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American Chamber of Commerce in Japan

Max S. Baucus

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Remarks of Senator Max Baucus
American Chamber of Commerce in Japan

August 17, 1993

Thank you very much. It's a pleasure to be back in Tokyo.

I will speak today in a broad sense of how I view American relations with Japan. We are in a new era, with great prospects for the future, and equally big obstacles on the road.

AMERICAN EXCITEMENT OVER JAPAN'S NEW GOVERNMENT

Last Friday, August 6th, the Congress sent the budget up to President Clinton. But the big news at home in Montana was about Japan.

Montana, as some of you may know, has a sister state relationship with Kumamoto Prefecture down to the south. We set it up in 1992, and it is a relationship in which Montana has always taken a lot of pride. And over the past decade, we've hosted hundreds of Kumamoto exchange students, including the three children of Japan's new Prime Minister.

So on August 6th, after Mr. Hosokawa became Prime Minister, the Bozeman Chronicle took the Senate off the front page, saying that "a number of Montana residents realize their skiing partner and fly-fishing companion may be visiting the state in much different circumstances, as one of the world's most powerful countries."

Montanans may be a little more excited than other Americans. But I think it's no exaggeration to say that American hopes for a new and deeper partnership with Japan have never been higher.

AMERICAN DOMESTIC SITUATION

At the same time, however, the public wants real, genuine, measurable progress. Not just in the US-Japan relationship; but all the areas where we let things slide for the past decade.

I spent most of May and June working on our budget bill. It cuts the deficit by \$500 billion through higher taxes and spending cuts. That is, of course, if you round up a bit.

That was not an easy job. Nobody likes to vote for less spending or more taxes. But I think that at long last, both the American government and the public are taking our country's problems seriously. The public wants to see some results. They wanted people to make the tough votes.

That was true on the budget. It will be true on health care reform this fall. And it is true on trade.

I have always been for what works. Multilateral negotiations; bilateral talks; and unilateral measures all have their place in a good trade policy.

THE URUGUAY ROUND

I'll start with the GATT. I support the Uruguay Round. And I believe we can make a deal this year. The tariff package agreed to at the G-7 Summit here last July is obviously limited. But it shows that the developed country leaders understand how important the Round can be for the world economy.

I see broad support for a good GATT deal in America. That assumes, of course, that it is a good deal. It must give stronger protection to intellectual property. It must more fully open farm and service markets. And it must go further in reducing tariffs on wood products, computer parts and semiconductor chips, and other goods.

Japanese leadership will be crucial to a successful Round. Japan benefits more than any country in the world from the GATT. No country has gotten more from tariff reductions. And if this Round is to succeed, Japan must be a leader. It must open its financial service market and eliminate the ban on rice.

A successful Round will take some work. But I believe it can be done. And I think that if it is done, Congress will support the Round. In America, though, there is a serious question about whether the GATT is still relevant.

Americans, of course, are likely to welcome the prospect of \$1.2 trillion expansion in world trade and a \$65 billion boost in American economy. But although most Americans concerned with trade support the GATT, they also recognize that it will have little effect on some of our most difficult trade issues. That is particularly true of our trade problems with Japan.

JAPAN'S GLOBAL SURPLUS

As I said, Japan's political changes have aroused a great deal of excitement in America. Expectations are very high. But it is still far from clear how, and in fact whether, changes in politics will change Japan's economic and trade policies.

I want to be clear. The problems our two countries have in trade and economics are not all Japan's fault. Change must come in part from America.

And, as this year's budget shows, change is coming from America. As part of our commitment to the negotiating framework, President Clinton committed us to make a deep cut in our federal deficit. And he delivered. Japan must work just as hard.

Ministers alone may not be able to accomplish that. If Japanese economic policies are to change with Japan's political process, the changes must come not only from elected officials.

Change must come from bureaucrats and civil servants. They make the millions of individual decisions on regulation; government procurement; patent procedure; border inspection; "informal" guidelines and other barriers make up the obstacle course foreign companies must run simply to reach the market.

And change must come from the Japanese business community. Its interlocking keiretsu networks and discriminatory distribution systems are what make it so difficult for firms which manage to evade the bureaucratic traps.

These are not US-Japan issues. They are world-Japan issues.

Japan has a \$130 billion current account surplus. It has large surpluses with every major trading partner -- the United States, the European Community, East Asia's Newly Industrialized Countries, China and the ASEAN states. In Japan, imports are half the proportion they are in every other industrialized country. It is a world economic issue, not a bilateral question.

For the past fifteen years or so, we tried to address the issue by manipulating currency and conducting a series of bilateral talks without enforcement mechanisms.

