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"Over the Summit and Down the Other Side: The U.S. and Japan in a New Era"

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"Over the Summit and Down the Other Side: The United States and Japan in the New Era"
Senator Max Baucus
March 10, 1994

I chose to call my talk tonight "Over the Summit and Down the Other Side," because I believe that after the summit President Clinton held with Prime Minister Hosokawa last February, it has become more clear than ever that after the Cold War, our country has entered a new era in international affairs. As we come to understand this, we are reassessing our priorities and our goals in world affairs. And that inevitably means thinking carefully about our ties with Japan.

In this new era, the relationship between the United States and Japan must inevitably evolve and adapt. But it will continue to be the most important bilateral relationship in the world. For the indefinite future, America's relationship with Japan will remain crucial to the world's prospects for economic prosperity, for peaceful international relations, for environmental protection and much else.

IMPORTANCE OF US-JAPAN RELATIONSHIP

When we look at America and Japan today, we see much that works well. Japan is our strategic partner in international politics and security. Japan is helping us work out our relationship with China. We are helping Japan gain permanent U.N. Security Council status. Around the world, we see much on which to agree and little that would cause conflict.

We cooperate on environmental protection, medicine, science and technology. At the summit last February, President Clinton and Prime Minister Hosokawa signed an agreement on global issues which will make this partnership even stronger.

Even in trade the situation is not all black. Japan is our third largest export market after Canada and Mexico, making up one out of twelve of the export dollars we earn.

But while the situation may not be black, it is at best slate grey. Our trade with Japan is simply not a reciprocal relationship. Statistics about the trade deficit have become tiresome, but a few are worth repeating.

Japan consistently imports only half of what it exports to us. Our trade deficit with Japan amounts to half a trillion dollars over the past ten years. At $59,4 billion, last year's trade deficit was enough to buy all the commodities, manufactured goods and services produced in Malaysia, or Chile, or Ireland. In fact, it exceeded the GDP of 148 countries.
With the summit last month, we recognized that we need a new approach. We admitted that our efforts to address this problem in the past have brought marginal results at best. By that I mean not just the framework talks, but the whole series of bilateral trade negotiations beginning with President Nixon.

I think that made the summit a success. When we honestly face up to problems and admit we disagree, both sides show strength and maturity. By contrast, when we attempt to bridge a gap with paper -- when we accept agreements we know will fail -- we earn not good will but contempt from our negotiating partners, and we raise anger in the American public.

At the summit, the President and Prime Minister showed not that strains and differences endanger the partnership between our countries, but that our ties with Japan are now equivalent to those we have built up over the years with Europe and Canada. This is a relationship in which we can stand up for our rights and interests on trade without fear of conflict spilling over into other areas.

But it will not remain a healthy relationship without better results on trade. After the Cold War, with Americans giving more consideration to affairs and economic security, our partnership with Japan must change. As we descend from the summit and review the new landscape around us, it is not enough for America to say "no." We need to get results.

**OUR GOALS AND OUR PAST FAILURE TO REACH THEM**

Let us begin with our goal. On trade, it is simple. We want fairness. We want it to be as easy for Americans to sell in Japan as it is for Japanese to sell in America.

That does not sound like much. So why did we not reach it long ago? As the Economic Strategy Institute's Director, Clyde Prestowitz, documented in his book *Trading Places*, part of the reason is that we didn't always try very hard. We feared, I believe wrongly, that standing up for our economic interest would endanger our Cold War security requirements.

Equally or more important were some of the mistakes we made by ourselves. During the past decade, we in government ran huge budget deficits. Some of our industries did not produce goods of top quality. We let our currency become overvalued. And as one would expect, during the 1980s we ran consistent trade deficits with the world, not just Japan.

But we are addressing those problems. We passed a tough deficit reduction bill in 1990 and another one last year. This year's is the lowest budget deficit in dollar terms since 1989. In the most meaningful sense -- when compared to the size of our GDP -- it is the lowest deficit since the Carter Administration.

American industry also turned around. Our autos and manufactured goods are now the world's best. We are strong in next-generation consumer electronics like High Definition
Television and multimedia technology. We have held our position in telecommunications, semiconductors, computers and other leading edge technologies.

