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Southeast United States/Japan Association

Mike Mansfield 1903-2001

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I would like to say at the outset that I am pleased to be in Florida, a state whose maritime position has kept it in the forefront of our overseas commerce and has given to its people an unusually sound understanding of the importance for all Americans of contact with other lands. But this audience, representing not only Florida but the other states of the American Southeast, is of course especially enlightened. You are concerned here not only with our nearer neighbors in Latin America, across the Atlantic or in the Caribbean, but with a nation--Japan--almost as far from the Southeastern United States as it is possible to go.

You recognize that despite the great distance which separates us, Japan and the United States are immensely important to each other. In fact, I hope many of you share my judgement that no foreign tie is more essential to the well-being of this country than the broad relationship we
maintain with Japan. I want to speak of Japan and the United States today, but in the larger framework of East Asia and the American role in that vast and changing region.

There is no doubt in my mind, nor I hope in yours, that the U.S. does indeed have an important role to play in East Asia and the Pacific. We are interested in Asia not out of caprice but because our most basic interests have required us to be there. Despite the recent tragedy of Vietnam, and the disillusionment which that experience spawned in American society, and despite growing attention to domestic concerns, our interests in the Pacific and East Asia require us to stay there -- and we will. Let me sketch briefly for you how I conceive of those interests.

First, it is my firm conviction that Northeast Asia is an area of vital strategic importance, arguably the most vital in the world. It is in that region, not in Europe, that the world's three great military powers -- the U.S., the USSR and China -- come most closely together. China and the USSR face each other across a long and heavily fortified border. The Soviet Union, we often forget, is also the third closest neighbor of the United States. We are in even more proximate, if indirect, contact with Russia and China through our alliances with Japan and the Republic of Korea.
There is presently something of an equilibrium in Northeast Asia. Each of the major Communist powers appears to have recognized what the United States and Japan have long known—that the extreme danger of adventuristic policies far outweighs any possible gains. This recognition has bred restraint, and considerable commitment even on the part of the Communists to the preservation of a stable status quo. Nonetheless, there is danger—in Korea, where the intentions of the North remain difficult to fathom, and indeed along that lengthy frontier between China and the Soviet Union. The situation demands constant attention.

The United States alliance with Japan strengthens our position within this Northeast Asian equilibrium, and indeed is the keystone of our security policy toward all East Asia. It joins us in a constructive and dynamic partnership with the world’s third largest economic power, and a nation which wields increasing political as well as economic influence around the globe. The alliance permits us to have major bases in Japan, which are indispensable, as are Subic Bay and Clark Air Force Base in the Philippines, to our forward posture strategy in Asia. The strength represented by the U.S.-Japan alliance is recognized throughout the region and the world, and is a major factor in the preservation of peace and security in East Asia.
For Japan, the alliance is also the central pillar of its defense and foreign policies, providing a strategic foundation from which Japan can deal confidently with its two large and heavily armed Communist neighbors. It relieves Japan of the necessity of developing its own strategic deterrent capability and, in a broader sense, has contributed to Japan's ability to play an increasingly active and productive international role.

I should add that I am convinced that Japan's present security policies, in which its forces are designed solely for the defense of its own territory, are proper and appropriate for that country. The United States has not pressed Japan, despite its wealth and capability, to undertake significantly expanded security responsibilities, or in any sense to replace us as a regional military influence. Strong domestic constraints upon such a role continue to exist. The Japanese retain, as a matter of political principle, an aversion to warfare perhaps unique in the world, and Japan's constitution renounces war as a sovereign right. Attitudes toward legitimate self-defense are changing as Japan continues to upgrade the quality of its forces, but Japan is not heading toward "remilitarization" or anything approaching it.
Moreover, the Japanese are mindful that their neighbors might well find the prospect of Japanese rearmament unsettling and threatening. Regional stability would be profoundly disturbed, the strategic equilibrium of Northeast Asia would be upset, and dangerous uncertainties could confront us.

