

7. PRIME MINISTER SUZUKI'S SUMMITS, 1981-1982

A. The 1981 Ottawa Summit

Zenko Suzuki was chosen as Ohira's successor. He was considered a compromise leader, chosen to maintain harmony within the ruling LDP.¹⁶¹ Backing for him within the LDP was firm, and the electoral victory solidified the strength of the LDP in the Diet. Suzuki was more of a coordinator than a strong-minded leader and the politics of seeking Wa (harmony) was his style. There were several issues to which he committed himself. Zaisei Saiken (fiscal consolidation) and Gyosei Kaikaksu (administrative reform) were at the top of the agenda. These policies were consistent with the commitment to anti-inflationary measures agreed to at Venice. Consequently, Suzuki proposed a very restrictive fiscal program. With a 2 trillion yen reduction in the issuance of national bonds, the 1981 JFY budget rose only 9.9% over that of the previous year -- the lowest level of increase in 22 years. Keynesian expansionary policies and a "locomotive" role for Japan seemed dead. As the US and UK started moving to the formation of "small government" based on laissez-faire economics, Japan began shifting in the same direction in its macroeconomic policies. As a consequence, in April 1981, just before the Ottawa summit, Japan registered a CPI of 5.2% and an unemployment rate of 2.4% - the best economic figures of all summit countries.

Initially, Suzuki's foreign policy was rather unsuccessful and created a domestic controversy over diplomatic terminology.¹⁶² The bilateral trade issue raised by Carter at Venice had not been totally forgotten: US-Japan trade relations were affected by Japanese auto exports to the US. In the winter of 1981, American automobile-related industries suffered a sharp financial crisis. The predicament of laid-off workers was attributed to the growing share of Japanese cars in US domestic markets. Congressional pressures to enact protectionist laws to regulate Japanese automobile imports were gaining force. There was a clause in a prepared statement that the trade issue would be linked to military burden-sharing for Japan at the upcoming Reagan-Suzuki summit in May. For Suzuki, who was an inarticulate dove, a greater military role for Japan against the USSR was not desirable. Just before the meeting with Reagan, Japan backed down and agreed on regulation of its auto exports at a level of 1.68 million cars per annum for three years. However, the issue was not yet settled. In Washington, Suzuki conferred with Reagan and tried to elaborate a limited defense role for Japan, respecting constitutional and political constraints. He got the impression that Reagan had understood Japan's special position very well. The joint statement issued after the meeting, however, reflected Reagan's "hawkish" stance. The word "alliance", connoting military alliances of the pre-War era and a taboo word in Japanese political circles, was inserted in the official document for the first time. The statement triggered an Opposition's denunciation and such a domestic backlash that Suzuki backtracked. This incident and other events related to the US military operations gravely exacerbated the tension in US-Japan relations prior to the summit. They ultimately led Suzuki to seek a bilateral meeting with Reagan at Ottawa with a view to mending the strained US-Japan relationship.

The biggest difference between the 1980 summit and the 1981 summit was the new oil glut.¹⁶³ Demand for petroleum had considerably dampened and oil prices had sharply declined. This drop in oil prices was a boon for Japan. The Japanese economy grew 4.2% in 1980 and was expected to increase 3.5% in 1981 - the highest figure among the

Seven. Cheap oil and Reaganomics also depreciated the yen, making Japanese products abroad much more competitive. This resulted in a bloated Japanese trade surplus, which worsened US-Japanese and EEC-Japanese trade frictions. In June 1981, the high American trade deficit of \$3.4 billion, half of which was with Japan, prompted the Secretary of Treasury to remark that the US would ask Tokyo to open its markets at the summit. Relations with the EEC were not any better. Japan raised its trade surplus with the EEC from \$5.1 billion in 1979 to \$8.8 billion in 1980. Steadily mounting EEC grievances against Japan over auto exports compelled the Prime Minister to pay a visit to Europe in mid-June in hopes of preventing these trade issues from being included on the Ottawa Summit agenda. He succeeded in breaking the rising protectionism in Europe to some extent. By the time of Montebello, all summit members of the EC had entered into unilateral protectionist measures or bilateral accords with Japan on car imports. Yet in view of the recession-ridden Europe, having 8.5 million unemployed, the Japanese export drive and responsibility as a surplus country could potentially be a target of European demands at the summit.

