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REMARKS BY AMBASSADOR MIKE MANSFIELD
TO THE AMERICAN CHAMBER OF COMMERCE IN JAPAN
HOTEL OKURA, TOKYO
SEPTEMBER 19, 1978

Members of the American Chamber of Commerce in Japan and friends, it is a pleasure to be with you today. I have often met informally with your directors and many of you as individual members, but it is a special occasion for me to speak to the entire membership. I say this because the overall significance of America's business presence in Japan and Asia, always great, has ^{MARKEDLY} ~~significantly~~ increased since I came to Japan. The American Chamber of Commerce in Japan represents that presence in all its aspects. The good work all of you are doing is vital to maintaining and strengthening our close ties with Japan.

I appreciate the good sense of team work we have here. You will be amused to hear just how good it is. As Chamber members and Embassy officers have gone around Japan together promoting the upcoming Export Development Missions Japanese

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businessmen have said that they are impressed with how closely U.S. business and government work together. They wish that the Japanese government would help them more. I guess I should say to you -- "Welcome to America, Inc."

In the last sixteen months Japan's swollen current account surplus and our own current account deficit have focused tremendous attention on the problems in our economic and trade relations with Japan. I believe that we have to look at these current account imbalances on a global basis, but we cannot ignore the bilateral and domestic side. The global economic arena creates its own pressures for reform and adjustment. The real danger areas, however, are in domestic economic and bilateral relationships. These are the areas where tremendous pressure may be brought for radical, rapid solutions which often turn out to be no solution at all. No matter how successful we are in the big arena -- like the MTN's -- it is up to us, up to each country to find ways within its own domestic economy to adjust to the realities of a changing economic world. But I know from my years in Congress that in this domestic adjustment the problems become more human than economic and the solutions become very tough political ^{issues} ~~problems~~. Much patience and understanding is needed on all sides.

I think that all of you understand the origin ^{of} the current imbalance difficulties. The oil embargo and huge increases in

oil prices in late 1973 and early 1974 came on top of already strong inflationary pressures. This produced in Japan -- as elsewhere -- great concern about the viability of modern industrial economies. The effectiveness of new policy directions taken in the post oil shock period was nipped in the bud because in 1975 the industrial world headed into its worst recession since the 1930's. The pattern of recovery from the dislocations of the oil shock and from the recession varied widely among the industrial countries. In the U.S. the recovery was relatively quick. In Japan recovery was more hesitant. We know that over the past two years, these factors contributed to a large U.S. current account deficit and a large Japanese current account surplus.

The fundamental differences in the way the U.S. and Japanese economies functioned in 1974-76 were magnified, I believe, by two facts. The first is that of all the world's large economies, the U.S. is probably the one most open to imports. The second fact is that Japan has traditionally given exports high priority and resisted imports except for essential commodities because Japan tends to see itself as small and extremely vulnerable.

In the last year and a half, however, important steps were taken which laid the groundwork for improved and more

realistic trading relations. On the U.S. side we have adjusted our fiscal and monetary policies to deal with an inflation that has -- temporarily -- proved stronger than we had hoped and anticipated. We have been seeking, and will continue to seek, other means of controlling inflation in the U.S. We are seeking to convince more American businessmen of the need to export, and are developing a program to support them in their efforts. And as you know, the President has asked Secretary Blumenthal and Federal Reserve Board Chairman Miller to consider and recommend actions to deal with pressures on the dollar. These actions are being announced as they are developed.

The Government of Japan's dedication to promoting strong and sustained economic recovery at home has been widely noted and appreciated. The substantial appreciation of the yen over the past year has set in motion strong forces to bring about needed current account adjustment. I believe that there is already evidence that in recent months Japan's international trading accounts have begun to respond to these and other forces. I think also that the agreements reached between Minister Ushiba and Ambassador Strauss last January represented a major commitment toward solution of our common trading problems.

Japan is a strong competitor in world trade, but that competitiveness is concentrated in a few industries: ship-

building, steel, autos and consumer electronics. Japan's production facilities in these areas are about the most modern and efficient in the world, but that competitiveness has reached a peak and is virtually certain to decline. Greater competition, particularly from developing countries, is bound to develop. As this occurs, of course, Japanese industry will not be napping. We can expect new industries to produce new lines of exports from Japan as Japanese businessmen work to maintain markets. We can expect that Japan's export strength will not be so concentrated in the future.

Perhaps the most fundamental step or change called for is the restructuring of the Japanese economy. This subject has been much discussed in the press and among economic decision leaders. But remember, restructuring is a continuing effort; there is nothing new about it. In the past new investment in Japan was often directed at increasing exports or reducing imports, and it worked extremely well, but under present conditions new investments in Japan oriented toward exports will not be as attractive as they were in past years. The press recently has described restructuring plans in the aluminum and shipbuilding industries where excess capacity is being scrapped. These measures are a necessary beginning and restructuring will and should go further than that. By closing

old plants and directing new investments properly, Japan can maintain a strong economy oriented to national needs. I believe that at the same time Japan can make room for imports which will also meet important needs and balance Japan's international accounts more effectively.

