Yomiuri International Economic Society

Mike Mansfield 1903-2001
ADDRESS BY AMBASSADOR MIKE MANSFIELD
BEFORE THE
YOMIURI INTERNATIONAL ECONOMIC SOCIETY
AT KEIDANREN HALL, TOKYO
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Although this hall is well known as an economic forum, I am going to refrain today from giving what might be called an economic speech. Instead I would like to talk about several important aspects of United States relations with Japan, including the economic, as I see them after almost two years on the job. If these remarks have a theme, and I hope they do, it is one you have heard from me before -- that the United States and Japan are joined by many important elements, together forming a strong bond of partnership and interdependence; and that we need to be aware of the complete range and depth of our relations, even when our preoccupations may be in one particular area. These recent months may have been a time of economic trouble, but they were also a period of important progress in many areas.

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Let me begin though, with a brief review of our problems and progress in that particular area of our relationship -- the economic -- which has dominated the headlines and the attentions of both governments. We have tried very hard over the past year to consult with each other at many levels, to compare analyses, and to share conclusions with respect to the numerous economic problems we face, in an effort to agree on the true nature of those problems and what both sides needed to do to solve them. The most noteworthy recent example of the dialogue we have maintained in this field was the very successful visit by Treasury Secretary W. Michael Blumenthal earlier this month.

We have both recognized the need to assure that these economic problems do not spill over to disturb our relations in other areas. Or put another way, it is clear that we must bring to bear on our economic disagreements the spirit of cooperation and mutual endeavor that has resulted in major progress in those other areas. Moreover, I believe we both recognize that we must increasingly look upon our economic relations in a multilateral rather than bilateral context. If many in the United States are disturbed that Japan last year had a trade surplus of $11.6 billion with us, others have pointed out that a more fundamental problem was represented by Japan's $26 billion surplus with the whole world. Because of the immense size of
our economies, Japan and the United States have heavy responsibilities not only to each other, but to other nations as well.

We have attacked all of these issues vigorously and earnestly over the past year, and I firmly believe we can point to some important progress:

-- The U.S.-Japan bilateral trade account, though still seriously imbalanced, has recently shown signs of improvement. It may be too early to identify a trend, but at least the figures for the last six to seven months give reason for hope that a more reasonable bilateral balance can be achieved relatively soon. For example, the United States exported $3.9 billion worth of goods to Japan in the last quarter of 1978, up from $2.7 billion the year before for the same period. The proportion of these figures representing manufactured goods has continued to rise moderately. Thus, there is cause for encouragement. At the same time we should bear in mind the more fundamental goal of a balanced global account.

-- In the Tokyo Round of the Multilateral Trade Negotiations, Japan has agreed to reduce tariffs on a wide variety of industrial imports and has also made important concessions
in the agricultural field. Negotiations such as these are of course never a one-way street; Japan too will benefit from a successful MTN, both in terms of selling specific products and, in a larger sense, in that the foundations of a liberal world trading system will have been strengthened.

III With respect to macroeconomic issues, notably the responsibility we both share to promote healthy growth while controlling inflation, I believe we have achieved a better mutual understanding of what is possible and what is required; where our analyses differ we have discussed those differences candidly and thoroughly, and we are moving in the same direction toward the same goals.

IV In key sectoral areas we have also registered some significant achievements in the last two years. I have in mind particularly steel, textiles, citrus, beef, color TVs, and leather, where we have at least narrowed if not eliminated our differences. There are other examples as well.

Much more of course remains to be done before either Japan or the United States can be satisfied with the state of our bilateral economic ties or our respective contributions to the world economy. On the Japanese side, further concerted measures are required to make the Japanese market more accessible to
foreign goods, not only from the United States but from other industrialized and non-industrialized countries. While the fault may in part be on the side of the seller, there is no question but that a combination of organizational, regulatory and psychological factors have made the Japanese market a very tough nut to crack. The growth and prosperity Japan has achieved of course testify to the validity of your system. At the same time, I believe you would agree that just as Japanese business expects full access to the markets of other nations and the right to compete freely, other nations should have equal access to your rich markets.

In this connection, I would like to mention the report on trade with Japan recently issued by the Congressional Task Force headed by Congressman Jim Jones. The report is balanced and fair in its treatment of the issues. It is even-handed in pointing out what both Japan and the United States need to do. While avoiding alarmist language, the report conveys accurately a sense of the urgency with which these difficult trade problems are viewed. It is an important document, and I commend it to you for your study and consideration.