However, even under present circumstances, Japan devotes impressive resources to security. Japan's defense expenditures in dollar terms are the ninth largest in the world, even though they remain small as a percentage of gross national product, and they are increasing. For 1977, the Japanese defense budget was $6.1 billion; this year it is just under $10 billion; the projected figure for 1979 is $11.2 billion. While we have not urged Japan to expand its defense establishment, we have felt that there was room for qualitative improvement. The Japanese Government has recognized this need, and considerable progress has been made. For example, during the past year the Japanese have appropriated funds for the purchase of the F-15 fighter, and the P-3C anti-submarine warfare aircraft. In addition to the development of increasingly effective air, sea and ground defense forces, Japan contributes large sums for the support of U.S. troops stationed on its soil. Those
expenditures amounted to an estimated $565 million last year, and will be larger this year. Although the two situations are of course different, Japanese support for our military presence is comparable to what West Germany contributes to the support of over four times the number of U.S. troops.

Finally, I would note that the U.S.-Japan security relationship appears to have achieved broader public acceptance and support within Japan than ever before. It is no longer a bone of contention between the government and opposition parties, and instead is increasingly seen as indispensable to the safety and well-being of Japan. These changing perceptions reflect a more realistic appreciation among the Japanese people of the nature of the security environment in East Asia, and of the importance in that context of a United States Security role in the region.

Our own military presence in East Asia and the Pacific has been adjusted in recent years, in accordance with changing circumstances there and changing assessments here at home of our national priorities. I believe our present security policies toward the Pacific are sound ones, reflecting both confidence and prudence. Certainly we are no longer overcommitted in Asia as once we were. On the contrary, in recent years we have devoted too little attention to this vital
region, focusing too intently upon the security needs of Europe. However, I believe that we are once again giving Asian security the attention and the resources it deserves of us. I am particularly heartened by steps now underway to modernize and strengthen our Seventh Fleet and our Pacific air forces. The trends are in the right direction, and they should be continued. So long as we maintain a strong presence in the Pacific, we need not fear for the future there.

If East Asia is strategically vital, it is no less so economically. Just as the world's greatest military powers come together in Northeast Asia, so too do its largest economies -- the U.S., the Soviet Union, and Japan. I have watched the development of U.S. relations with East Asia for the better part of half a century. I was convinced at the outset of that period that our economic well-being and the economic progress of Asia would be increasingly intertwined. I am more convinced of this now than ever before.

Throughout most of East Asia today there are needs which create opportunities for us -- needs for trade, for investment capital, and for technology, along with some economic assistance. But the day of the client state is past. We must deal with our East Asian partners on a basis of genuine
equality, mutual understanding and mutual trust. Most East Asian governments are very well disposed toward the United States, and their friendship provides a strong foundation for long-term commitments on both sides. For America, and the world, East Asia is the area of the future.

Even now, the magnitude and quality of our economic ties with East Asia are one of the most impressive features of the world scene:

-- United States trade with East Asia exceeds our trade with any other region, and is growing more rapidly than with any other region.
-- Rates of return on investment in East Asia are the highest in the world, and the trend is up.
-- A broad array of natural resources remains to be developed in East Asia, including an impressive oil potential.
-- East Asia's bright economic prospects are even more vividly underscored by its vast and highly motivated labor force.
-- East Asian governments are for the most part devoted to economic and social progress, and have proven unusually adept in making good use of their nations' human and natural resources to bring it about.
As a result of their sound management, and the basic health of their economies, East Asian currencies are among the strongest and most stable in the world.

Nowhere is the economic potential of East Asia, or the benefits of partnership with it, more evident than in the case of Japan. Our trade with Japan continues to increase, to levels beyond the most optimistic projections of economists even a few years ago. There is an increasing flow of investment in both directions. Japan and the United States are increasingly effective as partners in dealing with macroeconomic issues on a global basis. And both Japan and we have made major efforts to resolve problems which have arisen in our bilateral trade relations. We have not been entirely successful, of course, but much progress has been made, and the ultimate prognosis is good.

