before the summit, the United Kingdom was expected to use the occasion to press Japan for an import increase, but press reports suggest that no agreement was reached.⁶⁵ Though Japan did not take the leadership in directing the discussions, it played the role of bridging the distance between the US and the Europeans, most notably between the US and France, on such issues as currency, trade, macroeconomics and energy. Japanese participation was beneficial in this respect.

A follow-up to the summit statement took place at the fourth United Nations Conference on Trade and Development (UNCTAD) Conference in Nairobi in May 1976.⁶⁶ The Japanese delegate supported the concept of the International Resource Bank (IRB) proposed by Kissinger. On the issue of primary product imports from developing countries and the accumulated debts of the Third World, Japan rejected the across-the-board approach favoured by the South and advocated a case-by-case approach. Sounding positive about increasing ODA to 0.7% of GNP, the Japanese proposed a one billion dollar emergency aid fund to help the South correct their trade deficits. The plan was to be funded by both developed countries and oil-exporting countries: Japan was prepared to pledge as much as \$50 million to the International Fund for Agricultural Development (IFAD). The Japanese position was considered to be situated between that of the "hardliner" US and that of the "sympathetic" France, and more generous than those of West Germany and the United Kingdom.

B. The 1976 Puerto Rico Summit

When Japan's invitation to the second summit was announced, Japan was in the midst of political turmoil. The Lockheed bribery scandal involving former Prime Minister Tanaka was first revealed in February 1976. With the backing of Prime Minister Miki, it was being thoroughly investigated. The Diet became deadlocked over the issue for a long time, and anti-Miki forces within the LDP, provoked by Miki's assertive stance on disclosing all the facts about the scandal, resulted in an abortive attempt to remove Miki from office in mid-May.⁶⁷ Moreover, several reformist members of the LDP seceded and formed a new splinter conservative party -- the New Liberal Club -- a few days before Miki's visit to San Juan.

In contrast to the domestic political chaos, Japanese economic growth steadily picked up between Rambouillet and Puerto Rico.⁶⁸ Three weeks before the summit the EPA published a report which showed 3.1% real GNP growth in JFY 1975, larger than the government's estimate of 2.6% in January. The report signaled Japan's escape from negative growth after only one year's struggle. The real GNP of the last quarter of JFY 1975 (January 1976 - March 1976) was 3.5%, greatly assisted by a 9.0% export increase over the previous quarter. Japanese export activities were promoted by the depreciated yen of around 300 yen to the dollar. The IMF Interim Committee in

Jamaica had legalized the status quo in the foreign exchange rate system.⁶⁹ This meant the continuation of the floating exchange rate regime between the yen and the dollar, with room for government intervention. The Japanese export-led economic expansion and the depreciated yen led to a trade imbalance between the US and Japan.⁷⁰ From January to April 1976, the bilateral trade surplus for Japan totaled \$1.7 billion. It was estimated that it would grow to \$5 billion in 1976. The US was increasingly dissatisfied with expanding trade deficits with Japan and started attributing the deficits to the depreciation of the yen. Some domestic groups, notably the Brookings Institution and the US Treasury Department, began campaigning against the artificially cheap yen. The major American media voices like the New York Times and Businessweek suddenly ran articles about the undervalued yen as a consequence of the Japanese government's "dirty float". Also the OECD ministerial meeting before the summit in its communiqué indirectly criticized the weak yen fostered by government intervention. Tokyo refuted these charges by insisting that its intervention had been to stabilize the currency in accordance with the Rambouillet agreement; it had never intended to fix the exchange rate at a specified target. Along with the problem of growing payment imbalances between the deficit and surplus countries, the issue of the foreign exchange rate seemed to be the centre of attention for Japan in the upcoming summit.

Keeping this in mind, Miki made clear his positions for Puerto Rico.⁷¹ He stressed such accomplishments of Rambouillet as increasing world trade volume and the turnaround in the economic growth. He reiterated the significance of international cooperation for noninflationary economic expansion and free trade principles. He wanted the GATT Tokyo Round MTNs to be concluded by the following year. Energy policy should be directed at facilitating the conservation of energy and resources and developing alternative energy based on international collaboration. Denying the Bank of Japan's (BOJ's) intervention in the foreign exchange markets, he expressed his wish to dispel misunderstanding between summit participants. On the North-South issue, he questioned whether the "Common Fund" project to finance price stabilization for primary products suggested by the developing countries at the UNCTAD would enlarge the world economy. Japan, however, would take into account the wishes of developing countries with regard to the stabilization of primary products' prices. Reflecting the Lockheed scandal that was focusing on the actions of multilateral cooperations, he hoped to regulate their illegal activities in line with the OECD declaration that banned bribery. Lastly, he again endorsed the idea of holding summits as often as required and indicated his willingness to hold the next one in Japan. Miki also indicated he was supposed to deliver a keynote address on "trade and investment" at the summit.

