4-5-1978

Address to a Joint Meeting of the Osaka Chamber of Commerce

Mike Mansfield 1903-2001

Let us know how access to this document benefits you.
Follow this and additional works at: https://scholarworks.umt.edu/mansfield_speeches

Recommended Citation
https://scholarworks.umt.edu/mansfield_speeches/1471

This Speech is brought to you for free and open access by the Mike Mansfield Papers at ScholarWorks at University of Montana. It has been accepted for inclusion in Mike Mansfield Speeches by an authorized administrator of ScholarWorks at University of Montana. For more information, please contact scholarworks@mso.umt.edu.
ADDRESS BY U.S. AMBASSADOR MIKE MANSFIELD

to a joint meeting
of the Osaka Chamber of Commerce and
Industry, Kansai Committee for Economic Development,
Kansai Economic Federation, U.S.-Japan Society and the
American Chamber of Commerce in Japan

ROYAL HOTEL, OSAKA

APRIL 5, 1978

CHALLENGE AND RESPONSE: U.S.-JAPAN ECONOMIC RELATIONS

I would like, today, to talk about the U.S.-Japan economic
and trading relationship. These obviously will be the views,
impressions and hopes of a layman. I am not sure that there are
any real experts in international economics nowadays, but I have
never felt more like a layman than I do today, in addressing this
distinguished group on these topics.

Anyone who has any knowledge of Japan knows that Osaka is
one of the world's major business centers. It has often been
called the "Chicago" of Japan, but it is more like Chicago, Pitts-
burgh, San Francisco and Dallas all rolled into one. There are
many famous companies which are home-based in Osaka but I was
interested to learn that Sumitomo started with some small copper mines in Ehime many years ago. I also got my start in the copper mines (almost as long ago as Sumitomo) but they were in Butte, Montana rather than in Shikoku.

Most of you are economists. I am not. However, if I have an area of expertise, it's politics. And most of what I have to say here today is based upon my 34 years of service in the U.S. Congress. In my view, occasional problems are to be expected in the U.S.-Japan bilateral economic relationship because we are both democratic societies in which the representatives of the people have important responsibilities which often conflict.

Whether they be members of the Congress or members of the Diet, our politicians must represent the interests of the people who elect them and, at the same time, they must try to act in the interests of the country as a whole. It is proper for the U.S. Congress to be sensitive to the specific needs of American business, labor, farmers and consumers just as the Japanese Diet should respond to the same needs in Japanese society. Some may believe that this is the bane of our relationship because the responses to specific domestic needs are not always consistent with the larger realities of our international trading relationships. But, I believe that the fact that both countries have working democracies which are responsive to the needs of the people is our greatest strength.
As nations, we are fairly new to the business of responding to the challenges of the international marketplace. Inadequate understanding of the realities of that marketplace may be at the root of many of our problems, but any successful politician is an expert at identifying that which is of immediate concern to his constituents. In the U.S. Congress, as in the Japanese Diet, the name of the game is political survival. No politician can ignore the plight of constituents who have been thrown out of work because of competition from abroad. If he does, he will not long remain in office. In both our countries the leadership expresses great concern about macro-economic issues, about exchange rates, current account surpluses and the like. That is as it should be because these global problems affect virtually every human being on the face of this earth. Our leaders have perceived, and I believe correctly, that these problems must be solved otherwise all of our efforts to solve smaller bilateral problems will be meaningless.

But it is human nature to be most concerned with those problems which affect one's daily life most directly. Political reality forces us to consider sectors of our economies such as beef, steel, automobiles, citrus fruits, and the like. It is
within specific sectors that politicians of all countries, especially in Japan and the U.S., are subject to pressure from their constituents, from industries and from special interest groups. Therefore we can't sit in an ivory tower considering only those issues and problems with global impact — we must also work extremely hard at resolving a huge and ever growing number of small issues which directly affect the daily lives of our people. That is the source of most of the political heat.

That is why seemingly small problems like quotas on specific products like oranges, while of little significance in terms of the overall volume of U.S.-Japan trade, can have tremendous impact on the state of that trading relationship. They are more emotional rather than economic issues and they can create huge perceptual problems.