As we cut our deficit and upgrade our industries, in most places we get the results one would expect. Our trade with the European Union reversed itself, from a $21 billion deficit in 1987 to a $17 billion surplus in 1991 and an approximate balance today. Our $6 billion dollar deficit with Mexico became a $5 billion surplus. We export more effectively in China and other East Asian countries. But in Japan, we have seen no change. Our exports have been flat since 1989. The trade deficit rises like a Montana buzzard on a summer wind.

Conversely, Japan's trade surplus is not with the United States alone. It is a chronic problem in Southeast Asia and China. It is a problem for Europe too, although the Europeans address it in a fashion we generally choose to avoid. Despite their protests about managed and numerical targets, they set numerical targets for Japan's market share in Europe.

NATURE OF JAPANESE ECONOMY

Trade with Japan is a world problem, not simply an American problem. But as the most open economy, as the country which manages trade the least, our share of the problem is the biggest.

Virtually any American firm doing business in Japan can give anecdotal examples of collusion between businesses, bureaucratic obstruction and closed markets. Auto companies cannot find dealers to sell their cars. Flat glass firms find three Japanese companies dividing the market, and holding constant market share for decades on end. A web of technical standards forms and customs regulations keeps American pinball machines on the boats. Computer and software companies find their patents and copyrights extracted or made meaningless by compulsory licenses.

We can all speculate on the reasons these features of the Japanese exist. Some seek explanations deep in Japanese culture. Others trace them to policies adopted a few decades ago by Ministries and industrial associations. In some cases, like the construction industry, the cause seems to be straightforward corruption and bribery.

It is an interesting discussion, but perhaps academic. Whatever their origins, the steeplechase of customs inspections, regulations and technical standards; the keiretsu networks; the legions of retired bureaucrats at companies and in politics are there. Together, they keep highly competitive foreign goods -- from high-technology goods like supercomputers, semiconductors and satellites, to agricultural products like beef and processed wood products, even to skis and baseball bats -- out of Japan.

Large-scale studies bear out what individual industries find in individual market sectors. According to the President's Advisory Committee for Trade Policy and Negotiations, Japan imports about 5.9% of the manufactured goods its economy consumes.
The United States imports 15.3%.

Excluding trade within the European Community, imported manufactures make up 15.4% of German and 17.7% of British consumption. In France, despite the best efforts of the French bureaucracy, the figure is 13.7%. To round out the G-7, it is 12.6% of Italian consumption and 17.1% in Canada.

DIFFICULTY OF POLITICAL CHANGE IN JAPAN

There is talk now about an era of change in Japan which will begin to erode these differences on its own. But in fact, there has always been talk about change. In 1960, Japan entered an era of "liberalization." A trip to the library can reveal Americans in that era saying that Japan's economy was changing. Japan's government actually did abolish most of the explicit laws restricting imports and foreign investment -- but only to have ministries replace them with informal, but just as effective, administrative guidance.

You can find the same confident talk of change during the early negotiations on trade under President Nixon. You can find it in discussions of the warm relationship between President Reagan and Prime Minister Nakasone. No doubt you can find it elsewhere. The cover of the book has changed many times. The words have always stayed the same.

I hope the assertions we hear today are more realistic. As a matter of policy, I admire what Mr. Hosokawa is trying to do. And in a more personal way, all Montanans feel very warmly toward him. Before becoming Prime Minister he was the Governor of Kumamoto, our Sister State. He has visited Montana; his children have gone to school with ours; and I wish him well. But in changing Japan, he has taken on a much more difficult job than President Clinton has in changing America.

A Japanese Prime Minister appoints a Cabinet and not much more. How much could our Presidents achieve if the Undersecretaries, Assistant Secretaries, Deputy Assistants -- the people who write their decision memos, head their negotiating teams and present them with their policy choices -- remained the same under every Administration? Change would be almost geologically slow. Elections might affect the basic business of our government no more than a storm at sea affects the fish.

REASONS FOR PESSIMISM

Thus far, and I am sorry to say it, that is what I see in Japan. Regardless of the storms in the Diet this year, the shipwreck of the Liberal Democratic Party last year, the new coalition and everything else, the bureaucracy is operating very much as usual.

Last August, in the first weeks of the Hosokawa Administration, I had to visit the Ministry of Agriculture in person to stop an administrative guidance asking meat companies to restrict imports of beef.
Last winter, Ambassador Mondale and the USTR had to intervene with the Ministry of Education to stop its attempt to weaken copyright law to permit Japanese computer companies to pirate American software. Even now it is not clear that we will succeed.

