

relations. Tokyo's desire to put rapprochement with Washington first led it to shun being over-involved in politico-military issues. As a result, Suzuki's more dovish approach was ignored in the political communiqué. Actually, a greater security role for Japan was not a bad prospect for the Japanese Defence Agency. The government would increase defence spending by 7.75% in the extremely tight JFY 1982 budget. The Ottawa summit, more than the Venice summit, introduced Japan into the Western "alliance" in the politico-military as well as economic spheres.

B. The 1982 Versailles Summit

The "non-decisional" character of the Ottawa summit on macroeconomic issues gave Suzuki neither excuse nor incentive to change his tight budgetary program directed at fiscal consolidation and administrative reform. His policy, however, was not unanimously endorsed in Japan.¹⁷⁹ In March 1982, the five opposition leaders jointly urged Suzuki to introduce a 1 trillion yen tax cut to stimulate consumer spending. But their request fell on deaf ears. A more expansionary fiscal policy was favored by strong groups, including MITI, some *Zaikai* leaders, and leading LDP Dietmen. They encountered staunch opposition from the MOF and senior figures in *Zaikai*, who put primacy on balancing the budget. Their chance of attaining a desired outcome depended on an effective combination of domestic and external pressures to prompt the government to produce a substantive fiscal package for the Versailles summit. The disadvantage for them was the fact that the macroeconomic climate inside and outside Japan had been transformed from 1977-1978 "locomotive" Keynesian expansionism to the Reagan-Thatcherite monetarist mood of the early 1980s. No powerful, like-minded, expansionist counterpart existed in Washington to countenance criticism of tight Japanese fiscal policy. Suzuki was not pressured to respond to muted and divided international complaints. For example, the May OECD suggestion of loosening Japan's budgetary restraint was not taken seriously. Nevertheless, the sherpas' paper for Versailles urged Japan to ease its tight fiscal policy and tighten monetary policy.

Excessive budgetary restraint had led to real GNP growth of only 2.6% in 1981, achieved largely by boosting exports.¹⁸⁰ Consequently export-led growth enlarged Japan's trade surpluses and trade conflicts in the pre-summit period. The US-Japan trade imbalance produced a \$17.8 billion surplus for Japan in 1981 and showed no sign of decline. The Japanese trade surplus with five major EC members amounted to \$8.6 billion. Japan even had a \$200 million surplus with Canada. The trend was assisted by the grossly undervalued yen. Criticism against "unfair" Japanese trade practices uttered at Ottawa began to crystalize in the US and EC and was directed against the slow pace of Japanese import liberalization efforts. European hostility was translated into threats to impose retaliatory restrictions on the sale of Japanese products. Japan responded to these grievances by enacting a series of import liberalization packages. In December 1981, Tokyo announced the Economic Measures for Foreign Trade. Its 61 changes included a two year acceleration of all tariff cuts pledged by the Tokyo GATT Round and a governmental review of residual import restrictions and import inspection procedures. In January 1982, Tokyo established the Office of Trade Ombudsman to cope with foreign charges against Japanese trade and business practices. A more comprehensive market-opening plan was unveiled by the government in May, in anticipation of the summiteers' pressures on Japan. These Market-Opening Measures contained tariff reductions on 17 additional agricultural and 198 industrial products,

widened import quotas to ease restrictions and made customs clearances and import formalities simpler and speedier. They also presented a policy to give foreign firms fair access to criteria-setting procedures and to government sponsored R&D projects in some areas. Suzuki, moreover, delivered a speech to persuade the Japanese business circle and individuals to stop any discrimination against foreign goods and to stimulate foreign business activities in Japan.