I would be remiss if I did not refer to two particular trade problems currently demanding a good deal of our attention,
NTT procurement policies and cigarette sales to Japan, because these issues seem to many to epitomize the difficulties outsiders sometimes face in doing business with Japan.

NTT represents an especially difficult problem, as a government entity whose policies have discriminated against foreign products. We believe American, and other foreign suppliers should be allowed to bid and could meet many of NTT's needs at competitive prices and with excellent quality equipment--and that this would not impose hardship upon the Japanese communications industry. In the case of tobacco, American cigarettes are subject to substantial markups imposed by the government monopoly. While a certain price differential would be understandable and acceptable in view of the high quality of the product, the current situation is somewhat excessive. As in the case of NTT, this issue has tended to dramatize, and to some extent exaggerate, the problems foreigners face in selling products to Japan. I am aware that neither of these situations is a simple one as seen from the Japanese perspective, but both do seem to contain elements of discrimination which I hope can be removed.

I appreciate the determination your government has shown to achieve a solution of the NTT question, and I believe success will have a very good effect on the atmosphere of our
economic relations. At the same time, one should frankly acknowledge two facts: A resolution of the NTT problem will not mean an end to sectoral trade problems, others inevitably will arise. Secondly, while attention to these problems is essential, and their resolution a major achievement, we must bear in mind the more fundamental need for continuing joint efforts over the long-term to reduce the current account imbalance. Progress will perhaps be slow, and there are likely to be frustrations, but we will have to persevere.

The need for action to restore balance to our economic ties and restore global economic stability is by no means confined to Japan. The United States bears some heavy obligations of its own, notably:

I  -- We must control inflation, strengthen the dollar, and cooperate with our major trading partners in maintaining stability in foreign exchange markets.

II -- Related to that, we need to take still further steps to control our energy imports; we have made some progress, but more is required, particularly in view of recent events in Iran and the possibility of reduced oil supplies. We continue to buy, waste and use too much. We should also give renewed consideration to the idea of selling excess Alaskan oil to Japan, which I believe makes good sense for both our countries.
III -- We need to increase the productivity of our industry, a key measure of the strength of an economy. Our rate of productivity growth has been declining in recent years. We need to examine our tax structure to insure adequate investment in plant and equipment. We should emphasize research, better workers training, profit sharing and other means to increase our man-hour output.

IV -- We need to do a better job of selling our products abroad. As the Japanese market has begun to open up we have noted, as you have, that European -- and even communist country -- sales to Japan have increased by higher percentages than have our own, although they of course started from a much lower base. The U.S. government needs to organize itself more effectively to promote exports -- and has begun to do so -- and U.S. business needs to pursue foreign markets more aggressively. We are still not sufficiently export oriented, even though we are the biggest trading nation in the world.

Before I leave this subject, let me suggest an idea which I have heard discussed to a certain extent on our side, and which I believe has merit -- the establishment of a joint study group whose members, meeting frequently together, could identify incipient problems, weigh them against our mutual objectives, and make recommendations for solutions. The group would be
essentially unofficial in character, and would not involve itself in the independent, formal decision-making process of either of our two governments. It would, however, become the locus of a virtually continuous dialogue among informed individuals of both sides, in government and out, bringing to bear the varying perspectives which political, business, agricultural, labor, academic and bureaucratic experience produce. I believe this sort of institution could be invaluable in developing a balanced understanding of the nature of our economic ties, and in showing where our efforts should be most sharply focused. In short, I believe it could shed light on our economic difficulties, and eliminate some of the heat which those problems have tended to generate. I commend it to you, and I intend to pursue it with my government.

But I promised that this would not be an economic speech. Let me turn now to some of the other vital areas of our relationship, currently less prominent as public issues, but no less important as indicators of the state of U.S.-Japan relations and what the future holds for our partnership. While it should be
so obvious as to need no emphasis, in fact the importance to our two countries of our political and security ties and the broad sweep of our cooperation in other fields has in the past couple of years been obscured by our focus on trade balances and growth rates. I want to redirect the spotlight for a moment.