The Puerto Rico summit was held in a much better economic environment than Rambouillet. But uneven economic recovery gave each participant diverse macroeconomic problems. The attention of the conclave, consequently, shifted to the adjustment of the international economy.⁷² Miki recognized the achievements of Rambouillet and its contribution to the recovery of confidence in the management of each member's economy. He viewed the objective of this meeting as solidifying international harmony for the purpose of steady and sustained economic growth without inflation. Ford shared with Miki similar views on the accomplishments of the last summit. For him, the most important challenge was curbing inflation, for the US economy was enjoying the most powerful economic recovery at that time. Ford advocated common deflationary action to control the new inflation. He obtained agreements from Japan and West Germany. The UK and Italy, suffering from relative economic stagnation, did not agree. Instead, they urged the US, West Germany and Japan to further achieve economic growth and help them improve their economic

situation by raising imports. The US emphasized the responsibility involved in being a surplus country as well. Miki responded by describing present Japanese economic conditions and said the trade imbalance would soon be rectified with the recovery of domestic business and a subsequent import increase. He even said there was a possibility that the balance of payments for Japan would end up in the red in 1976. His explanation seemed to be aimed at deflecting the assumption of responsibility of a surplus country. The commitment to adjust Japan's macroeconomic policies was phrased rather vaguely. The final declaration was a compromise between the economically weak and the strong; the objective was to "manage effectively" a transition to "sustainable" economic "expansion" that would "reduce the high level of unemployment" in many countries without sacrificing "our common aim of avoiding a new wave of inflation."

The crucial issue for Japan was the currency exchange rate. In view of the growing criticism expressed by the foreign and Japanese media against the undervalued yen, it was necessary to avoid being criticized by other summit participants on the issue. It was later reported that no excuse was made by the Japanese Prime Minister about the government's policy of foreign exchange intervention. But the major Japanese dailies during the summit made public Miki's denial of government intervention designed to make the yen cheap.¹³ Ford stated that the problem of the currency exchange market was becoming increasingly grave because of the failure of coordination and consultation to steady the markets as agreed to at Rambouillet. He did not name which country was to blame. Then he added that the value of a currency should be a reflection of each country's economic strength. His remarks and Miki's alleged defence of the Japanese exchange rate policy were picked up by the Japanese press. The former were interpreted to be an implicit rebuke by the US of the cheap yen policy, and the latter, an explicit rejection of the "dirty float" accusation. Though Finance Minister Ohira, the officials in the MOF, and the Bank of Japan (BOJ) all said that they did not feel any pressure from the summiteers to revalue the yen, foreign exchange markets responded quickly to the reports. The yen appreciated during and after the Puerto Rico summit for a few months. Japan, however, saved face by not having an anti-cheap yen policy included in the summit declaration. The declaration simply referred to the importance of avoiding "deliberate exchange rate policies which would create severe distortions in trade and lead to a resurgence of protectionism," without making a direct allusion to countries suspected of this.

Miki seemed to be intent on using part of his keynote address on "trade and investment" to solidify his political position in Japan.¹⁴ Deploring the slow progress made at the GATT Tokyo Round talks, he reiterated his support for the completion of the MTN by 1977. He insisted that if the new trade negotiations at Geneva failed, it would shake the foundation of the free trade system. To his relief, his call for free trade was put into the general statement against protectionism, and his wish to see the conclusion of the GATT MTN by 1977 was "reaffirmed" in the declaration.

It was in the field of investment policy, however, that he wanted to place special emphasis, particularly with regard to the side effects of the multilateral corporations' activities -- the villains in the ongoing Lockheed scandal raging in Japan. While he admitted all the benefits and contributions of the multinationals to the development of the world economy, he proposed the elimination of illegal behaviour of these companies by urging the summiteers to take constructive action in line with the norm provided by the recent OECD declaration on multinationals. The result of the declaration was not as satisfactory as Miki wished. If the declaration had included a strong denunciation of the unlawful practice of multinationals, he could have fully utilized it as an

international consensus for his commitment to exposé the Lockheed scandal. But the Puerto Rico declaration just viewed the OECD declaration as "a constructive development", and did not mention regulation of multinationals' illegal activities. Nevertheless, Miki managed to exploit the summit to the fullest extent. He met with Ford to elicit the President's cooperation for the investigation of the incident during and after the summit. At a post-summit press conference, he blasted the illegitimate conduct of multinational corporations by citing the summit's approval of the OECD agreement as a weapon. The Puerto Rico summit, in this respect, somewhat aided Miki's pursuit for a solution to the scandal.