These measures did not meet all foreign demands. But the desire of the Japanese to deflect external accusations at the summit was registered in meaningful and concrete policies. The occasion of the summit and the pressures that mounted prior to it, resulted in the pre-summit internationalization of Japan's economic structure by opening its markets. Recalcitrant and nationalistic bureaucrats were forced by the internationalists in Japan to formulate policies that they would not otherwise have formulated if the pressures accompanying and reinforced by the onset of the Versailles summit had not been acute.¹⁸¹

As Versailles approached, the international economy was in the midst of a great recession worse than that of the time of Ottawa.¹⁸² The real GNP growth of the OECD nations plummeted to 1.1% in 1981 and the rate was projected to drop further to 0.3% in 1982. The unemployment rate rose steadily. The growth of world trade in dollar terms diminished over that of the previous year for the first time since 1959. The overall Japanese economic performance, though slow, was better than that of any other summit member. Suzuki was keenly conscious of these economic developments. Naturally, revitalization of the world economy by cooperation and coordination among the developed countries was his main subject for the summit. In addition, the market-opening package revealed one week before the summit was intended to contribute to trade development in the world as well as to fend off the complaints of fellow summiteers. Having achieved this drastic measure, Suzuki hoped to reconfirm his free trade principles and to emphasize further the opening up of Japanese markets. Taking Mitterrand's interest in high-technology into consideration, he was planning to propose an international joint R&D scheme in the high-tech field and to facilitate industrial technological exchange. On North-South relations, he wanted to repeat his endorsement of global negotiations. American interest rates - still around the 16% level - and the cheap yen remained concerns for Japan. He took a stand against the French-proposed US-Japan-EC trilateral joint intervention concept. But he was for stabilization of money markets based on his belief that exchange rates should reflect the economic fundamentals of each country. His pet project for Versailles was a proposal to set up a group of experts on economics, technological cooperation and technology transfer for the purpose of revitalizing the world economy. The group was to report the results of their studies to the next summit.

The Versailles summit was directly affected by rapidly moving international events. The Iran-Iraq War was raging in the Middle East. The Falklands War was erupting and UN mediation of it stalled. The 1982 Israeli invasion of Lebanon took place at the time of the meeting. In Japan, the summit was the beginning of Suzuki's sixteen-day overseas tour, including his address to the UN Disarmament Assembly and visits to Brazil and Peru. Just before the seven-power summit, Chinese Prime Minister Zhao Ziyang paid a visit to Japan and confirmed the spirit of Sino-Japanese friendship and cooperation.¹⁸³ In attending the summit in France, the Japanese Prime Minister was to attach importance to "Asian positions" by capitalizing on the talks he held with the Chinese leaders. He also wanted to put forth the perspective of Asia by expounding upon how the stable Sino-Japanese relationship was contributing to peace in the Asian-Pacific

region and the world, and by conveying the ASEAN countries wish to maintain the free trade system. Like Miki at the first summit, Suzuki was eager to add an input of Japanese uniqueness as distinct from the West, to the summit process.

The advent of the Versailles meeting provided Suzuki with opportunities for vital bilateral talks with some leaders.¹⁸⁴ The talks with Reagan, Schmidt and Spadolini prepared Suzuki for the actual multilateral discussions during the session. Reagan and Suzuki gave their blessing to the just-concluded civil aviation agreement. Reagan appreciated Suzuki's efforts toward increased defence preparedness and the Market-Opening Measures issued one week prior to the summit. He added that he hoped to see a further opening of Japan's financial, investment and services markets. Suzuki welcomed the start of the International Nuclear Forces (INF) reduction talks, endorsed Reagan's "zero-option" proposal and emphasized that Japan shared the same position as the US on the desirability of promoting trade in services through the GATT talks. He then attempted to illustrate to Reagan the point that deeper Chinese understanding of the West would lead to stability and peace in the world, by delineating Chinese perspectives.

The amicable atmosphere however, did not conceal divergent positions on relations with the USSR. The virtual stand-off on the issue of granting credit to the Soviet Union fore-shadowed the rocky road at the summit. In fact, Japan had gradually shifted its attitude from the positive European position on the issue to the negative American stance by being increasingly supportive of the tightening of credit to the USSR. But it was still opposed to the retroactive application of credit curbing. Suzuki asked that Japan's joint Sakhalin oil development project with the Soviet Union should be exempted from the proposed tightened credit restrictions. It was Japan that would be hurt most if the project was terminated. Reagan did not budge. He did not agree to Suzuki's plea and implied the need to tighten control of credits in order to make the Western camp's economic sanctions against Moscow more effective.