The magnitude of United States trade with Japan is staggering. It will exceed $31 billion in 1978 -- by far the largest trade between non-contiguous states in history. The benefits it brings to our people, consumers and producers alike, are enormous. Some of the problems associated with it are also enormous, and as Mr. Strauss and Minister Ushiba would agree, can be mighty difficult to solve. Our trade
deficit with Japan weighs heavily in our global current account
deficit, which in turn undermines the value of the dollar.
But while the current trade imbalance and the resulting strains
on the dollar are serious problems, they are far outweighed by
the benefits of international trade, which creates many more
jobs for Americans than it absorbs.

The Japanese Government has given close attention to the
payments imbalance. It has taken a variety of steps to
encourage imports and limit exports. Those measures, along
with the rise in the value of the Yen, appear to be having
the desired effect. There is mounting evidence that our
trade account with Japan is beginning to move back toward
balance. Since March there has been a gradual decline, with
few interruptions, in Japan's monthly trade surplus. Export
volumes declined in the second quarter and are likely to do
so again in the third. Imports into Japan of United States
goods in August 1978 increased over the previous August even
in Yen values; the dollar value increase was of course much
greater. The Japanese Government made a major effort earlier
this month to assist the largest U.S. trade mission ever to go
abroad. Commerce Secretary Kreps, Mark Shepherd, Chairman of
Texas Instruments, and Assistant Secretary of Commerce
Frank Weil led a delegation of more than 100 businessmen
interested in selling to Japan. The reception was excellent and most mission members achieved their business objectives. We believe it will have good effect over the long-term.

Japanese investment in the United States is also increasing; the total of such direct investment passed 1.7 billion dollars in 1977. The Japanese estimate that their direct and indirect investment in this country now exceeds 4 billion dollars. Most of these new 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., and there are good prospects for Japanese investment in auto manufacture. 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. The Ministry of International Trade and Industry has estimated that Japanese overseas investment will be $85 billion in 1985 compared to approximately $21 billion now.

But to continue to compete in world markets we have to keep our own prices down. The annual rate of inflation in the United States deeply concerns me. It is far too high -- 10.4 percent on an annual basis for the first six months of 1978. This compares with about 3 percent for the Federal
Republic of Germany and about 5 percent for Japan. Our inflation rate declined in July-August, a welcome change, and I hope we can keep it down. We must do so. We can criticize other countries if their policies deny us the chance to compete fairly in the marketplace; but we cannot do so if we price ourselves out of it.

Finally, I would like to say a few words about one specific sector of our trade with Japan which is especially important to many of you -- agriculture. The record is extremely positive and impressive.

The United States is the world's leading food and fiber supplier and Japan is one of the world's leading importers. Japan imports roughly half of its food requirements and the United States is the largest supplier of these needs -- accounting for a third of the total. At the same time, Japan is our largest market for agricultural products taking 15 percent or more of our total farm exports each year. There is more farm land in production for Japan in the United States than there is in Japan. We are a highly valued and reliable supplier.

Our 1977 farm exports to Japan totaled $3.9 billion -- a new record despite lower commodity prices in the United States.
Sizable increases in volume for some of the big money items including corn (up 22 percent) and soybeans (up 11 percent) were insufficient to offset the lower farm prices for those commodities. Further substantial growth is expected in Japanese requirements for feed grains, soybean and soybean products, and while growth will be somewhat slower for some of the bulk commodities, our exports will exceed the $4 billion mark in the current calendar year.

In terms of specific commodities, Japan is our largest single market for soybeans, corn, wheat, cotton, grapefruit, lemons, poultry, beef, tobacco and the list goes on. The top ten states in total U.S. agricultural exports to Japan usually include: Illinois, Iowa, Kansas, Texas, California, Minnesota, Nebraska, Indiana, Arkansas and North Carolina.