RECORD OF PREVIOUS NEGOTIATIONS

Last January, I read with great interest your 1993 White Paper. The paper cited barriers to trade in thirty-four specific areas, ranging from soda ash to insurance to software; and wider problems in broad areas like government procurement policy, distribution systems and patent law.

The White Paper's diplomatic comment was this: "The existence of negotiations and the conclusion of agreements does not mean that problems no longer exist." In other words, we've talked and signed papers, but it hasn't made much difference.

We have tried the "Market-Oriented, Sector-Specific" talks. The "Major Projects Agreement." The "Market-Oriented Cooperation Plan" and the "Structural Impediments Initiative."

MOSS, MPA, MOCP, SII. We ran through a lot of acronyms.

They all sounded impressive. They all got a lot of attention. Some talented people worked on them. But I think it is fair to say that they did not produce all that much.

Throughout these years we heard a familiar refrain. Japan's economy is changing. It is a gradual process. Be patient.

That has worn thin. And so, I believe, has the concept that bilateral talks without enforcement can open Japan's market.

NEGOTIATING FRAMEWORK

We don't need a new acronym today. We need a new attitude. And I think the Clinton Administration has it. They put trade and economics first in relations with Japan. And that shows in the negotiating framework they brought back from here in July.

It concentrates on the key issue: Japan's global current account surplus. We agreed that Japan must achieve a "highly significant reduction" in this surplus in the near future. And while we can't tell Japan just how to do this, we will encourage Japan to consider tax cuts, spending packages and other means.

And it targets the right individual problems that have made Japan's market so difficult to reach: government procurement; regulatory and competitiveness policies; key industrial sectors like autos and auto parts; investment restrictions; patent laws; and enforcement of existing agreements.

I am pleased to say that, up to now, the framework has no acronym at all. However, I have been warned that some are trying to name it the "COMET," for "Committee on Open Markets and Expanded Trade."

I think that is a particularly bad idea. Comets, of course, are heavenly bodies with long fiery tails. They look impressive. They get a lot of attention. And then they go away, leaving no effect on the ground whatsoever.

That describes our previous trade talks with Japan all too well. I'm hoping for something different this time.

JUDGE FRAMEWORK ON ITS RESULTS

Next year, when the time comes to make a judgment on the framework's success, you may hear a lot about "managed trade." In a way, it's fortunate that last week, when the Agriculture Ministry made the rounds of the beef importing companies, we got a real example of managed trade. If this framework succeeds, we'll be unmanaging trade.

A final, and essential, part of this framework is that we reserve the right to use our trade remedy laws -- Section 301, and after it is renewed, Super 301 -- if we do not see progress.

This framework is very well conceived. If any negotiation has a chance to succeed, this is it. But that is a big "if." We have tried to talk our way out of the trade deficit for fifteen years, and it hasn't worked. It is time for results.

If this framework fails, I will advise the Administration to concentrate instead on the one method proven to work. That is, of course, using Super 301 to set our market-opening priorities, and using the law's retaliatory authority as a last resort when no other method will work.

IMPORTANCE OF PARTNERSHIP WITH JAPAN

I believe President Clinton has begun very well in his relationship with Japan. He has put economics first. He has negotiated a tough framework and insists on results.

Just as important, he is listening to Japan on issues that are crucial to this country and this region. Japan has important things to say and good advice to give about how we approach our relationship with China; about how to make better use of technology to solve global environmental problems; what role the American military must play to ensure that Asia remains a peaceful and prosperous region.

It is long past time that Japan and American became equal partners. Prime Minister Hosokawa states that relations with the United States are the "central pillar" of Japanese foreign policy. As our former Ambassador here, Mike Mansfield, has often said, the same must be true of our foreign policy.

In his words, the US-Japan relationship is the most important bilateral relationship in the world, bar none. We must maintain our alliance. It is crucial to both our countries, to Asia and to the whole world.

When President Clinton visited Waseda University two months ago, he spoke of a debate Robert Kennedy held in 1962, in the same hall, with a group of student communists. And he said in the thirty years since that debate, America and Japan:

"proved that capitalism works, that democracy works, that freedom works."

It is now our responsibility to show that capitalism, freedom and democracy can meet the challenges we face in the Cold War's aftermath. Making the world trade system freer and fairer.

Reversing the degradation of the global environment.
Strengthening democracy, keeping the peace, and promoting human
rights in Asia and around the globe.

These will be no easier than the challenges Robert Kennedy's
generation met. But they are challenges worthy of two great
nations. They are challenges we must face and conquer together.

Thank you.