Imports of citrus fruit into Japan are widely seen here as a threat to a major industry, but the Japanese Government's recent action to increase the quota on oranges will allow the import of only 45,000 tons this year. This amounts to less than half a kilogram per Japanese for a full year, and will have little impact upon the Japanese nikan industry's production of 3 to 4 million tons per year. But while these amounts are economically insignificant, they
can have an important and positive political impact as concrete proof that Japan is willing to take tangible steps to come to terms with the specific bilateral economic problems which confront us.

I spent most of my life in the U.S. Congress representing the people of the State of Montana. A great many of those people raise cattle or grain or are involved in agriculture in some way. As a member of the House and later of the Senate, I voted for agricultural subsidies and quotas. I grew up close to and on the land. Like many Japanese, I believe that it's important for any country to maintain agriculture as part of its economy. I know that agriculture is a sensitive area and always liable to misunderstandings. The most difficult problem in the Tokyo Round has been agriculture. But the U.S. is pushing very hard in Geneva for a liberalization of the global agricultural market. We have asked that the cut in agricultural tariffs be subject to the same general formula as all other imports and if the Tokyo Round reaches a successful conclusion agriculture must be part of the package.

This should not have any cataclysmic effect upon the structure of the world economy because the implementation will take place over a long period of time. The dislocations in Japan will not be great, but as I said, I understand how difficult any measure can be
which affects farmers. The perceptions are all too often more important than the realities. Japan's quota on beef is another excellent example. The small changes in this quota as a result of the Strauss-Ushiba talks will hardly affect Japan's domestic beef producers at all. But I realize, and I hope that my former colleagues in the U.S. Congress realize, that these changes and those affecting citrus were made at great political cost here in Japan.

In spite of the high political cost here, I do fear that the changes made may not be large enough to affect long-standing perceptions in the U.S. of Japan as a closed market for these products. But Americans could understand a government program of aid to Japan's half million farm families, which raise an average of four cattle per farm, which would allow them to produce beef at prices competitive with imported beef. Such a program could help the farmer, lower prices for Japanese consumers, and provide increased opportunities for imports as well.

That may not be the best solution for Japan. I am simply mentioning it as a device which has worked for some products in practical political terms in the U.S. I admit it is not a solution which will seem ideal to the Livestock Industry Promotion Corporation, or the Ministry of Agriculture and Forestry. But politics is the art of compromise and in the highly interdependent world of today, trade-offs are the rule rather than the
exception. For example, if Japan opens its beef import market completely, we will sell more beef but less feed grains. This is an issue that eventually will have to be faced head-on. At some point in the future, the interests of Japan's trading partners and Japanese consumers will come together and a new system of greater benefits for all will result.

You may think that this is special pleading because agriculture is an area where the U.S. has a great comparative advantage over most other countries and because our agricultural exports are vital to our balance of payments. That is true, and Japan is our most important customer. As you might know, there is more land under cultivation for Japan in the U.S. than there is for Japan in Japan. And, while we certainly want to increase our exports of manufactured goods, we also look forward to increasing our four billion dollar agricultural market in Japan, just as Japan looks forward to increasing its markets overseas. The road runs two ways. In this area our specific interests closely match our larger mutual interests.

Let me now turn to the United States and outline a couple of examples of the political sacrifices made by the Carter Administration in support of free trade. Steel is an important industry in both our countries and steel from Japan, especially certain specialty steels, accounts for a substantial part of the U.S. market. Because of a combination of factors including tax policy,
pollution control regulations, and labor problems, the U.S. industry faced hard times—especially when confronted with a flood of low-priced steel from Japan, Europe and elsewhere. The steel issue had every possibility of becoming a disaster for U.S. economic relations, not only with Japan, but with the entire world. Very strong and damaging protectionist legislation could easily have been written into law, and it would not have stopped with steel. Any number of other bills could have ridden on the coattails of the steel caucus power-base and we would have been in real trouble. Fortunately for all of us, the trigger or reference price system of the Solomon Committee was accepted, at least on a trial basis, by both American and Japanese steel industry leaders. The plan should insure a stability in our steel trade vitally necessary for the future. The trigger price system is not a permanent solution but the new atmosphere of cooperation it has fostered will, one hopes, continue for quite a long time in helping to make American steel competitive with foreign steel in America.