Compared to the Rambouillet summit, Miki was not enthusiastic about tackling the North-South problem at Puerto Rico.⁷⁵ The Prime Minister himself noted that he was not confident about the effectiveness of the "Common Fund" proposal, nor could he offer an alternative to the idea. The US suggested that Kissinger's suggestion of the IRB be established. The Europeans and Japanese, however, preferred bilateral aid and did not endorse the proposal. These differences among the summiteers meant the summit produced no concrete measures on North-South issues. Also as a result of such disagreements a rather ambiguous phrase was employed to describe East-West relations. The position against increased export credits was represented by the US while a more positive attitude on the issue was favoured by the UK and Japan. As a result, "the adoption, by participating countries, of converging guidelines with regard to export credits" as well as "the steady growth of East-West trade" were "welcomed". Energy was not discussed in detail and the declaration touched lightly upon the summiteers' intention "to develop, conserve and use rationally the various energy resources and to assist the energy development objectives of developing countries."

Miki considered the meeting "extremely fruitful" and rejected the view that the summit was a "political show".⁷⁶ At a post-summit press conference, he reiterated the importance of the occasion as an opportunity for exchanging views on the issues as well as deepening the mutual understanding of the summiteers. Miki found that the confidence of the participating leaders had grown since the last summit. He also stressed the need to conclude the GATT Tokyo Round negotiations so as to maintain free trade principles. Miki repeatedly denied a "dirty float" of the yen-dollar exchange rate, indicated his optimism for the deterioration of Japan's trade account, and declared that he would not change Japanese macroeconomic policies because they were consistent with the declaration.

The government's response to the summit's outcome was in line with this sketch drawn by Miki.⁷⁷ Japan as a surplus country was requested by the US and the weak economies to facilitate reduction of its external imbalances, but the government did not feel enough pressure to change its policies. Besides, the ambivalent phrase of the declaration was seen as justifying the status quo. The EPA Director did not recognize the need to switch to restrictive macroeconomic policies. He expressed the view that Japan would not come under fire for not acting as a responsible surplus country because Japan's trade would be gradually balanced as economic output and imports rose. The MOF said that government intervention had not been seen by the others to have artificially steadied the yen's value at a low level, and added that the government would intervene in markets if the yen would further appreciate due to speculative moves. Zaikai rated the summit highly, but not as highly as Rambouillet. Keidanren leader Doko said that it was meaningful to have such a meeting for the adjustment of the international economy and, unlike the government, supported the need to appreciate the yen's value if necessary. Many in the business circle shared a similar attitude with the

government. They did not buy the criticism that the Japanese economic growth had been led by the weak yen caused by a "dirty float", but the tone of the declaration was endorsed by them.

The opposition parties were all dissatisfied with the outcome of the meeting.⁷⁸ Only the DSP recognized the significance of Japanese participation in the discussions of the economic problems facing the industrialized countries. Yet even it did not neglect to deplore the lack of concrete measures to solve these problems. The Japan Socialist Party (JSP) and Komeito called Puerto Rico a fruitless "political show" and shared with the DSP the view of the summit as incapable of producing any concrete prescriptions for the needed economic improvement. The Socialists blasted Miki heavily for trying to extend his tenure in office by attending the summit without solving such domestic issues as the Lockheed incident and inflation. Cautioning against an unreasonable sacrifice caused by the yen's appreciation, it declared that it would press the government on its stance on urgent domestic and external issues so that the Diet would be dissolved and a general election would be held. Komeito concurred with the JSP on the need to focus on these issues and attributed the meeting's failure to too little preparation. The Japan Communist Party (JCP) castigated the summit as a mere showplace for demonstrating the political solidarity of the major monopolistic capitalist nations. It judged that Puerto Rico indicated that there would be no escape from the present crisis other than through democratic reform by the progressive forces in each country.