Unlike the previous summit, the government did not widely publicize its strategy or positions for the Ottawa Summit. Unlike the Tokyo summit, detailed preparations to build a consensus among domestic groups were not made by the government. However, a number of government positions were leaked to the press. According to the Mainichi Shimbun, Japan was planning to put special emphasis on the free trade issue and North-South dialogue.¹⁶⁴ The latter issue was accentuated by the need to harmonize Japan's policies with the summit countries in advance of the North-South Cancun summit. A Japanese failure to take a positive stance on the issue would bring reactions from the developing nations. This could jeopardize Japan's export activities, 45% of which depended on commercial ties with the South. Japan was not keen on approaching the issue from an East-West confrontational perspective; however, it would seek to strengthen cooperative relations with the Third World. Specifically, Tokyo would explain its plan of doubling ODA over 5 years, a plan which had been launched in early 1981 and confirmed in Suzuki's trip to Europe. It also hoped to narrow the gap with the UK, which was reluctant to boost its assistance to the poor nations. Tokyo would call for paying more attention to the population explosion in the Third World, throw support for the North-South global negotiations of the UN, and a solution to the political difficulties in Cambodia.

At this time high interest rates in the US, hovering around the 20% level, were choking world economic expansion by raising other countries' interest rates. The bilateral interest rate differentials across the Pacific triggered massive capital outflows from Japan to the US and created an artificially weak yen. The BOJ was wary of the depreciation of yen that was contributing to the rise of the WPI by forcing up the costs of imported raw materials and products. Thus, Japan shared with the EEC the benefits of lower US interest rates. However, harmony with its great ally - Suzuki's main theme - was to be preserved as well. Suzuki would show his understanding of the US high interest rate policy as a necessary evil for containing inflation. Then, he would move on to ask the US to improve the situation by pointing to the harm high interest rates were causing other economies. Another macroeconomic assertion of Japan was the importance of expanding productive investment and technological development to step up growth, output and employment and to curb inflation. Japan, for its part, would promise that economic policies led by domestic demand would intensify, although Suzuki would not forget to describe the huge budgetary constraints on the economy.

Japanese advocacy of a strengthened free and multilateral trade system was firm. Japan

would augment overseas investment and industrial collaboration in the technological field, in accordance with the adjustment capabilities of various countries, in order to ameliorate adverse economic and commercial conditions. Japan would not hesitate to dismiss as "a mere myth" the allegation that the Japanese market was closed to imports. At the same time, a pledge would be made to hasten the import of more manufactured goods. Since the GATT was the crucial organization to reconcile trade disputes, Japan would call on fellow summit nations to endorse the holding of a GATT ministerial meeting. On the monetary issue, Japanese support for the stable floating exchange rate system and for coordinated stabilization policies continued. Finance Minister Watanabe added his view that Japan would not be severely castigated for its trade practices. Refuting the charge that Japan had "flooded" overseas markets, he stated that raising Japan's VERs would be a bad idea. Politically, the main Japanese strategy was to act as a mediator between the US and Europe while avoiding being involved in US-EC conflicts over the stance against the Russians. In the midst of such critical political issues as the Soviet crackdown on Poland, the Japanese proclivity not to be assertive about a controversial politico-military topic and not to share in any heavy military role.

When the first discussions at the summit began, Trudeau unexpectedly appointed Suzuki to deliver the first address.¹⁶⁵ Suzuki expounded on Japanese positions regarding free trade and macroeconomics described some of the important trends in the world political situation. What Suzuki feared most was an overt schism between the US and EEC members. He acknowledged differences of opinion: However, he also hoped to see a consensus emerging on the current issues. Consequently, he adjusted his rhetoric to be congruent with the more hostile Western line toward the Soviet Union. One of the themes he stressed centered around the question of coping with the continued Soviet military build-up and adventurism in the Third World. Admitting the significance of a military balance as a deterrent to war, he insisted on the necessity of also proving the supremacy of Western political, economic and social institutions over those of the East by revitalizing the Western economies. Terming this approach as "an overall security policy", which included diplomatic and foreign aid measures, he called for a common recognition and strategy on the international situation, and an appropriate contribution by each country according to its capability and conditions. The Japanese role would be in the area of economic cooperation, especially in the Third World. His pet political philosophy of the spirit of *Wa* (harmony) was crucial for this summit. This meant that summit members should respond to the politico-economic turbulences threatening world peace and prosperity with a spirit of harmony among one another. He referred to Third World problems and concluded his speech by supporting Reagan's proposals for reinforcing nuclear non-proliferation measures among world nations and facilitating international cooperation in utilizing nuclear power for peaceful purposes, as one of the steps towards nuclear disarmament.