Another good example is industrial fasteners. The fastener issue is not an emotional one for most Americans, unlike beef or citrus here or steel in the U.S., but the industrial fastener imports issue could become a turning point in the battle of protectionism vs. free trade. Over a month ago, President Carter rejected a proposal to increase tariffs on industrial
fastener imports. He did this because he believed that the
Japanese and others were not exercising unfair trade practices.
He was convinced that, in this case, our broader economic inter-
ests in free trade were more important than the particular
needs of the U.S. industry, even though imports, primarily
from Japan, account for almost half of the U.S. market for
nuts, bolts, and screws at a value of almost 300 million dollars
a year. This was a politically difficult decision for the Presi-
dent to make because the U.S. industry has seen a great decline
and a loss of 8,000 jobs. Even now, there is a very strong move
in the Congress, with support from many sectors to override the
President's veto. Ambassador Strauss and others are fighting
tooth and nail to see that the Congress does not take this first
step toward protectionism, but the issue is volatile.

Although the administration is standing firm for free
trade on this issue and many others ranging from shoes to
textiles, they need allies in this fight. Those allies could
well be the senators and congressmen from the beef and citrus
and grain states. The struggle for free trade is not an easy
one anywhere; the price a politician pays in fighting for free
trade is often paid at the polls. If the public believes that the administration is sacrificing American jobs just for the sake of amicable foreign relations then the already high political price may become too great to bear.

Now I will turn to the larger economic picture for a moment. Japan's fiscal year has just ended. I am sure that you have read and understood the reports and statistics much better than I. Although your growth rate for the fiscal year was not as high as expected and you still have some distance to go to achieve full recovery, the general economic situation in Japan is relatively good when compared to other OECD countries. Inflation rates in both the U.S. and Japan appear to be under control, but we will have to keep a close eye on the situation, especially in the U.S. The Government of Japan is taking important steps to boost the economy by means of a general stimulus package. We must give that package time to work because it can help to resolve many of the specific problems of the Japanese domestic economy while contributing to the larger shared goal of global recovery.
You all know that the U.S. ended the calendar year with a record current accounts deficit while Japan ended the year with a record surplus. I agree with those who argue that excess energy consumption is an important contributor to the huge U.S. deficit. We recognize the severe damage this causes our economy and the world economy. We have made some moves to at least decrease the flow of oil, but more is required. We need, and I hope soon will have, an effective energy bill, one which will provide for rational management of our energy needs and reduce our huge dependence upon imported oil. We must continue to work diligently to conserve and to restructure our energy needs. On the other hand, the U.S. cannot find all the answers to its bilateral and multilateral trade problems through the conservation of energy -- if we should suddenly cut our oil imports in half, it would have the same destructive effect on our economy that a similar cut in Japan would have on yours.
Oil has also created problems for Japan as well. Since the 1973 oil crisis, Japan, faced with a huge increase in energy costs, has successfully kept ahead of them and now has a large trade and current accounts surplus. Some economists believe that Japan over-reacted to the challenge presented by the oil crisis and that the resulting vigorous export drive has adversely affected not only Japan's trading partners but also the world economy. That over-reaction also shook the confidence of the public and had much to do with the downturn in Japan's domestic economy. Perhaps both phenomena—the increased export drive and the domestic recession—are related to the average Japanese' belief that Japan is a poor country, with no resources, which must struggle along against the rest of the world. True, Japan does not have an abundance of the resources which are dug out of the ground—nor an abundance of ground. But Japan did not become the second most powerful industrial democracy without resources of some kind. The resources I'm talking about are some 114 million educated, skilled, productive, motivated people. In addition, Japan's economic community has an efficient, modern physical plant, great capital resources, and it knows how to make things work. In fact, the barometer of the floating exchange rate would, at present, indicate that no one in the world looks upon Japan as a poor country, nor should the Japanese themselves.

I do not propose to recount all of the events of the past year and I know that you are all very well informed about
what has occurred in the intensive round of U.S.-Japan trade talks which took place in December and January. Ambassador Strauss and Minister Ushiba are scheduled to meet next week in Geneva. I am sure that the same atmosphere of goodwill will prevail in these talks in Geneva as well. The major concern at the highest levels of government in both Japan and the U.S. remains world trade -- world economic problems.