The 13 billion dollar economic stimulus package Prime Minister Fukuda announced earlier this month is directed toward increasing economic growth and the quality of life at home, while reducing the international payments surplus and maintaining price stability. The U.S. will play a role in further raising Japanese living standards by supplying not only agricultural products as we have done in the past, but also by providing a broad range of consumer and capital goods at competitive prices.

Better access to Japanese markets has been a major U.S. objective in the multilateral trade negotiations and in our bilateral meetings. The MTNs are coming close to completion. The value of concessions and counter concessions is now being reckoned, and I am confident that the final results will show that Japan has done its share. The Trade Facilitation Committee is a different forum, one in which we can raise more specific complaints. It has had many growing pains, and has not always been successful. However, the TFC is accumulating

a good record. Out of sixteen cases presented, eight have been resolved through formal procedures and two more informally. We have not given up on the other unsettled cases. We still hope to improve the record.

Improving market access is a long-term goal of the Joint Trade Study Group in which this Chamber has been very active. Many of your members have volunteered their skills and time to this project. Results on some studies are good. Other studies are still in progress. Long-term problems, involving official and unofficial barriers to trade, delivery costs, and marketing are not susceptible to easy or quick solutions, but the will is there on your side. Your work has earned my highest commendation. Would that there were more like you.

In order to achieve early improvements in trade, the Government of Japan has embarked on a program of advance payments and emergency imports. In late August an agreement was initialed for prepayment by Japan of 1 billion dollars for uranium enrichment services. New aircraft imports financed with Japan Ex-Im Bank assistance should exceed 800 million dollars. Japanese Government imports of crude oil for emergency stockpiles should be more than 400 million dollars. New sales of uranium for use in Japanese nuclear power plants

are possible. These could amount to 500 million dollars. The total of such imports is intended to be 4 billion dollars in spending on imports in this Japanese fiscal year.

Japanese firms are increasing their investment in the United States. Most of these investments will substitute for imports and improve our trade balance. Five Japanese companies are investing or have already invested in television and electronics manufacturing in the U.S. There are good prospects for Japanese investment in auto building. The investment climate in the U.S. is excellent; many Japanese companies have taken advantage of it and many more will do so in the future.

Japanese foreign aid until recently has provided trade opportunities only for Japanese or developing country suppliers. That policy has changed, however, and an increasing number of assistance loans allow procurement from any supplier. During August for example, this policy has meant that of more than 300 million dollars in new assistance loans negotiated, 225 million dollars were completely untied. That does not guarantee that U.S. or other foreign firms will win new contracts, but a new opportunity is there which offers still another means to bring trade into better balance.

Japanese tourists are going to the U.S. in increasing numbers, taking dollars with them. In Hawaii they do not stay as long as U.S. mainland visitors, but they spend more per day. Last year we received 750,000 Japanese visitors; this year the figure should be 800,000.

Closely related to tourism is the question of the U.S.-Japan Civil Aviation Agreement on which we expect to have renewed talks this fall. This agreement is being severely criticized by aviation industry circles in Japan as unequal. To correct any such perception, accurate or not, the U.S. side is prepared to offer Japanese air carriers new gateways in the U.S. in addition to the seven now authorized, and new beyond rights, even though U.S. carriers have only three gateways in Japan. These concessions should, of course, be part of a new agreement which provides for low-cost fares to benefit passengers of both countries. Better access for charter operations which are not now provided for and assurances of fair and reasonable access for all to Japanese airports where service is limited by noise abatement rules and fuel shortages should also be dealt with. I am not making specific negotiating proposals. These must be left to the negotiating table. I do suggest that we move beyond talk about "unequal" agreements so that we can conclude a new and modernized civil aviation agreement between our two countries. We seek expanded opportunities

for air carriers in both countries and benefits for the public through increased competition. In view of Japan's strong international economic position and proven competitiveness in many areas, such an approach should be acceptable.

The most important change I see coming in the vital commercial ties between our two countries is an improvement of overall U.S. business export consciousness and export competitiveness. This of course is an area in which all of you are deeply involved. Throughout the postwar era U.S. goods and services have been in strong demand throughout the world, while our overall reliance on foreign trade has been limited in comparison with the size of our huge internal markets. That meant that exports were less important to us, and we did not need to make special efforts to promote them. Most Americans did not and even now do not realize that the 1973 oil price increases changed our basic situation in the world. President Carter gave special attention to the new situation last spring when he established an interagency task force on exports. That task force has recommended to the President, and I believe he will approve, an expanded export promotion program. This represents a clear change in favor of a positive government program to assist U.S. businessmen in expanding their exports.