Suzuki's call for free trade was then endorsed by Reagan and Thatcher, who hailed his address: However, Japan failed to lead the discussion in the way it had wished - toward a de-emphasis of politico-military issues.¹⁶⁶ The political nature of the economic summit increased. The Soviet Union replaced OPEC as a common foe of the summit nations. For the first time in summitry, a major section specifically devoted to East-West economic relations was drafted. The summiteers' consensus was based on their common apprehension about "the continuing build-up of Soviet military power that was "heightened by Soviet actions" inconsistent with "the exercise of restraint and responsibility in international affairs." They acknowledged the need for "a strong defence capability" and to be "firm in insisting on a balance of military capabilities and political restraint." Relieving the anxieties of Japan, the communiqué declared the

Seven's preparedness for "dialogue and cooperation to the extent that the Soviet Union makes this possible." Suzuki's support of disarmament was reflected "in the importance of working towards balanced and verifiable arms control and disarmament agreements", but on condition that it was "in pursuit of undiminished security at lower levels of armament and expenditure." Nevertheless, the document contained the potential for an outburst of criticism against Suzuki for integrating Japan further into the dangerous Reaganite and hawkish strategy toward Moscow.

At Ottawa, the major controversy that emerged dealt with East-West economic relations.¹⁶⁷ Reagan appeared to believe that economics warfare *vis-à-vis* the USSR would contain its ability to pursue military expansionism, and would force the Soviets to comply with concentrating more on butter and less on guns. Reagan cited the Soviet pipeline project as undermining Western bargaining power. The Europeans perceived the situation differently and refused to insert a sentence, advocated by the US President, opposing the West's increasing dependency on Soviet energy. The Japanese position was closer to that of the Europeans, but there was no report of Japan playing a visible role in restraining Reagan's stance. A *de facto* "stand-off" ended the conversations. An agreement was reached to strengthen consultation in COCOM, but the declaration stressed the necessity for "consultations and, where appropriate, coordination ... in the field of East-west relations" to "ensure that, ... our economic policies continue to be compatible with our political and security objectives". The thorny question of the East-West trade was thus shelved and was to lead to a terrible rupture concerning the pipeline problem later.

The differences were not confined to the East-West issue: Divergence in macroeconomic policies, especially between the Americans and French, produced a communiqué based on compromise.¹⁶⁸ The economic philosophy that saw coordinated macroeconomic policies turning around world prosperity, as advocated in the "locomotive" era of summitry, had faded away. The basic split between *laissez-faire* - oriented Reaganomics and Mitterrand's Keynesian interventionism was not bridged at Ottawa. The declaration put the "highest priority" on "the fight to bring down inflation and reduce unemployment" - a compromise solution to the American emphasis on inflation and the French concern about the unemployment rate. But Reagan won in important ways. His demand for "no numbers and no specifics" and for austere monetarist steps was reflected in the declaration. He also prevailed on the greatest problem of the Ottawa summit -- high American interest rates. Almost all the summiters made critical remarks about the ruinous impact caused by unusually high US interest rates, although Japanese criticism was more subdued than others. The US vigorously defended its policy, arguing that high interest rates were temporarily needed to reduce inflation, without which sustained economic recovery would not be attained. The US Secretary of the Treasury predicted a drop in rates within six months. No pledge was made by the Americans to artificially intervene to lower interest rates. On the contrary, the joint document noted the probability of high interest rates "where fears of inflation" remained strong, while high interests as a concern for others was also mentioned. The reality of the compromise was that the six summiters virtually gave tacit approval for the *status quo* of US macroeconomic management. More significantly for Japan, no responsibility for changing its macroeconomic policy was provided by the meeting.

The trade issues involved more vital Japanese interests. Contrary to Watanabe's optimistic prediction, the Europeans called on Japan for fairer, easier, more cooperative trading practices.¹⁶⁹ Suzuki's assertion that the Japanese market was not as closed as foreigners was seemed not to be accepted by some summiters. Thatcher and the EC

representative Gaston Thorn singled out Japan for criticism. The former blamed Japan for its export offensive that was exacerbating the economic recession in other industrialized countries. Thorn stated that Japanese export concentration and reluctance to buy EC manufacturers were problematic. The British and French leaders asked for the elimination of the Japanese NTBs. Reagan's talk also touched on the problems of NTBs. The Japanese reply pointed to a lack of sufficient effort on the part of exporters to crack Japanese markets. The squabble continued over the phrasing of the communiqué. The Europeans favored a sentence that prevented torrential exports to specific areas or specific fields and demanded proper international cooperation to achieve it. The Japanese persisted in the maintenance of free trade and did not yield to a strong push for inserting the European clause. With US support, Japan won the point. The European phrase was not employed and the summiters' "commitment to maintaining liberal trade policies and to the effective operation of our open multilateral trading system as embodied in the GATT" was included in the official document.