And last week, some Japanese politicians began an effort to make the lifting of Japan's ban on foreign rice meaningless, by holding news conferences to claim that Thai and other foreign rice shipments are full of mice and cockroaches.

To this point, I see little real change. And without dramatic evidence to the contrary, we must assume that when we negotiate with Japan on trade, we will face the same problems we have had since the 1950s. And if that is correct, we will need to be quite tough if we hope to get results.

We will require a policy which understands the unique nature of the Japanese economy. We will need the credibility that only the prospect of sanctions can offer. We will need to set limited, but specific and concrete goals in the market sectors that are most important to us, and keep after them until we get there. And we will have to return to these sectors again and again -- as I did in talking to the Agriculture Ministry about beef, or as the Administration did this month on the cellular phone issue, or as I think we must do in semiconductors.

By insisting on measurable results and by reviving Super 301, the Administration has given us such a policy. It will not be an easy policy, nor will it be fun. But without genuine reform in Japan, extending beyond campaign finance and new parliamentary districts to deregulation and reform of the bureaucracy, I think it is our only choice.

**REASONS FOR OPTIMISM**

In the face of history and what I see actually happening in the Ministries, it is hard to be an optimist. But as I watch the Japanese economy, and even more as I see the vast changes going on in the world, I find it harder still to be a pessimist.

When we talk about the problems Japan's closed market poses, we most often mean the problems for America or -- when we are in an altruistic mood -- the world as a whole. But we rarely talk about the problems it causes the citizens of Japan.

Because Japan resists importing processed wood products, Japanese families must take out 99-year, four generation mortgages to buy a two-bedroom house.

Because we have trouble exporting beef or fish or fruit, Japanese people pay three times as much for dinner as the rest of the world. A single apple costs two dollars. Because foreign auto companies can't find dealers, Japan's people pay $2000 more for a Honda than we do.

For quite some time, Japan's economy seemed immune to the economic ills afflicting the rest of the developed world. It produced steady high growth with low unemployment. In a
word, security. Japan's people accepted a low standard of living in exchange for this security. Perhaps it was a choice we in America would not make. But it was not an unreasonable choice.

But in the past five years, Japan's economy has proven itself no more free of booms, bubbles, busts and recessions than anybody else. I cannot believe ordinary Japanese people will sit still and accept both the limitations of life in a closed, regulated island economy and the dangers and insecurity of life in an ordinary developed economy.

And I may be naive, but I cannot believe if we stand up for our rights and the Japanese people stand up for theirs, the Japanese leaders will refuse to see that we are in a new era. Whether in government, or business or the bureaucracy, they are talented, intelligent, patriotic people. If Japan's people demand it -- and if we show that, in the absence of reform, we will stand firm -- even the bureaucracy will accept that times have changed.

A JAPAN THAT CAN SAY YES

A few years ago, a member of the Japanese Parliament wrote a book called The Japan That Can Say No. It meant, of course, "no" to the United States. The book's thesis was in order to reform, Japan had to reject what the author viewed as Japan's subordination to us.

The argument rather surprised many Americans at the time, particularly those of us who work on trade issues. Our experience is of a Japan that always says no. I think the author got it backward. What would show real reform is a Japan that can say yes.

In the most narrow sense, that means yes to an open market for American products. I am committed to that, and one way or another I will do my best to make sure we get it. But in a broader sense, it means much more.

It means "yes" to the demands of its people for economic reform, political change, and an easier life. "Yes" to leadership in the Pacific region and the world. "Yes," at times, to telling us what we need to hear -- and I believe that when we look at China policy, or nuclear weapons in Korea, or other critical issues, we can learn a lot by listening to Japan. "Yes," in fact, to life as what Mr. Ichiro Ozawa, one of the architects of the present government, simply calls a "normal country."

As I said early on, the world has entered a new era. Much is possible now that we could not imagine just a few years ago. One possibility, which President Clinton offered at the APEC summit last November, is the vision of a "Pacific Community," in which a diverse assembly of countries bridge the differences of economics, politics and culture, transcend the suspicions of past conflict, and begin working together to make life better for all.

It is an attractive vision, and I believe it is more than possible. But it is inconceivable without a confident, open and -- for lack of a better word -- normal Japan. When you really
think about it, that is not very much to ask. But as we descend from the summit and look around at the new landscape, it would mean an awful lot -- not just to Japan, not just to us, but to the entire world.

Thank you very much.