Other meetings were more fruitful. The Japanese market-opening policy was praised by the Italian Prime Minister and German Chancellor when Suzuki met them individually. The former asked Japan to assist the UN Secretary General on the Falklands crisis while the latter promised that he would not try to isolate Japan on the trade issue. The prospect for concluding the summit unscathed, especially on trade matters, increased with these pre-session preparations.

The conflicts of interest between the Americans and the Europeans dominated the summit discussions. Japan was largely spared criticism of its trade surplus thanks to a flurry of conflicts among other delegates. The major question at the summit was East-West economic relations. Reagan's embargo on materials produced by US companies for use in the pipeline project had created a schism across the Atlantic on East-West commercial relations. The schism represented a basic diversity in attitudes between the US and the German-French group.¹⁸⁵ Unlike the Americans, the Europeans were doubtful about the effectiveness of the economic embargo on Moscow, fearful of waging economic warfare against it by using commercial leverage, and found it contradictory to be called on to halt the pipeline project while the US lifted its grain embargo on the Soviets. Failure of the "Buckley group" sent by the Reagan regime to seek credit curbing from the Europeans had left the issue unsolved. The summit's discussion centered around Reagan's proposal for tightening the control of credits to Moscow. Arguing that credits were a form of "subsidy", the US President argued for a quantitative restriction, an interest rate hike and tougher terms for the negotiation of

credits. The Germans and French did not concur. Candid bargaining continued, and when discussions heated up, Mitterrand asked Suzuki his opinion. His response was typically Japanese - evading conflict and deferring the settlement of the thorny issue. He suggested that the issue be handled at the ministerial-level session. His idea was approved. The result was a rather ambiguous text that announced an agreement to pursue a "prudent and diversified economic approach to the USSR and Eastern Europe, consistent with our political and security interests." The specific measures listed improvement in "the international system for controlling exports of strategic goods" to the Soviet block, "exchange of information in the OECD on all aspects" of the summit partners' relations with it, and "cautious" treatment of "financial relations" with the East "on a sound economic basis, including also the need for commercial prudence in limiting export credits." The progress of these arrangements was to be reviewed periodically. The agreement was, however, interpreted differently by each summiteer and the fragile compromise was soon broken over US intransigence on the pipeline issue.¹⁸⁶ Summitry failed to produce a solid consensus on the issue.

The summiters also devoted substantial time to monetary policy.¹⁸⁷ Schmidt criticized high US interest rates for narrowing economic options for other nations and dampening an economic upturn. Trudeau also bitterly assaulted US macroeconomic policy. The US held onto the status quo. Reagan said that high interest rates would come down as the budget deficits decreased. He also dismissed any US intervention in dollar markets, citing an American study that proved it ineffective. The US monetary position was in conflict with the French who asked for reform of the international monetary system in the direction of US-EMS-Japanese currency stability. Japan was between the two extremes. While it wanted the yen to appreciate through joint monetary coordination, it was hesitant to endorse the French wish to return to a more inflexible exchange rate system. As in the debate on the East West conflict, Versailles came up with an ambivalent consensus. "The Statement of International Monetary Undertakings" charged the five SDR countries (the U.S., West Germany, France, the UK and Japan) with performing a process of "multilateral ... surveillance" in "cooperation with the IMF", in order to "work toward a constructive and orderly evolution of the international monetary system by a closer cooperation among the authorities" of the summit participants. In satisfying the demands of interventionists, it also provided legitimacy to a possible intervention to counter disorder on money markets, as laid down in Article 4 of the IMF statute.