The strong dollar was another pressing issue for the Japanese.¹⁷⁰ The value of the yen *vis-à-vis* the dollar fell to the level of 235 yen. The cheap yen was expected to push up inflation rates in Japan. On July 20 the BOJ intervened in the market by purchasing a huge volume of yen to force up the yen's value. But this was in vain. Consequently, Japan proposed during the summit joint intervention to prevent erratic fluctuations on currency markets. The proposal collided with American "benign neglect" principles. American resistance precluded realization of the Japanese monetary authorities' wish to see a fall in the dollar. The US held on to the view that it would intervene in foreign exchange markets only in the most extreme cases. No reference to coordinated exchange rate policies was made in the declaration.

In contrast to these deadlocks, agreements were reached on the energy and North-South issues. Nobody fought over the phrasing of the energy section. Trudeau's enthusiasm about the North-South dialogue elicited a concession from the US.¹⁷¹ France, Germany and Japan shared Trudeau's enthusiasm, while the UK and US evinced skepticism about the Group of 77 proposal. The log jam was broken by the latter's compromise on the language on global negotiations and ODA. The US and UK consented to participate in the preparations for global negotiations to help poor nations in development and trade. A prospect for a more successful Cancun summit emerged after the meeting. Trudeau saved face on this point.

After the meeting, Foreign Minister Sonoda hailed the outcome, because so many Japanese positions were contained in the declaration.¹⁷² Clearly some of Suzuki's ideas were expressed in the declaration. His concern about "the implications of world population" and the need "to develop human resources, including technical and managerial capabilities" were combined. Mitterrand's preference for managed trade - an obstacle for a free trader like Japan - did not appear overtly in the communiqué. European accusations of Japanese trade practices did not go beyond a controllable extent, nor did they end up in an all-out assault on Japan. Such Japanese ideas as improvement "in management and labour relations and practices" to "secure higher investment and sustainable growth" were included. The need "to rely on containment of budgetary deficits by means of restraint in government expenditures as necessary" was comfortably in line with Tokyo's fiscal consolidation program. The communiqué accepted "the new initiative ... that the GATT Contracting Parties convene a meeting at Ministerial level during 1982... to examine trade issues," as Japan had hoped. Japan was also successful in attracting support from other summiters for "the declaration of the international conference on Kampuchea." Even Suzuki's motto - *wa* (harmony) - was

used to describe the declaration.

These were, however, less crucially important than other urgent topics - the attitude to the USSR, interest rates and exchange rate policy. Besides, the general nature of the declaration hid the underlying differences of position held by the participants. For Japan, the life-and-death matter was its support for the Reaganite hard line stance against the Soviet Union. Suzuki further opened himself to a possible blitz from the domestic opposition and media by conferring with Reagan during the summit to mend the strained relationship, and by reaffirming the success of the summit in May that produced a contentious statement on the US-Japan "alliance" relationship.¹⁷³

In light of Reagan's unpopularity in Japan, it was not surprising that Suzuki rushed to vigorously restate his dovish views.¹⁷⁴ Queried by a reporter, he denied the charge that Japan had made an international pledge to beef up its defence. He asserted that the need for "a strong defence capability" in the political communiqué indicated the basic stance of the West against the Soviet military build-up, and that Japan would continue its defence efforts based on its own judgement and on the basis of its basic defence policy and war-renouncing constitution. Suzuki added that Japan would not build strong military power along with its Western allies, nor would it make any military contribution to the Third World. The peace clause of the Constitution would not allow Japan to conduct military operations with the other states and to become a military giant. He expressed his view that these Japanese positions had been understood by other summiteers. Foreign Minister Sonoda followed up his remarks by refuting the opinion that Japan had made a military promise. He reiterated that Japan's defence policy would not be drastically changed by the seven-power conclave.