But some 30 other states, including all those represented in this Association, also benefit directly from our agricultural trade with Japan. On an individual commodity basis, our host state is among the ten top shippers of fruits, vegetables and tobacco. Mississippi, Louisiana and Tennessee are among the top ten shippers of soybeans and cotton. North Carolina, South Carolina, Georgia, Kentucky and Virginia are the five largest tobacco suppliers to Japan. Georgia is the largest poultry and peanut supplier.
At the same time, as all of you know, we have some problems in the agricultural sector. In fact, two of the most difficult issues between our two countries right now are Japanese import quota restrictions on oranges and citrus juice, and on beef -- important items to this and other areas of the United States. Despite the high level of U.S. farm product exports to Japan, we know the potential is even greater. We have therefore kept agriculture in the forefront of our concerns in both bilateral and multilateral trade negotiations, led so admirably by my old friend, Bob Strauss.

The understanding reached in January this year between Ambassador Strauss and Minister Ushiba was one important step. It provided for a 10,000 metric ton per year increase in the quota for high quality beef (essentially U.S. prime and choice equivalent), a 30,000 ton increase in oranges, and a 3,000 ton hike in orange and grapefruit juice concentrates. (Those figures exclude special additional quotas for Okinawa.)

As a result, during the current Japanese fiscal year ending March 31, we will export up to 16,800 tons of high quality beef -- making Japan by far our largest single market for beef. We will export 45,000 tons of fresh oranges --
making Japan our third largest orange export market after Canada and Hong Kong -- and we will export 4,000 tons of 5 to 1 orange and grapefruit concentrate.

There have been other advances:

-- In July of this year, U.S. sweet cherries entered Japan for the first time in over 50 years, reflecting joint U.S. Government and industry efforts in overcoming Japanese plant quarantine concerns, specifically the codling moth.

-- Florida oranges were imported into Japan in significant quantities for the first time this year as a result of revisions in the timing of quota allocations.

-- In April 1977 the fungicide OPP was approved for use on citrus shipped to Japan, and on August 22 of this year the Minister of Health and Welfare announced the approval of TBZ, also used to maintain the high quality of U.S. citrus while in transit. I understand that the value of the increased trade made possible by these approvals will be in the range of $6-10 million. I would add that the strong support of the Congressional delegations of the citrus states and leaders in the citrus industry was invaluable in our efforts to secure these approvals.

-- At my request in August, Minister of Agriculture Nakagawa, who I regard as a personal friend, increased the level...
of beef quotas for department store promotions, which we expect will help to increase popular demand in Japan for U.S. beef.

We have some problems remaining in agriculture, including quota restrictions, a longer season for orange imports, the distribution system, bureaucratic technicalities to be overcome, and a good many others. But what we need to keep in mind with respect to agriculture, as in our overall trade, is that the benefits we derive far outweigh the problems we face. We have come a long way, in cooperation with our Japanese friends, in paving the way for further trade increases. We have pushed the door open wider, and we plan to keep up our vigorous efforts. I can assure you that we will be further along by the time the Tokyo round of the MTN is wrapped up.

I want to leave you with a more general thought. The future of American relations with Japan is full of promise. Our partnership in all its various aspects -- security, political and economic -- can only grow more important to us both. And as it does so, that partnership will become an increasingly powerful and positive influence throughout East Asia and the world. There will be more difficult problems ahead in a relationship as large and complex as this one. But the prognosis
is good. I believe both sides not only are better able, but more determined than in even the recent past to resolve any and all of the difficulties we may face. That ability and determination reflects an even more important characteristic of the relationship between Japan and the U.S. today -- the genuine friendship and growing understanding with which we deal with each other.

The big story for the past 30 odd years has been the East-West confrontation -- centered in Europe, with side effects in peripheral areas. The big story for the rest of this century will be the rise of East Asia -- Japan, China, the nations bordering China and the islands adjacent thereto. That area has the people, the resources and the markets. It is there that our future lies, and it is there that we are determined to stay.

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