In retrospect, however, the summit actually kept an intervention strategy waiting upon the finance ministers' agreements to study the effectiveness of official intervention in currency markets and to review their policies in view of the outcome of the study. The US did not change its "benign neglect" of its exchange rate, and the yen continued to appreciate after the summit. In April 1983, the Working Group on Exchange Market Intervention set up at Versailles concluded that intervention was "useless or even counterproductive in the absence of appropriate policy changes."¹⁸⁸ Coordinated monetary and fiscal policy would reinforce the impact of intervention. "Sterilized" intervention would prove useless in the long run if the money supply was unaltered, but coordinated intervention could be effective in reducing short-term volatility.

Japan did not display decisive leadership on the major controversies at the Versailles summit. Suzuki's quest for "harmony" among the leaders made Japan's positions on the divisive issues less visible and more neutral and mediatory. Suzuki did not appear to take a clear-cut stand on the East-West and monetary issues except for his plea for the Sakhalin gas project, reference to the need for joint intervention if necessary, and his

support for the establishment of the intervention study group. Still, on other, less controversial issues, he put across Japan's positions more forcefully than he had at the previous summit.¹⁸⁹ Directly after Mitterrand's keynote address proposing a working group made up of the summit countries, the EC and the OECD to promote scientific and technological development and cooperation, Suzuki outlined the supportive Japanese attitude toward it. The concluding part of the communiqué that described ways to attain "[r]evitalization and growth of the world economy" by "exploitation of scientific and technological development" was largely in line with the French-Japanese position. Suzuki's backing for free trade and the upcoming GATT ministerial meeting was undaunted. More significantly, his push to put "Asian perspectives" into the summit was eloquently expressed with regard to ASEAN's objection to protectionist trade practices and to high interest rates, its petition for encouraging global negotiations in the UN, and his advocacy of increased aid and accelerated technology transfer to the Third World. He also presented Australian Prime Minister Fraser's ideas for restraining protectionist trade policies, and included his suggestion to eliminate export subsidies within five years in the GATT. Fulfilling his pre-summit plan, he even acted as a spokesman for China, by arguing against the folly of driving China into the Soviet bloc: This argument was endorsed by Schmidt. As a result, some of this language did get into the official declaration.

The Japanese Prime Minister was outspoken about trade, the macroeconomy and the Falklands as well.¹⁹⁰ The EC representative Thorn urged Suzuki to further increase domestic demand so that the yen's value would reflect the fundamentals of the Japanese economy. Admitting the necessity to sustain and augment domestic economic activity, the Japanese leader gave top priority to reducing gigantic budget deficits, implying the impossibility of implementing stimulus measures while pushing deficit-cutting efforts. The fiscal loosening urged by external pressure was virtually dismissed by Suzuki. Thorn then pressed for "further progress" in the opening of the Japanese market. Suzuki avoided this by emphasizing Japan's contribution to a revitalization of the overall world economy, a series of Japanese market liberalization measures, the use of the GATT to deal with trade in services, investment and finance as well as manufacturers, and a plan to negotiate with the US on agricultural imports. Schmidt greeted Japan's market-opening breakthrough and Mitterrand acknowledged that French-Japanese relations were heading in the right direction. Although further requests were later made of Japan to accelerate its market-opening, criticism was unfocused and was not perceived to constitute exorbitant external pressure. At the end of the summit, Suzuki judged that Japan's liberalization efforts had won high acclaim from other participants and gave himself a passing grade because he could still advocate the principle of maintaining the free trade system. MITI Minister Abe announced that another market-opening measure was not in the offing. The Versailles summit did not give Japan enough impetus to further internationalize its trade positions.