In the security field we have enjoyed a year of close and productive cooperation. Proceeding on the basis of shared assumptions and assessments concerning the security environment in East Asia and the nature of potential threats, we have worked to improve the mechanisms for our cooperation and have taken steps to share more equitably the costs of our mutual security goals. There were two particularly noteworthy developments during the past year. The first was the development by the United States-Japan Subcommittee on Defense Cooperation of guidelines for joint military planning by our uniformed services. The guidelines provide a basis for detailed planning within the framework of the Security Treaty, while carefully respecting the constitutional and political constraints of both countries.
The second development in the defense area to which I would like to draw your attention was the decision of the Japanese government to continue and enlarge its financial support for the maintenance of the American military presence here. Building on the assumption in 1977 of certain indirect labor costs of United States forces in Japan, the Japanese government in 1978 agreed to assume those labor costs in excess of prevailing practice and to fund the construction of certain badly needed new facilities as well. The total Japanese contribution in these two areas will come to approximately $100 million in the next fiscal year. I should add that these payments do not represent the sum total of Japan's contributions to our mutual security responsibilities. The total value on an annual basis, including labor and facilities costs, base rental fees, the construction of replacement facilities as part of our ongoing base consolidation program, and other expenses comes to some $600-$700 million.

But more important than these tangible signs of our cooperation in the defense field is the degree to which the United States and Japan share a common view as to the nature of potential threats and what our respective roles should be in meeting them. We are satisfied with the framework the Mutual Security Treaty provides for our cooperation; we agree that Japan's security responsibilities within that framework
should be limited to the defense of its home territory; and we agree that Japan should continue its efforts to upgrade the quality of its forces so that they can more effectively carry out that assigned role. We have not urged Japan to undertake regional security responsibilities, nor sharply to increase the size of its forces. It is noteworthy, however—and often overlooked in the United States—that Japan has increased its defense expenditures at an average annual rate of 8 percent over the past ten years. While small as a proportion of its more than $1 trillion gross national product, Japan's defense spending in absolute terms is very substantial, placing it sixth among the nations of the world.

In order to insure that our thinking with respect to defense issues remains basically in parallel, it is necessary to consult frequently, candidly and at all levels. We have done this over the past several years. But the compatibility of our views and assessments of security questions rest as well on a more fundamental base, a philosophical one—the essential similarity of the way we see the world, of the political goals we pursue, and of the basic values they reflect.

Those shared perceptions, of the world and of our places in it, made possible another year of extraordinary political cooperation. That cooperation has become more effective with
the passage of time, and more invaluable to the United States, as Japan has moved further along toward an international political role more nearly commensurate with its economic power. I would like to sketch briefly a number of areas in which our policies were particularly in tune and mutually supportive.

The past year was one of notable activity and accomplishment for both our countries in our relations with China. Japan and the PRC concluded the long-delayed Peace and Friendship Treaty last fall. In consolidating and further formalizing Japan's relations with China, that pact undoubtedly will contribute to the peace and security of this region and of the world. This was followed in December by our agreement for the normalization of relations with Beijing, an event which, likewise, in my judgement should contribute significantly to a peaceful and secure Asia. Thus, our relations with China have moved forward along similar tracks and at a roughly similar pace. I have no doubt that this will continue to be so, as both our countries have important stakes, and undoubtedly important roles to play, in the effort China has recently embarked upon to modernize its economy and its society. I should like to state what I hope has remained clear to all of you, that despite normalization with the PRC, the first and most important partner and ally of the United States in Asia and the Pacific is Japan.
-- At the same time, the United States and Japan have made clear that our expanding relations with China do not mean that we place less importance on our respective ties with the Soviet Union. The United States has continued to work toward a mutually satisfactory strategic arms limitation agreement with the Soviet Union and, while doing what is necessary to maintain a strategic equilibrium and counter Soviet actions directed against our friends and allies, we have at the same time underscored our desire to cooperate with the Soviet Union in those areas where our interests coincide. Although Japan's relations with the USSR do not have a strategic component, the same general approach characterizes Japan's relations with Moscow. While opposing Soviet occupation of the Northern Territories, you pursue cooperative projects in Siberian development. While sharing our concerns regarding Soviet political and strategic motives around the world, you seek to maintain mutually beneficial economic ties and, insofar as possible, correct political relations.

