

6. FOREIGN MINISTER OKITA'S SUMMIT, VENICE, 1980

Japan responded more skillfully to the second oil crisis than to the first.¹⁴⁶ An expansion of the money supply before the outbreak of the first oil shock had impaired the Japanese economy, resulting in double digit inflation in the mid-70s. This time the avoidance of stagnation was a priority for Japan, and Japanese monetary authorities had learned a lesson - the importance of monetary restraint. They made monetary policy mildly restrictive, but not excessively so, for fear of depressing demand. Labour unions, consumers and producers were wiser as well. The former behaved rationally in the annual shunto (spring offensive) wage negotiations; the 1980 shunto outcome was so low that the real wages in terms of the CPI decreased. The latter did not rush into the panic buying as they had done in the first oil shock.

Inflation did occur; import prices and prices of crude materials did rise as rapidly as in 1974, but the overall result was a fairly stable CPI increase. The CPI went up from 3.9% in 1979 to 8.0% in 1980, but it fell to 4.9% in 1981 and 2.7% in 1982. With respect to the second oil crisis, the EPA declared in its report that imported inflation was not transmitted into "homemade inflation". Besides, due to efforts in streamlining and energy conservation in the private sector, Japanese export competitiveness improved after the oil shock. In the US, oil shortages made small-sized, energy saving automobiles increasingly popular among the consumers, and demand for Japanese cars increased. The indirect effect of the oil crisis in US-Japan trade relations, therefore, was ever-growing trade conflicts over Japanese exports of manufactures like automobiles from the spring of 1980 onward.

The domestic political scene had created an unexpected leadership void for the 1980 summit. Ohira's political fortunes had turned downward since the electoral reverse of the LDP in October 1979.¹⁴⁷ Contrary to the pre-election forecast, the LDP lost a total of 248 seats, the worst setback since 1955. Ohira's enthusiasm for the introduction of the large-scale indirect tax, and a series of LDP-related political scandals contributed to the loss. The election result triggered a "40-day power struggle" over the LDP leadership, with the Ohira-Tanaka faction alliance resisting the demand for Ohira's resignation from other factions. Fukuda directly challenged Ohira's leadership but Ohira stuck narrowly to the helm. In May 1980, intraparty political fighting erupted again. A boycott of the anti-Ohira faction members of the LDP resulted in the passage of a non-confidence motion in the Diet, setting "double" elections for both Upper and Lower Houses on June 22 - the very first day of the Venice summit. Then, Ohira's sudden death on June 12 plunged the political situation and Japanese diplomacy into turmoil. It gave the Ohira-appointed Foreign Minister Saburo Okita, an English-speaking economist who was not a Dietman nor a member of the LDP, a rein on Japanese summit diplomacy. Okita was to be accompanied by MITI Chief Sasaki and Finance Minister Takeshita. The Venice summit thus took place under rather extraordinary circumstances for Japan.

Ohira's death and the ongoing election campaign sharply differentiated the pre-summit situation of Venice from those of the previous five summits. The media's coverage of pre-summit activities was engulfed by the wider coverage of the election campaigns and related political issues. Unlike the Tokyo summit, politicians and labour unions did not pay much attention to summit preparations. The political upheaval and absence of a head of government at the summit were expected to make the Japanese delegates less accountable, their remarks and pledges less influential, and the summit itself less

significant than otherwise.¹⁴⁸ Ohira's replacement, Okita, who had no power in the LDP, was a transitory figure. He was not supposed to make any crucial international pledges that would bind the next cabinet. Consequently, bureaucratic influence in setting the agenda and drafting the declaration was substantially enlarged. There were, however, advantages of having a former EPA official and trilateralist such as Okita as a Japanese representative. Prior to the summit, Japan had fallen in line with the major Western powers in its response to the various political crises of the time. It had denounced the Soviet invasion of Afghanistan and boycotted the Moscow Olympics. In the wake of Iranian oil price hikes in April, Japan had decided not to buy high-priced oil, thus fulfilling its pledge made at the IEA conference in December. Okita had been involved in these activities. He had met Carter and Trudeau, and become acquainted with the foreign ministers of the summit countries. His vast experience in attending numerous international conferences had given him an un-Japanese-like negotiating style. He was the most "internationalized" Japanese summiteer representing Japan to date.