You have heard or read all the arguments pro and con on reflation and the concept of locomotive economies. I don't think that I can add much to what has been said by others much more qualified to speak on the topic except to say that I believe that the commitments made by the U.S. and Japan in the Strauss-Ushiba statement are genuine and in the best interests of both countries and, in the long run, of the global economy.

However, to return to our bilateral problems, I believe that the greatest dangers for both countries lie not in global problems nor in our mutual energy problem. The danger lies in the widely held belief in the U.S. of an economic imbalance or opportunity in our bilateral trade. Japan's remaining import restrictions, its rising exports and the problems American manufacturers have in selling their products here have brought about the serious situation in the American Congress. Japan's current account balance in January and February has been extremely high, and this has imposed heavy burdens on other countries.
This situation should be reversed. If it does not begin to improve soon, Congress will, in all likelihood, begin to lose patience and may well consider legislation which hurts trade and the economic interests of all trading nations, especially Japan. The weight of our specific problems could become so heavy as to override our larger interests.

I realize that I have been painting a pretty bleak picture. The situation is not hopeless. Far from it. I believe that the steps outlined in the Strauss-Ushiba Joint Statement record substantial progress not only with respect to the global picture but also in laying the groundwork for a rapid change in the Japanese market for imported goods.

First, both sides made commitments to the Tokyo Round of Multilateral Trade Negotiations to reduce or eliminate barriers to trade. Both sides said they would lower tariffs on items of interest to each other beyond the MTN standard formula levels. Japan announced tariff reductions which took effect in advance of the planned April 1 date. This has improved the atmosphere for U.S.-Japan trade. Japan has also made comprehensive tariff offers in the MTN. We are not completely satisfied with them, but we are moving in the right direction. All of these efforts are aimed at reconciling our specific domestic interests with our broad-scale global aims.
I believe that the forest products study group, the citrus group and the beef group called for in the Joint Statement are already making substantial progress. These are study groups, and study is necessary. For example, we must see if we can produce finished lumber and wood products suited to the Japanese market. Part of the purpose of these groups is to study such matching of the products to the market and to make sure that industry regulations apply fairly to both the imported and domestic product. A great deal of attention on both sides of the Pacific will be focused on these groups and what they come up with. They can be substantial steps in the process of establishing equal access to Japanese markets.

These study groups, along with other mechanisms of the Trade Facilitation Committee, may also serve as a communications channel whereby questions and criticisms can be answered directly and speedily. Far too often, questions have become strident complaints simply because they have gone unanswered. The industrial chemical importer asks why he is having great difficulty penetrating the Japanese market, especially when the domestic price for the same chemicals may be substantially higher than the world price. If he does not get a satisfactory answer, he assumes, and tells others, that Japan is a closed market. I sincerely hope that the Trade Facilitation Committee will be able to remove all such sources of friction and misunderstandings.
There is no doubt that America is a nation deeply involved in international trade. However, as international traders Americans still have much to learn, and Japan provides some useful examples. If Americans wish to succeed in the Japanese market they must do their homework -- through these study groups and in other ways. Sometimes they will have to adapt their products to suit the tastes and needs of the Japanese consumer. This has been the key to Japan's success in our market; the same formula should work here. It is a long, hard process and there is no such thing as a quick buck in this market. The Ikeda Mission played an important role in awakening American businessmen to the potential market in Japan and I note that the Department of Commerce is putting together a high-level export promotion mission which will travel to Japan later this year. I hope that they can match the success of the Ikeda Mission.

The Ikeda Mission, or more properly the Japan Import Promotion Mission, which went to the U.S. under the auspices of the U.S.-Japan Joint Trade Facilitation Committee has been a big newsmaker recently. The trust given Mr. Ikeda and the other members of the mission was well placed. The group worked hard to explain some of the complexities of the Japanese economy and to assist American businessmen in making the proper contacts for exporting their products to Japan. That mission succeeded beyond anyone's expectations. Purchases of almost 2 billion
dollars have been registered. Doubtless some of those purchases would, sooner or later, have been made anyway, but 1/3 and more of them are actually new. That is an exceedingly clear sign of Japan's commitment to open up its market to new products.