-- The United States and Japan also have a similar view of the dangerous situation in Indochina, where Vietnam attempts to consolidate its control over Cambodia, while China has sought to demonstrate that it is capable of advancing its interests and those of its surrogates. Together we have taken diplomatic steps during this period, in the United Nations and through
direct contact with the countries concerned, to prevent hostilities from spreading and to restore peace. We will continue to work along these lines.

-- There are more hopeful signs from another perennial danger spot in East Asia, Korea. The recent resumption of direct contacts between North and South gives cause for encouragement, although the two sides undoubtedly remain far apart on issues of substance. The United States and Japan have welcomed this new development. At the same time, I believe we agree that essential to any genuine reduction of tension on the peninsula is the maintenance of the security of South Korea. The United States recognizes its special responsibility in this regard and has affirmed its commitment to the defense of the ROK. Japan of course is not a military ally of the Republic of Korea; it does, however, have strong economic and political ties with that country, and a heavy stake in its well-being and security. Thus, healthy Japan-ROK relations, such as now exist, contribute importantly to equilibrium on the peninsula and a reduction of tension there.

-- The United States and Japan continue along parallel lines in our relations with the non-communist nations of Southeast Asia. We share similar interests in that region,
both seeking to contribute to the resilience and the independence of those nations. Our policies are not coordinated, and indeed we are in some respects competitors there. But our approaches are complementary and our competition healthy. We both value our relations with the countries of ASEAN, and I am sure we both will continue to make important contributions to the progress of that region.

United States-Japan cooperation in diplomacy and international affairs extends beyond East Asia. We collaborate closely and effectively in the United Nations, where our positions on the major issues are very often alike, and we consult as well on international political and economic issues outside the formal purview of the United Nations. Whether it be in efforts to arrange aid consortia for particularly needy countries, to exchange analyses and information on crisis situations such as the recent one in Iran, or to consult more routinely on trends in distant regions, our record of cooperation and coordination is probably unexcelled among the industrialized democracies.

One other significant measure of Japan's growing international stature, and of the heavier responsibilities it has undertaken as its power and influence have grown, is its participation in what has become the annual summit
meeting of the advanced industrial democracies. This year the summit will take place in Tokyo. I mention it here, rather than in my earlier discussion of our economic problems and prospects, because this multilateral summit, like its predecessors, is as much a political as an economic event—just as the problems of economic coordination its participants will address are also political issues of great magnitude. As the host country, Japan's new leadership role will be even more clearly evident.

Our cooperation is hardly limited to these areas I have mentioned. A complete listing would exhaust my voice and your patience—as advanced industrial democracies we are, for example, in the forefront of international efforts to deal with problems of the environment, of resource scarcity, of development and conservation, and the sociological challenges of post-industrial society. But no discourse on this general subject would be complete without at least passing mention of what we are doing together in the area of science, technology and cultural exchange. Our cooperation in science and technology is probably more productive, and advanced, than between any other two countries. We have important programs underway in space technology, nuclear energy research, medical research and in virtually all of the physical and natural sciences. Former Prime Minister Fukuda proposed during his visit to
Washington last May that the United States join with Japan in a new program of energy-related research and development. Detailed discussions are still going on and we anticipate final agreement later this year on specific research projects, ranging from coal liquefaction to fusion.

We continue to have smooth and productive cooperation in the nuclear energy field—a source of serious contention only two years ago. While we still have differing assessments as to the proper future direction of nuclear energy programs, balancing energy requirements on the one hand against our mutual desire to curb the proliferation of nuclear weapons on the other, we are working together toward conclusions and policies that both of us and our European partners can accept, and an atmosphere of cooperation and understanding has replaced the air of imminent crisis which so recently existed.

Cooperation and understanding go together, and the degree of understanding that exists between our two nations and peoples despite the diversity of our cultural heritage is remarkable. Like progress in other areas, this has not simply happened of its own accord. It is a tribute to the efforts of many individuals and many organizations over the years to interpret our nations to each other. We must continue to work to nurture and broaden that understanding, giving this
important intangible aspect of our relations steadily more attention. An especially significant achievement in this context was the recent conclusion of a new U.S.-Japan educational exchange agreement, under the terms of which our two countries share equally the costs of an expanded program of exchanging scholars in a variety of academic disciplines. We have similar agreements with other countries, but this is one of the biggest. It will lend still greater vitality to our already lively and productive interchange in education, culture and the arts.