The opposition's evaluations of the overall summit outcome were mixed, but they were largely cautious about the "political communiqué".¹⁷⁵ The Komeito and DSP found it "meaningful" for the leaders to deepen mutual trust and understanding. The former thought that confirmation of the free trade principle was a step forward. But both of them were worried about the emphasis on the discussions on security. Komeito opposed authorizing massive build-ups by using the political communiqué, while the DSP insisted on a more autonomous peace strategy. The NLC agreed on the recognition of the Soviet threat, but did not favour eroding the principle of a separation between politics and economics by restraining Japanese exports to the socialist bloc. The Socialists were scathing toward the political statement, seeing it as a dangerous sign of transforming economic summitry to politico-security summitry. According to them, the confrontational attitude and pledged military build-up would deter detente and aggravate world peace. The Communists shared this opposition to a politicized summit because it would accelerate military expansion and solidify the military blocs based on the "cold war" strategy of the Reagan administration. Both parties viewed the economic agreements as a "failure," as they did not offer precise solutions to reduce inflation and unemployment rates. Part of the opposition's apprehension and disappointment was expressed by other domestic groups. For instance, MITI Minister Tanaka was suspicious about the emphasis on the Soviet menace. The Japanese steel industry was discouraged by the unresolved Soviet pipeline project, and exhibited its desire to take part in the project.

The overall tone of the editorials was the most negative of all the summits thus far. The divergence in the papers' opinions was clear.¹⁷⁶ The Ottawa summit left the *Asahi* with "not a few dissatisfactions and worries". It objected to placing too much stress on political issues because overly political summits would change into a "military forum",

obstructing the relaxation of tension. Likewise, the Mainichi deplored the confrontational attitude of the Ottawa summit, attacked Reagan's Cold-War containment policy against Moscow, and suggested the French President's request of disarmament and peace be put into practice. The Nihon Keizai cheered the content of the political communiqué, but was not pleased with the abstract treatment of political issues and called for more specific measures toward the USSR. Doubting how much of the content of the declaration would be actually implemented, it made a sober judgement that only a few problems were actually solved by the summit. The Yomiuri was the most positive of the four. It judged the summit to be largely successful in adjusting US-EC-Japan policy differences. The chairman's summary of political issues was a "balanced strategy toward the USSR based on objective facts of Soviet actions". Like the Nihon Keizai, it highlighted the dovish aspects of the communiqué and requested Reagan to make efforts to sustain peace by honouring the consensus at Ottawa. The Yomiuri agreed with the Asahi on one point; Suzuki should have elaborated on Japanese positions in more detail. But their opinions on exactly what Suzuki should have stated differed sharply.

The Yomiuri endorsed Suzuki's "overall security policy" based on a division of labour, and pressed the government to build up defence capability, and to do more in the non-military field by increasing aid to the Third World. The Asahi, on the other hand, wanted Suzuki's peace-oriented remarks to be integrated into the communiqué and joint conference. On other issues, the Mainichi and Yomiuri gave credit to the summit's handling of the North-South issues. The Nihon Keizai and Asahi cast suspicion on the value of abstract and general economic principles. The Nihon Keizai and Mainichi sounded supportive of the deepening of East-West commercial relations. The former believed that the gas pipeline project would be more beneficial than dangerous and the latter criticized imposing a ceiling on East-West trade.

Regardless of the harsh words uttered by members of the media and the opposition, Suzuki's political life was not adversely affected by the Ottawa Summit. Zaikai, a powerful stronghold of the LDP, responded favourably to the summit's result.¹⁷⁷ The leaders of Zaikai were favorable to the maintenance of the trade and the cooperative attitude of Socialist President Mitterrand. Suzuki's accommodating position on the security issue did not create any problems. For instance, the common hardline stance against Moscow's threat was treated as "natural" by the head of Nikkeiren. Only the adjustment of trade disputes was seen by another leader as an urgent issue. Indeed, unlike such summits as Puerto Rico, London, Bonn, and Tokyo, Japan did not make any significant commitments regarding its macroeconomic and energy policies. European complaints about Japanese trade practices were not officially acknowledged as an overriding matter to be tackled. Economically Japan could pursue the status quo, although its abortive attempt to end the monetary disagreement left the exchange rate problem outstanding.

These economic gains might have been unconsciously paid for by a shift in Japan's positions on politico-military issues to the mainly US-dominated line. Suzuki's need to repair the disrupted relationship with Washington invariably constrained Japanese summit diplomacy at Ottawa. Prior to the summit the US had exerted increasing pressure on Japan to beef up its defence expenditures. There existed a fear within the LDP that US-Japan defence friction would cripple the Suzuki regime.¹⁷⁸ One of Suzuki's main objectives at Ottawa was to ease the tension across the Pacific over his mishandling of the "alliance" fiasco. On important issues for the US, therefore, Japan seemed to deliberately accommodate itself to the US. Criticism against the US on interest rates was moderate. Japan adopted a low profile during the heated discussions on East-West