The major papers' editorials exhibited an interesting contrast to the government's as well as the opposition parties' reaction to Puerto Rico.⁷⁹ All four dailies endorsed the raison d'être of the Puerto Rico Summit. The Mainichi was positive about the importance of reexamining the general agreements reached at Rambouillet and the increased recognition of the problems facing the world economy as written in the declaration. Acknowledging the propaganda effects of summitry for domestic consumption, the Asahi admitted the importance of the "preventive" function of summitry. It grasped the shift of major economic concerns from "recovery out of recession" to the "prevention of inflation", and advocated the anti-inflationary principles contained in the declaration. The other three dailies implicitly supported the Asahi's stance on inflation. More significantly, the Asahi, Yomiuri and Nihon Keizai largely sided with the American position on the yen's value and urged the government not to intervene overly in exchange markets with a view to making the value of the yen artificially lower. All three ostensibly saw the strong yen as a good prescription for curbing inflation and averting trade friction, while the Mainichi insinuated its disapproval of the status quo policy of the Japanese government. Besides, the Yomiuri and Nihon Keizai were critical of the overreliance on export-led growth pursued by the Japanese economy. The Puerto Rico summit illustrated the leading Japanese dailies' different attitudes from those of the government toward the issues of exchange rate intervention and trade imbalance.

The central government's interventionist monetary policy, although threatened by the US before and during the summit, was not immediately changed.⁸⁰ Based on the judgment that foreign exchange markets had been violently fluctuating as a result of the Puerto Rico summit, the BOJ intervened in the Tokyo Foreign Exchange Market to purchase dollars for the purpose of stabilizing the yen. Tokyo insisted that the action was compatible with the "Rambouillet spirit" which approved of measures "to counter...erratic fluctuations in exchange rates." However, this action could also be interpreted as a breach of the Puerto Rico declaration which did not support "deliberate exchange rate policies". In the long run, this government's policy did not endure. It was later

acknowledged that a tacit understanding was probably reached at Puerto Rico to refrain from government intervention in currency markets as much as possible. This would improve the use of the floating exchange rate system. Consequently, the BOJ's volume of overall monetary intervention dropped greatly after a short period following the summit. Thus, in retrospect, the Puerto Rico summit had a visible effect on the yen-dollar exchange markets and the unmentioned agreement reached there was momentous for the development of the Japanese economy.

Miki had optimistically expected a decrease of the Japanese current account balance, and thereby, a correction of "persistent or structural international payments imbalances" as mentioned in the declaration. His optimism was not borne out.⁸¹ However restraint on inflationary pressures -- one of the major objectives at the summit -- was rather successful. The inflation rate dropped further in Japan; the Wholesale Price Index (WPI) rose only 5.5% in JFY 1976 (April 1976 - March 1977) while the CPI rose to 9.4% in the same period. Thus, Japanese economic growth was not accompanied by severe inflation. The GNP grew 5.9% in JFY 1976, driven by export increases. Japan accumulated a current account surplus of \$3.68 billion in 1976, a jump from \$682 million in 1975. The US-Japan current account imbalance was \$5.4 billion in favour of Japan in 1976. Also the EEC's trade deficit with Japan amounted to \$4.1 billion in 1976. Consequently, in the transition period up to the London summit in May 1977, the Japan-US and Japan-EC trade disputes were aggravated. Japan's responsibility as a surplus country defined at Puerto Rico would be translated into the "locomotive theory" at the next summit.

The Puerto Rico summit, conducted under the initiative of President Ford, had a visible impact on Japan's exchange rate policies and the yen-dollar exchange rate. The role of the media in sensationalizing the issue of the undervalued yen before and during the summit was substantial. Partly because of this publicity, the Japanese Prime Minister was put on the defensive. Miki did not seek an active role on such politically sensitive issues as East-West trade and special financial assistance for the Italian government.⁸² The North-South dialogue - Miki's personal commitment at Rambouillet -- was not even particularly stressed by him at Puerto Rico. Only his positions on free trade and a conclusion of the MTNs at Geneva survived this summit and were included in its communiqué. The outcome of the summit did not attract much attention in the domestic political arena, but Miki employed the occasion to push for a resolution to the most controversial issue of the time -- the Lockheed scandal. Indeed, he was politically astute enough to insert a clause endorsing the OECD regulations on the unethical business practices of multinational corporations, in order to strengthen his political status within the LDP. His meeting during and immediately after the summit with Ford, who pledged his support for the investigation of the scandal, eventually led to the revelation of crucial facts which, in turn, had a devastating impact on the ruling LDP.