All of these diverse activities underscore the breadth and variety of United States relations with Japan. Our partnership is as complex as it is productive. We are never without problems in one area or another, and sometimes they are serious ones. By the same token, there is never an absence of progress in one area or another, often of profound importance to both our countries and to the world. In our focus on the particularly acute problems, we have tended to overlook the areas of progress, achievement, and growing strength in our ties.

United States-Japan relations are robust enough to stand the strains and tensions of the moment. At the same time, it is incumbent upon both sides to be alert to strains when
they appear, and to try to eliminate their source. If we do not pay attention to what we are doing and where we are going, there could be a gradual erosion of our partnership. This has not happened between us, and need not if we give our relations the attention they deserve and are willing to exert extra effort when circumstances require. We have recently faced such circumstances in the economic field, just as in the not too distant past our defense ties were a source of serious problems. We have made the necessary extra commitment to find solutions to those economic problems and to move beyond them, and I am sure we will eventually succeed. It is unlikely that we will ever be without problems in the economic field, but I am confident we will be able to handle them -- it has yet to be proven that any problem is beyond our capacity to resolve if we work together. We must be careful about what we say, circumspect in our actions, and understanding of each other's difficulties and differences.

Finally, it is insufficient merely to list the many examples of our cooperation, or to express confidence that it will continue to flourish, without noting an intangible feature of our relations which will have an increasing impact on the shape of our ties in the years ahead--the changing perceptions in each country with respect to the other.
Our relationship has gone through several stages during the past thirty years, from a period of dominance by the United States to this contemporary era of partnership. The United States sees Japan as co-equal, a source of leadership as well as simple participation. This perception naturally came first in the economic area, but it is no longer confined to that realm. Just as Japan's vision of the role it can and should play in the world is expanding and changing, so the world's expectations of Japanese contributions in all fields are increasing. As this has happened it has become even more widely accepted in the United States that our relations with Japan are and should and will remain the cornerstone of American policy toward Asia. Their growing importance on a world basis has also become more generally acknowledged--our partnership clearly is global in scope.

As for Japanese perceptions of the United States, I hope that if we appear at times troubled, we nonetheless continue to be regarded as a constant friend, steadfast in our commitments and in our pursuit of fundamental goals; a worthy partner if no longer an always dominant influence. As the idea of equality in our relations becomes more widely accepted in both our countries, the possibilities for creative, productive collaboration will grow; more and more areas of potential cooperation will be identified; the psychological basis for
effective cooperation will be strengthened; and the immense importance of this relationship to both our countries, to Asia and to the world, will be even more obvious than it is today.

Important differences in our respective roles will of course remain, as will some differences in our goals and our perceptions--we are, after all, very different countries. It is the task of all of us not to eliminate differences, but to continue to bridge them and to insure that insofar as possible our will and our capacities remain joined together. In that way we can accomplish far more for our own people and for the world than either of us could hope to achieve alone. The relations between the United States and Japan are one of the most constructive influences of this age. I am convinced that they will also prove among the most durable.

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CHALLENGES AND ACHIEVEMENT IN U.S.-JAPAN RELATIONS

Although this hall is well known as an economic forum, I hope you will not be disappointed if I refrain today from giving what might be called an economic speech. Instead I would like to talk about several important aspects of United States relations with Japan, including the economic, as I see them after more than a year and a half on the job. I am going to have to cover a good deal of ground in the time allotted. If these remarks have a theme, and I hope they do, it is one you have heard from me before -- that the United States and Japan are joined by many important elements, together forming a strong bond of partnership and interdependence; and that we need to be aware of the complete range and depth of our relations, even when our preoccupations may be in one particular area. These recent months may have been a time of economic trouble, but they were also a period of important progress in many areas.

Let me begin though, with a brief review of our problems and progress in that particular area of our relationship -- the economic -- which has dominated the headlines and the attentions of both governments. We have tried very hard over the past year to consult with each other at many levels, to compare analyses, and to share conclusions with respect to
the numerous economic problems we face, in an effort to agree on the true nature of those problems and what both sides needed to do to solve them. The most noteworthy recent example of the dialogue we have maintained in this field was the very successful visit by Treasury Secretary Blumenthal earlier this month.