The same could be said of Japan's macroeconomic management.¹⁹¹ Gone were the days of "locomotive" or "convoy" fervour when Japan could not avoid shouldering an extra burden to reflate its economy for the sake of the world. Suzuki made an ambiguous reference to keep up efforts to attain economic growth led by domestic demand while rehabilitating government finances. Some of the media and Suzuki's LDP rival, the pro-expansionist EPA Director Komoto, picked up the phrase affirming domestic demand growth as a target to be pursued. Judging the summit's failure to obtain a commitment to rectify high American interest rates, Komoto thought that his chance was increased. But Suzuki and his government publicly stated that Japan would not change its disciplined economic management, staving off a pre-emptive strike from the

expansionists. The "locomotive" arguments were not rekindled in Japan with vigour, and Tokyo was to proceed with continued fiscal restraint.

The Falkland's issue disrupted Anglo-Japanese harmony.¹⁹² Thatcher had been preoccupied with the raging Falklands War and badly needed support for British policy. Mitterrand's press briefing after the summit provided her with general support from the summit. However, the Japanese attitude towards Thatcher's needs was ambivalent, at best. On June 4, Japan voted for a UN resolution calling for an immediate ceasefire in the British-Argentine dispute over the Falkland Islands. This resolution was vetoed by the US and UK. In view of Suzuki's official visit to Latin America, and the growing pacifist sentiment in Japan led by anti-nuclear peace movements, Japan's voting behaviour was not surprising. Rebuked by Thatcher on the vote, Suzuki did not bow down. He held up Japan's support for the UN resolution, but added that Japan would not hinder the EC's economic sanctions against Argentina. Later he reconfirmed the Japanese stance that the military occupation by Argentina of the Falkland Islands contravened the UN Charter and should not be approved, but that a resolution to the conflict should be handled in the UN through negotiations. The summit talks did not affect Japan's position on the issue.

Other Japanese positions were also not influenced by the Versailles outcome.¹⁹³ The status quo on all policies was maintained after the summit, according to the government's statement. Tokyo thought that Japan played an active part in reaffirming cooperation and the bonds among the summit partners. Zaikai, by and large, rated positively the tentative conclusion on the currency issue, and the cooperation in the leading-edge of technology and the principle of free trade. However, most of the Zaikai adherents were not pleased with the unresolved problem of curbing credits to Moscow. Zaikai had anticipated US approval to lift an export embargo on materials needed for the exploitation of Soviet natural resources in Sakhalin. Reagan's evasive answer to Suzuki's call for the Japanese exemption on the Sakhalin oil project inevitably aroused anxiety in the business community in Japan. Compared with previous summits, the failure to obtain a desired outcome at the Reagan-Suzuki meeting resulted in less complementary comments from some parts of the Japan's business circle.

The opposition's evaluation of the summit's achievements was diverse.¹⁹⁴ Suzuki's treatment of the anti-Soviet measures at the summit was unanimously criticized. In particular the credit regulations for the Soviet Union were considered to be inappropriate by the JSP and Shaminren. But more variegated assessments of the overall summit outcome emerged. The general result of Versailles was, at best, ranked more positively than those of previous summits. The four middle-of-the-road parties (the Komeito, DSP, NLC and Shaminren) discovered meaning in the summit's endorsement of efforts to revive the world economy. The NLC and Komeito gave credit to the consensus on free trade. The DSP applauded the agreement on monetary matters. The Shaminren did not regard the meeting as a fiasco. But the JSP and JCP decried the lack of benefits created at Versailles. Continuation of the high US interest policy after the summit was lamented by the Komeito and Shaminren. It is interesting to note that the Versailles summit left the crucial and divisive issue intact and that there followed a diversified and more detailed reaction from the Japanese Opposition. The centrist parties' were not vehemently against the meeting of the representatives of the major economies occurring in the midst of an urgent international situation characterized by war and recession.

The Japanese media were not very favorably disposed to the Versailles summit. But

their voices were not united, either ¹⁹⁵. The Mainichi was the harshest, going as far as to call Versailles "the most fruitless summit." It argued that the summit was exploited by the US to push its hardline anti-Soviet stance. Largely sharing the Mainichi's negative view, the Asahi said that conflict rather than cooperation marked the summit and suggested that more new perspectives, as represented by Suzuki's efforts, should be combined with summitry. Except in regard to the accord on joint R&D in scientific technology, the Yomiuri's tone was also unsympathetic. It expressed displeasure at there having been no prescription to revive world economic growth and no progress in the field of disarmament. All these three, moreover, took a dim view of Reagan's recalcitrance on East-West economic relations, including the Sakhalin project, high interest rates and the strong dollar policy.