Preparations for the Venice summit came up with unusually detailed Japanese positions, which were subsequently published by the government.¹⁴⁹ Okita followed this up by clarifying his attitude towards the summit meeting. His basic objective was to establish Japan's role as positive, non-military member of the Western alliance on various issues. Japan hoped to play an intermediary role between the EC and the US, but its overall stance leaned more towards Europe. On the issue of Afghanistan, Japan would support a call for the withdrawal of Soviet troops. Japan would also emphasize the need for Western unity and contribute to Western strategy in political and economic terms. Prevention of Soviet expansion was necessary, but the maintenance of detente, from both a medium - and long-term perspective, should not be damaged. Driving Iran into the arms of the Soviets was undesirable. Thus, Japan thought it inappropriate to reinforce sanctions against Iran. Thus, an oil import embargo against Iran would not be adopted by Japan. Oil transactions between producers and consumers were not to be utilized as a political weapon. The government endorsed the EC summit declaration on the Middle East peace problem, although Okita himself appeared less keen. Japanese financial aid to the Indochinese "boat people" would total \$100 million, and its quota of refugees would be widened from 500 to 1,000.

On trade and macroeconomic issues, Japan maintained its typical response to external pressures; Japan would attempt to promote international cooperation and the strengthening of free trade by taking no measures to ease Japan's present current account deficit or to beef up its exports. Trade would be guided by the government so as not to devote Japanese exports to specific products in specific areas. Okita was optimistic that Japan would not be inundated with requests by other summiteers to curb its international payments deficits and huge budget deficit. In line with the Tokyo summit's agreement, Japan would aim at decreasing the oil share in its overall energy consumption to around 50% in 1990, but would not further lower the oil import ceiling target. Therefore, Japan needed an assured nuclear fuel supply from the US and Canada, and would request the US, France and Italy to desist from purchasing expensive oil from Iran as Japan had done. Endorsing the principles contained in the Brandt Commission's report, Japan would double its ODA by the end of that year as agreed at London, and would continue to augment the volume of ODA. Also, stability of international currencies among the developed countries was essential for the healthy expansion of the world economy. To achieve this end, Japan regarded it as critical to coordinate market intervention policies, and would resist any attempts to fix the yen's rate at a specific level. In addition, Japan focused on the facilitation of recycling petrodollars, with the cooperation of oil-producing countries, to help the non-oil

producing countries' financial position.

These positions reflected pressing international concerns.¹⁵⁰ As the Japanese economy had slowly recovered from the shock of oil price increases, bilateral trade issues had been rekindled, if to a lesser extent than before. The question of Japanese car exports to the US, reignited by the US Senate was not fit to be taken up at the summit, according to Japanese authorities. Japan's trade surplus with the EC amounted to \$2.3 billion during January - April 1980 and the figure was projected to reach \$7 billion on an annual basis, much larger than the \$4.7 billion surplus in 1979 or \$5.4 billion in 1978. Japan responded by making a pledge not to conduct "torrential exports" to sensitive areas. As for making pledges at Venice, Okita obtained approval from Acting Prime Minister Ito for an arrangement that the three Japanese summiteers would make necessary political judgments by consulting one another. Lastly, Finance Minister Takeshita renewed his commitment to an anti-inflationary policy. Indeed, the Japanese economy was steadily recuperating. The GNP during the first three months of 1980 was expanding at 1.8% over the previous quarter (October - December of 1979), and this was projected to be 7.2% on an annual basis. However, inflation, as measured by the CPI, increased 8.4% in April over the same month in 1979. The figure was better than any other summit country except West Germany, yet was still regarded as high. The Japanese role of "locomotive" appeared to be over.

As expected, Venice turned out to be the first "political" summit.¹⁵¹ The announcement by the French President of a partial withdrawal of Soviet troops from Afghanistan put this issue high on the agenda. The leaders earnestly discussed how to interpret this action. While the French gave some credit to the Soviet action and wanted to encourage the trend toward detente, the Americans and British doubted Russian intentions and asserted that the Soviet notice was not to be trusted. Okita did not actively participate in the discussion. Since Japan was against the Soviet occupation of Afghanistan, its main concern was what role it should play on the issue. If there had been an overwhelming call for more Japanese military involvement on the subject, it would have caused a stir back home. This did not occur, and Okita agreed to the clause of the declaration. Other political issues were less divisive. The pre-summit consensus directed the participants' attention to the Iranian hostage issue. On the problem of hijackings and refugees, the already-prepared declarations were approved.