We have both recognized the need to assure that these economic problems do not spill over to disturb our relations in other areas. Or put another way, it is clear that we must bring to bear on our economic disagreements the spirit of cooperation and mutual endeavor that has resulted in such major progress in those other areas. Moreover, I believe we both recognize that we must increasingly look upon our economic relations in a multilateral rather than bilateral context. If many in the United States are disturbed that Japan last year had a trade surplus of more than $12.6 billion with us, others have pointed out that a more fundamental problem was represented by Japan's $26 billion surplus with the whole world. Because of the immense size of our economies, Japan and the United States have heavy responsibilities not only to each other, but to other nations as well.

We have attacked all of these issues vigorously and earnestly over the past year, and I firmly believe we can point to some important progress:
-- The U.S.-Japan bilateral trade account, though still seriously imbalanced, has recently shown signs of improvement. It may be too early to identify a trend, but at least the figures for the last three to four months give reason for hope that a more reasonable bilateral balance can be achieved relatively soon. For example, the United States exported ___________ billion worth of goods to Japan in January 1979, up from ___________ billion a year ago. The proportion of manufactured goods in those January figures also rose, from ___________ percent in 1978 to ___________ percent in 1979. Thus, there is cause for encouragement. At the same time we should bear in mind that the more fundamental goal of a balanced global account.

-- In the Tokyo Round of the Multilateral Trade Negotiations, Japan has agreed to reduce tariffs on a wide variety of industrial imports and has also made some important concessions in the agricultural field. Negotiations such as these are of course never a one-way street; Japan too will benefit from a successful MTN, both in terms of selling specific products and, in a larger sense, in that the foundations of a liberal world trading system will have been strengthened.

-- With respect to macroeconomic issues, notably the responsibility we both share to promote healthy growth while controlling inflation, I believe we have achieved a better
mutual understanding of what is possible and what is required; where our analyses differ we have discussed those differences candidly and thoroughly, and we are moving in the same direction toward the same goals.

-- In key sectoral areas we have also registered some significant achievements in the last few years. I have in mind particularly steel, textiles, citrus, beef, color TVs, and leather, where we have at least narrowed if not eliminated our differences. There are other examples as well.

Much more of course remains to be done before either Japan or the United States can be satisfied with the state of our bilateral economic ties or our respective contributions to the world economy. On the Japanese side, further concerted measures are required to make the Japanese market more accessible to foreign goods, not only from the United States but from other industrialized and non-industrialized countries. While the fault may in part be on the side of the seller, there is no question but that a combination of organizational, regulatory and psychological factors have made the Japanese marketing system a very tough nut to crack. I do not for a moment suggest that we in the United States have the right to demand that Japan change its socio-economic structure overnight or to revamp its distribution system top to bottom.
The growth and prosperity you have achieved testifies to the validity of your system. But I do suggest that just as you expect full access to the markets of other nations' and the right to compete freely, other nations should have equal access to your rich markets.

In this connection, I commend to your attention the report on trade with Japan recently issued by the Congressional Task Force headed by Congressman Jon...[unreadable]. It is an excellent job, balanced and fair in its treatment of the issues, while still conveying a sense of the urgency with which these problems are viewed. I commend it to you for your consideration.

I would be remiss in not mentioning two particular problems currently demanding a good deal of our attention, cigarette sales to Japan and NTT procurement policies. Neither of these looms large in terms of the total volume of US-Japan trade, but they seem to many to epitomize the difficulties outsiders sometimes face in doing business with Japan.
In the case of tobacco, American cigarettes are subject to markups of as much as 500 percent, imposed by the government monopoly. A certain price differential would be understandable, and acceptable, in view of the high quality of the product. But we believe the current situation is somewhat excessive. NTT procurement represents a different, though similar problem. In this case foreign suppliers of communications equipment have had to contend with what has amounted to a virtual prohibition on outside procurement. American, and other foreign suppliers undoubtedly could meet many of NTT's needs at competitive prices and with excellent quality equipment. We are confident as well that this would not mean ruin for the Japanese communications industry. As in the case of cigarettes, this issue has tended
to dramatize, and to some extent exaggerate, the problems foreigners face in selling products to Japan. I am aware that neither of these situations is a simple one as seen from the Japanese perspective, but both do seem to contain elements of discrimination which I hope can be removed.

I appreciate the determination your government has shown to achieve a solution of the NTT question, and I believe success will have a very good effect on the atmosphere of our economic relations. At the same time, one should frankly acknowledge two facts: A resolution of the NTT problem will not mean an end to sectoral trade problems, others inevitably will arise. Secondly, while attention to these problems is essential, and their resolution a major achievement, we must bear in mind the more fundamental need for continuing joint efforts over the long-term to reduce the current account imbalance. Progress will perhaps be slow, and there are likely to be frustrations, but we will have to persevere.