Both countries have strong economies and we have a strong trading partnership, but it is absolutely essential that we both recognize our mutual interests in complete equality of opportunity in both of our markets. If Americans have the same access into your market that you have in ours and still cannot compete successfully or balance our bilateral trade, then the blame for that imbalance will fall squarely upon the U.S., its manufacturers and its exporters. But as long as any inequality or unfair restrictions continue to exist, then Japan will continue to be partially blamed -- fairly or unfairly -- for our trade imbalance. Those are the facts of political life.

Free trade always has been in Japan's best interest. Indeed the whole phenomenon of your postwar economic growth has depended upon one essential: free access to the markets of the world. Now, the time has come to demonstrate your complete and open commitment to free trade by allowing others access to your market. Even if our two countries join forces in support of the basic principles of free trade, we will have a long, tough struggle ahead because those nations leaning toward some form of protectionism far outnumber those standing up for
free trade. If your nation or my nation succumbs to the temptation to protect the marginal or economically weak segments of our economies, if we allow narrower political interests to cloud our vision and prevent complete cooperation, then our larger shared interests will be sacrificed and chaos will follow; chaos not only for Japan and the U.S., but for all the nations and peoples of the world.

The fluctuations which occur in a free economy are many and they always produce both joy and sorrow. In the free world, we believe that the basic strength of a free economy is its flexibility. It can adjust, and adjust rapidly, to meet changing needs and circumstances. And, it is those changes and that flexibility which produce the opportunities and incentives which power a free economy. But one man's opportunity may very well be another man's bankruptcy as the production pattern moves to meet changing tastes and needs. We must strive to learn more about how the marketplace works, and how to blunt the negative aspects of fluctuation without resorting to protectionism.

Protectionism is an admission of failure, of inability to cope with the challenges of a free market system. Protectionism means that a government has failed to find ways to make the necessary adjustments in its domestic economy. It means that a government has failed to cope with changes in the global market. It means surrendering broader national and international interests
to the demands of narrow specific interests. I think we all view the prospect of protectionist legislation around the world as a grave challenge, a potential crisis. The danger is not over; the flood waters of protectionism have not yet subsided. But perhaps they have crested. And we can begin now to address these problems not in an atmosphere of crisis or confrontation, but in one of trust and cooperation.

As I said at the beginning, I am no economist. I have no magic answer for all our economic ills. But I am convinced that, since the 1973 oil crisis, our global economy has changed in a profound and fundamental way. The classic economic prescriptions established over centuries no longer seem to work, and the solutions offered by so many economic "doctors" are, one by one, being found ineffective with every passing day. We can no longer depend on the conventional economic wisdom of the past.

Nevertheless, I am an optimist, and I believe that we can, and will, find solutions to our bilateral and global economic problems. But first, we have to find ways to define and measure the problems and to agree upon their causes, for only with that clear knowledge can we begin to devise solutions -- solutions which work. Moreover, I am convinced that we must attack our problems jointly because they are truly our problems -- not just Japan's problems and not just America's. And it does us little good to lecture each other unless we are prepared to cooperate in finding answers.
Answers are hard to come by. Frankly, I don't believe anyone can say with absolute confidence that he knows what must be done. But we should be willing to break some new ground, to try some audacious and unconventional solutions. What would happen, for example, if both Japan and the U.S. reduced tariff rates to zero on commodities of major interest? Perhaps we should establish international understandings in certain capital-intensive heavy industries such as steel, synthetic fibers or petrochemicals, designed to avoid excessive and wasteful investment by the world as a whole. Realistic discussions and coordination of national export prospects and expectations should be possible in the context of maintaining stable markets and facilitating rational business planning. Parliamentary exchanges on a much broader scale would help, especially those which involve the leadership of the various special committees dealing with economics and trade. And, finally, an on-going series of seminars held throughout Japan on U.S. products and on the whole business of importing could be useful, especially seminars directed toward smaller businesses, consumer groups and others who lack expertise in this area. Both Japan and the U.S. have justly-deserved reputations as inventors, adaptors and innovators. I think we have reached the point where some innovation is needed.
Let me close by repeating my belief that we must strengthen our bilateral relationship in an atmosphere of trust and cooperation. As Prime Minister Fukuda has said, our destinies are joined -- and those destinies depend upon open and expanding trade. Together, we have learned some hard lessons and I think that now we are ready to begin to apply those lessons, working together.

* * *