The Japanese fear of being accused by the EC of an export offensive proved groundless.¹⁵² Its concern about being asked to adopt an expansionary economic role was also not realized. Yet, there was some dissension on whether emphasis should be placed on the recovery of economic growth or restraint of inflation. The stronger economies of West Germany, France and Japan preferred the latter, while the weak economies of the US, Canada, and Italy, suffering from high unemployment as well as double-digit inflation, opted for the former. The result was a declaration that put "the reduction of inflation" as "our immediate top priority." In strong terms the declaration declared "[d]etermined fiscal and monetary restraint [was] required to break inflationary expectations." Thus, Takeshita's wish to curtail inflation was included in the communiqué.

Not all of Japan's concerns were groundless. In fact, Japan had once again been excluded from the ambassadorial-level summit group that assembled for a secret consultation in Washington just before Venice. Japan felt like the odd man out. No vital Japanese national interests, however were endangered during the formal sessions. The huge Japanese balance of payments deficit of more than \$13 billion and its large budget

deficit made Japanese international responsibilities lighter than at previous summits. Nevertheless, Japan was informally urged by the other summiteers to resist taking steps to improve its international balance of payments. As for trade, Carter's questions to Okita betrayed the latter's optimism. Bringing up the automobile issue, Carter asked Okita if the rumour that Japan was planning to export 2 million cars to the US in 7 years was true. Okita denied it. However, Carter further pressed him to follow up with a high-level official reply on the matter. Okita could only promise to do so after going back home. The request was also made by the US Secretary of State.

Japan was apprehensive that the US might insist on lowering the national oil import levels agreed to at the last summit.¹⁵³ No such suggestion was, in fact, made by the US to upset the Japanese MITI officials. However, energy was a main topic of discussion. The declaration itself stressed the necessity to "break the existing link between economic growth and consumption of oil ... in this decade" based on the strategy of "conserving oil and substantially increasing production and use of alternative energy sources." More specifically, it estimated that the summit nations could "increase the supply and use of energy sources other than oil over the next 10 years" to "the equivalent of 15-20 million barrels daily of oil." In order to "make a coordinated and vigorous effort to realize this potential", Japan made a de facto international pledge to do its best to convert 20% of the targeted volume of oil to alternative energy sources by 1990. Informal target figures were not contained in the declaration, but confirmed at the summit. According to this scenario, Japan was to step up its dependency rate on other energy sources such as nuclear and coal to some 50% from the present 25% level, or increase the volume of other alternative energy sources equivalent to 6 million barrels daily of oil in one decade. This pledge was compatible with the government's alternative energy development project drafted the previous fall. This national energy program was turned into an international pledge and the government's push for developing nuclear and coal was legitimized by the summit agreement. Venice gave MITI the strong impetus it had needed to overcome domestic resistance against its project.

At Venice, the North-South problem received more time and attention than before.¹⁵⁴ At a post-summit press conference, Finance Minister Takeshita said he was impressed with the profound exchange of opinions regarding these problems. The need for constructive negotiations with developing countries was emphasized during the discussion. Japanese support for the Brandt Commission's report was shared by the other summiteers in the declaration. Okita's wish to call on the oil producers to help solve the financial problems of developing countries was also included in the communiqué. The summit called on "oil-exporting countries to increase their direct lending to countries with financial problems, thus reducing the strain on other recycling mechanisms."

The Japanese team was characterized by passivity on the important political discussions.¹⁵⁵ Okita did not hesitate to express Japan's objections to the Afghanistan invasion, but did not get into the details of how to cope with the Soviet proposal of partial military withdrawal. Relations with the Middle-East were of primary importance to Japan. As at the Tokyo Summit, the Japanese alone tried to withstand the adoption of harsh terms against OPEC, but to little avail. More forcefully than the Tokyo summit declaration, the text of the Venice declaration declared in its introduction that "[s]uccessive large increases in the price of oil...culminating in the recent decisions by some members...at Algiers" had produced "the reality of even higher inflation and the imminent threat of severe recession and unemployment in the industrialized countries."

It further asserted that the oil price boosts had "undermined and in some cases virtually destroyed the prospects for growth in the developing countries."