The need for action to restore balance to our economic ties and restore global economic stability is by no means confined to Japan. The United States bears some heavy obligations of its own, notably:

-- to control inflation, strengthen the dollar, and cooperate with our major trading partners in maintaining
stability in foreign exchange markets.

-- Related to that, to take still further steps to control our energy imports; we have made some important progress, but more is required, particularly in view of recent events in Iran and the possibility of reduced oil supplies. We continue to make too much waste. Too much on imported oil. We need to control our energy imports; we have made some important progress, but more is required, particularly in view of recent events in Iran and the possibility of reduced oil supplies. We continue to make too much waste. Too much on imported oil.

-- To increase the productivity of our industry, a key measure of the strength of an economy; our rate of productivity growth recently has declined. We need to examine our tax structure to insure adequate investment in plant and equipment.

-- To do a better job of selling our products abroad. As the Japanese market has begun to open up we have noted, as you have, that European -- and even communist country -- sales to Japan have increased by higher percentages than have our own, although they of course started from a much lower base. The U.S. government needs to organize itself more effectively to promote exports -- and has begun to do so -- and U.S. business needs to pursue foreign markets more aggressively. We are still not sufficiently export oriented, even though our total trade is now one-sixth of our national product.
Before I leave this subject, let me suggest an idea which I have heard discussed to a certain extent on our side, and which I believe has real merit -- the establishment of a so-called "wise men's group" to oversee our economic relations. Such a group might include private experts as well as government officials, and from government should include participation from both the legislative and executive sides. It would not be responsible for the day-to-day management of our economic ties, but its members, meeting frequently together, would be closely enough involved to identify incipient problems, weigh them against our mutual objectives, and make recommendations for solutions. A wise men's group could become the locus of a virtually continuous dialogue among informed individuals of both sides, in government and out, bringing to bear the varying perspectives which political, academic and bureaucratic experience produce. I believe this sort of institution could be invaluable in developing a balanced understanding of the nature of our economic ties, and in showing where our efforts should be most sharply focused. In short, I believe it could shed light on our economic ties, and eliminate some of the heat which our economic problems have tended to generate. I commend it to you, and I intend to pursue it with my government.
But I promised that this would not be an economic speech. Let me turn now to some of the other vital areas of our relationship, currently less prominent as public issues, but no less important as indicators of the state of U.S.-Japan relations and what the future holds for our partnership. While it should be so obvious as to need no emphasis, in fact the importance to our two countries of our political and security ties and the broad sweep of our cooperation in other fields has in the past couple of years been obscured by our focus on trade balances and growth rates. I want to redirect the spotlight for a moment.

In the security field we have enjoyed a year of close and productive cooperation--of the sort, I might add, that has become routine for us. Proceeding on the basis of shared assumptions and assessments concerning the security environment in East Asia and the nature of potential threats, we have worked to improve the mechanisms for our cooperation and have taken steps to share more equitably the costs of our mutual security goals. There were two particularly noteworthy developments during the past year. The first was the development by the United States-Japan Subcommittee on Defense Cooperation of guidelines for joint military planning by our uniformed services. The guidelines provide a basis for detailed planning within the framework of the Security Treaty, while carefully respecting the constitutional and political constraints of both countries.
The second development in the defense area to which I would like to draw your attention was the decision of the Japanese government to continue and enlarge its financial support for the maintenance of the American military presence here. Building on the assumption in 1977 of certain indirect labor costs of United States forces in Japan, the Japanese Government in 1978 agreed to assume those labor costs in excess of prevailing practice and to fund the construction of certain badly needed new facilities as well. The total Japanese contribution in these two areas will come to approximately $100 million in the next fiscal year. I should add that these payments do not represent the sum total of Japan’s contributions to our mutual security responsibilities. The total value on an annual basis, including labor and facilities costs, base rental fees, the construction of replacement facilities as part of our ongoing base consolidation program, and other expenses comes to some $600-$700 million.