In sharp contrast, the Nihon Keisai basically took a favorable view of the summit's outcome. The communiqué contained many items it favoured. A consensus on a wide range of issues meant this summit could be categorized as a successful meeting. But the business daily had to admit to the unspecified content of the document, and cautioned that real success would hinge on how each country helped the goals of the accords to materialize.

As can be seen, all the major domestic actors in Japan had mixed reactions to the performance of the summiteers in France. They mirrored the ostensible discord in the summit process as reported by the Japanese press. Although their divergent appraisals of the meeting at Versailles did not have any profound impact on the future course of Japan, they drew attention to the fact that the problems besetting Japan -- the cheap yen and the Sakhalin deal with Moscow, in particular -- were not handled well at the supreme organ of the major heads of state and government.

The fall-out from this discordant summit was soon to come. The progress of the Soviet-Japanese Sakhalin oil project -- the major concern expressed by some Zaikai people -- was endangered by Reagan's June 18 decision to extend the American embargo on exports of high technology products to the USSR to the foreign subsidiaries of US companies.¹⁹⁶ The collapse of the project thanks to the uncooperative conduct of the Americans was estimated to have cost Japan around 60 billion yen. A vehement outcry followed from major domestic groups. Tokyo made an official protest against the decision, though to little avail. Japan decided to develop its own technology to replace the special machinery needed for the project, to prevent the plan from breaking down completely. Later in mid-November, when the US lifted its trade embargo against the Russians, the obstacle to the project was removed. Although restraints on granting credits to Moscow on favourable terms remained a deterrent to the Japanese rapprochement with the USSR, the rift left unresolved by the summit was ironed out by the conciliatory move of the Americans to the Soviet Union.

Aside from the Sakhalin project fiasco, Japan's interests were not jeopardized by the Versailles summit. Unfortunately, Japan and the other participants could not force a shift in US monetary and interest rate policy. The discussions at Versailles came up with few specific prescriptions for the world's economic malaise. However, the rather general communiqué did not inhibit Suzuki from carrying out his cherished fiscal consolidation project in making up the JFY 1983 budget. The expansionists' hope to exploit the summit and thus elicit necessary pressure to go ahead with a package of more fiscal stimulus did not materialize. Criticism from the other summiteers, notably that from the EC commissioner, was less vehement than Suzuki had expected. The summiteers committed themselves to "resist[ing] trade-distorting practice" - a phrase

that could be interpreted to be directed at Japan - but unlike the 1978 Bonn summit, no reference was made to the necessity of Japan reducing its trade surplus in the communiqué. Compared with Reagan at this summit, or Ohira at Tokyo, Suzuki was not cut off from other summit participants. In the end, Japan did not feel obliged to take any additional multilaterally negotiated pledges, thanks to the abstract phraseology employed in the communiqué, on macroeconomic and trade issues. Japan also made some conspicuous contributions to the summit through its presentation of "Asian" perspectives, as seen by the direct references to ASEAN, Australia and China, and by support for the scientific and technological cooperation plan.

Noticeably, the actual summit result per se did not have any profound impact on the transformation of the Japanese political economy. Indeed, for Japan, it was not so much the summit process or outcome expressed in the communiqué as the pre-summit preparation that had served as "an action-forcing" deadline within governments, strengthening the hand of the more internationalist" forces.¹⁹⁷ The second market-opening package and the proposal for high-tech cooperation were the specific consequences of this "action-forcing" function of summitry. As Suzuki became more assertive about Japan's positions and interests, and as Japan was shadowed by current world events and the differences of national interests highlighted by the Euro-American conflicts, Japan did not lose much at Versailles.