Despite this failure, Okita tried to enunciate Japanese positions as far as the macroeconomic and trade issues were concerned. Citing the Japanese example of overcoming the economic downturn after the oil shock, he argued for expanding savings and investment as a prescription for economic improvement. Part of his argument - the emphasis on investment - was reflected in the declaration, that "committed" the summiteers to "encouraging investment... so as to increase productivity". The plea against protectionism in his speech was expressed in the communiqué statement which noted the summit countries' "resistance" to "pressures for protectionist activities." In sum, Japan did not lose much on the issues of macroeconomics and trade. Anti-inflationary measures agreed to at Venice were in line with the MOF's tight fiscal policy. A change of the restrictive monetary policy was not urgently required. Only the automobile export friction with the US and restraint on any export drive in general were problems recognized as needing to be resolved. However, considering the fact that Venice was a "political" summit and that the Japanese government wanted to be admitted as a "political power" in summitry, Japan had to pay for its absence as an effective political leader.

The Japanese summit participants concluded that the overall outcome was not a clear failure for Japan.¹⁵⁶ Okita called the meeting "quite remarkable". He welcomed the common recognition of the necessity to unite against the Soviet invasion of Afghanistan and the consensus in energy and trade issues. What was more impressive for him was the fact that the Seven shared the same destiny in one gondola at Venice. He added that a notable achievement was setting up a concrete goal to "break the existing link between economic growth and consumption of oil." The MITI Minister said that he became all the more conscious of the underlying importance of the link between the price of oil and all economic problems. The three delegation members expressed their relief at not having to face any tough decisions. Okita noted that the Japanese principles on macroeconomic policies had been inserted into the declaration.

Venice brought about the least domestic repercussions of all the summits. The LDP's landslide triumph along with the absence of a "responsible" Prime Minister who could be accused of the defects resulted in no comments from the Opposition. Indeed, the news of the frantic election campaign and the subsequent huge LDP gain in the Lower House (from 258 seats to 286) swept the nation. Having suffered a painful setback, the opposition parties were too preoccupied with the post-election settlement to issue statements on the summit declaration. Some neutrality-minded newsmen expressed their apprehension about Japan being further integrated into the Western military alliance as a consequence of the summit.¹⁵⁷ But their comments were muted, and had no ripple effects.

The major press did not forget about the annual event.¹⁵⁸ The three leading dailies explicitly endorsed the call for the withdrawal of the Soviet military from Afghanistan enunciated in the political declaration, while Nikon Keizai sounded positive about it. The Mainichi, however, wanted the declaration to spell out the summit members' approach to the Soviets. The document's treatment of the energy issue, especially its suggestion for developing alternative energy sources, was hailed by the Asahi, and more implicitly welcomed by the Yomiuri and Mainichi. The Nikon Keizai was the most neutral; it did not make any overtly normative judgments on the summit's approach to the issue, but presented its own interpretation of the summit's process and outcome.

Lack of a medium and long-term strategy on the North-South problem was lamented by the Asahi. The Yomiuri found no breakthrough in solving the economic problems as a result of Venice, but gave high marks to the anti-inflationary measures specified in the document. It further objected to Carter's rule-breaking by complaining about the bilateral automobile issue, but cautioned self-restraint for Japan to prevent rising protectionism. No paper except the Asahi commented on the Japanese delegate's words and deeds at the gathering. The Asahi did not favour the passive "observer" role played by the Japanese and called on Japan to be more assertive at the following summit.

The abnormal situation caused by Ohira's death and the holding of "double" elections in Japan drastically transformed the nature of Japanese summit diplomacy. A temporary political vacuum emerged in Japan. The predominance of the bureaucrats in preparing and implementing Japan's strategy for Venice was shown by the MOF's rejection of Ohira's plan for Venice to double ODA over 5 years and by the release of extraordinarily specific Japanese pre-summit positions.¹⁵⁹ The advantage of not having a Prime Minister to attend the summit was that the government managed to escape from any serious demands or criticisms from other summiteers, and from scathing remarks from the opposition parties. At the same time, the handicaps were accentuated. The Japanese bargaining position was weakened. Japan could not contribute fully to the political discussions on urgent matters, nor could it improve its international standing and influence at the summit. Some of the Japanese positions, notably on its approach to OPEC, were rejected out of hand by others. The visible international pledge Japan made at Venice did not go beyond what the government had originally planned. In sum, the Venice summit, by and large, did not have any significant long-term impact on Japan. The government felt no need to change its macroeconomic management, mainly because the trend was already congruent with the summit's objective. The only intangible difference was that Japan participated in joint political action as a member of the Western alliance by adopting the political statement.¹⁶⁰ In this sense, summitry formally started involving Japan in a process of Western political harmonization. However, its effects in this case was limited by a lack of accountable leadership in Japan. The Venice summit affected Japan little, and Japan did not rock the boat at Venice.