I hope the Embassy can continue to work with the Chamber to find ways to expand direct U.S. exports to Japan. I want your joint ventures that involve production in Japan to prosper, but I also call on you to look hard for direct import possibilities.

Many Japanese still ask "what more can we import from the U.S. and other countries? We now buy all the food and raw materials we can use and we make everything else we need right here in Japan (and we make it better and cheaper than it can be produced elsewhere)". There are signs that this kind of mythology is beginning to crumble. Many Japanese industries now have factories in Taiwan, Korea, the Philippines and elsewhere which undercut part of the myth. In addition the appreciating yen has and will continue to make various U.S. consumer goods very competitive in this market. The traditional view that imported goods mean luxury items only, with prices to match, cannot last much longer. Not against the Japanese public's increasing awareness that there are benefits of the strong yen which can and must be passed on to the consumer. Anyone who has recently visited the U.S. knows that many consumer goods are available at much lower prices there.

The role of government in resolving trade problems, as I see it, is to remove barriers and disincentives to U.S. exports and create incentives where we can. I would like U.S. businessmen to move ahead aggressively to increase exports, and I believe that they will be pleased with the results if they do. In many cases this is already happening and I am confident that there will be a steady improvement in our export consciousness and effectiveness. The opportunity is there and all of us want to seize it. That is why the Secretary of Commerce Juanita Kreps and Mark Shepherd, Chairman of Texas Instruments, and over 100 American businessmen are taking part in the export development missions to Japan next month. These missions and others which will follow in the months ahead are just part of a long-term effort to correct international payment problems by expanding exports. The participants come from a wide spectrum of U.S. companies, many from firms which do not yet export to Japan but are interested in examining the prospects.

We have had great help from many segments of Japan -- Government Ministries, Keidanren, JETRO, local Chambers of Commerce to help make our October Missions a success. The degree of cooperation reflects, I think, the general recognition in Japan that it is important to see more U.S. imports and soon.

At the end of October a food products importing mission of about 55 Japanese business representatives from 32 companies will go to the U.S. They will visit five marketing centers where U.S. companies will display processed food products already cleared for export to Japan. This Japanese food buying team is the largest of its kind ever assembled, and it shows a strong interest in U.S. products.

The result of all these efforts and influences added together is that trade imbalances are gradually showing signs of correction. U.S. imports of oil have declined. The coming on stream of Alaska oil explains much of this improvement, but we have also cut up to now, the rate of our oil consumption increases. Before worsening in July, our international trade accounts had shown signs of improvement. In the second quarter of 1978 U.S. exports rose 15 percent while imports rose only 4 percent. Looking ahead, prospective shifts in growth rate differences between ourselves and our major trading partners will also help. Global demand for U.S. made metal-working machines, business machines, computers, agricultural machinery and electric power equipment has been high. With proper efforts by U.S. business, properly supported by government export promotion policies, this record will continue to improve.

Japanese trade is also showing many early signs of a turn-around. Japanese auto sales in the U.S. have declined in each of the last four months. Japanese steel shipments have leveled off at rates well below the peaks of late 1977 and early 1978. Color television exports have dropped and Japanese manufacturers may even fall short of filling their quotas for sales in the United States. Japanese consumer electronics and optical goods continue to sell well, especially video tape recorders which unfortunately are not produced in the U.S., but even in this broad market U.S. firms are showing a revived willingness to compete. In 1976 Japanese exports rose 22 percent in volume and in 1977 they rose 7 percent. But this year Japanese export volume is heading toward a decline of 8 percent.

One factor that deeply concerns me is the rate of inflation in the United States. It is too high, ^{up from 5.5% for first 6 months of} 10.4% for the ¹⁹⁷⁷ first six months of 1978. ^X If we do not get inflation under control, all of our efforts to make U.S. goods more competitive at home and abroad will be undone. Our inflation rate was down in July, a welcome change, and I hope we can keep it down.

The U.S. economy is strong. U.S. technology is still the most advanced, the U.S. worker is still productive, and we still possess the skills and resources to compete, on fair and

^X
Compared to Japan down from 7.5% in 1977 to 5% ^{W. Germany} down from 4.0% in 1977 to 3.0% - both for the first half of 1978.

reasonable terms, with any other economy in the world. At the same time, Japan and many other countries have developed at high rates and have achieved record levels of prosperity. We welcome those successes. They have been a primary goal of our international economic policies in the postwar period. They mean that new markets and new investment opportunities have been created for the benefit of all. However, the growth in world trade to record highs has brought with it burdensome imbalances in international markets which are also at new highs. We have the ability to manage and correct those weaknesses.

It requires patience, good will and hard work on all sides. Old rules, old trade barriers, and the narrow approach of the devil take the hindmost must be abandoned. The importance of this task is well understood in Japan, and much has already been done. Over the months to come there is no more important objective for you or for me, or for our two countries. Working together we must and will succeed.

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