But more important than these tangible signs of our cooperation in the defense field is the degree to which the United States and Japan share a common view as to the nature of potential threats and what our respective roles should be in meeting them. We are satisfied with the framework the Mutual Security Treaty provides for our cooperation; we agree that Japan’s security responsibilities within that framework should be limited to the defense of its home territory;
and we agree that Japan should continue its efforts to upgrade
the quality of its forces so that they can more effectively
carry out that assigned role. We have not urged Japan to
undertake regional security responsibilities, nor sharply
to increase the size of its forces. It is noteworthy, however--
and often overlooked in the United States--that Japan has
increased its defense expenditures at an average annual rate
of 8 percent over the past ten years. While small as a
proportion of its gross national product, Japan's defense
spending in absolute terms is very substantial, amounting to
more than $10.5 billion in the upcoming fiscal year.

In order to insure that our thinking with respect to
defense issues remains basically in parallel, it is necessary
to consult frequently, candidly and at all levels. We have
done this over the past years. But the compatibility of our
views and assessments of security questions rests as well on
a more fundamental base, a philosophical one--the essential
similarity of the way we see the world, of the political goals
we pursue, and of the basic values they reflect.

Those shared perceptions, of the world and of our places
in it, made possible another year of extraordinary political
cooperation. That cooperation has become more effective with
the passage of time, and more invaluable to the United States,
as Japan has moved further along toward an international political role more nearly commensurate with its economic power. I would like to sketch briefly a number of areas in which our policies were particularly in tune and mutually supportive.

-- The past year was one of notable activity and accomplishment for both our countries in our relations with China. Japan and the PRC concluded the long-delayed Peace and Friendship Treaty last fall. In consolidating and further formalizing Japan's relations with China, that pact undoubtedly will contribute to the peace and security of this region and of the world. This was followed in December by our agreement for the normalization of relations with Beijing, an event which, likewise, in my judgement should contribute significantly to a peaceful and secure Asia. Thus, our relations with China have moved forward along similar tracks and at a roughly similar pace. I have no doubt that this will continue to be so, as both our countries have important stakes, and undoubtedly important roles to play, in the effort China has recently embarked upon to modernize its economy and its society. I should like to state that, despite normalization with the PRC, Japan remains our first and most important ally in the Pacific Area. - At the same time, the United States and Japan have made clear that our expanding relations with China do not mean that we place less importance on our respective ties with the
Soviet Union. The United States has continued to work toward a mutually satisfactory strategic arms limitation agreement with the Soviet Union and, while doing what is necessary to maintain a strategic equilibrium and counter Soviet actions directed against our friends and allies, we have at the same time underscored our desire to cooperate with the Soviet Union in those areas where our interests coincide. Although Japan's relations with the USSR do not have a strategic component, the same general approach characterizes Japan's relations with Moscow. While opposing Soviet occupation of the Northern Territories, you pursue cooperative projects in Siberian development. While sharing our suspicions of Soviet political and strategic motives around the world, you seek to maintain mutually beneficial economic ties and, insofar as possible, correct political relations.

-- The United States and Japan also have a similar view of the dangerous situation in Indochina, where Vietnam attempts to consolidate its control over Cambodia, with Soviet encouragement and support, while China seeks to demonstrate that it is capable of advancing its interests and those of its surrogates. We would like to see a restoration of the status quo ante in Indochina, with a withdrawal of Vietnamese troops from Cambodia and a withdrawal of Chinese troops from Vietnam.
We have taken diplomatic steps during this period, in the United Nations and through direct contact with the countries concerned, to prevent hostilities from spreading and to restore peace. We will continue to work along these lines, and I believe there is reason for confidence at least that the conflict can be contained.

-- There are more hopeful signs from another perennial danger spot in East Asia, Korea. The recent resumption of direct contacts between North and South gives cause for encouragement, although the two sides undoubtedly remain far apart on issues of substance. The United States and Japan have welcomed this new development. At the same time, I believe we agree that essential to any genuine reduction of tension on the peninsula is the maintenance of the security of South Korea. The United States recognizes its special responsibility in this regard and has affirmed its commitment to the defense of the ROK. Japan of course is not a military ally of the Republic of Korea; it does, however, have strong economic and political ties with that country, and a heavy stake in its well-being and security. Thus, strong Japan-ROK ties, such as now exist, contribute importantly to equilibrium on the peninsula and a reduction of tension there.
-- The United States and Japan continue along parallel lines in our relations with the non-communist nations of South-east Asia. We share similar interests in that region, both seeking to contribute to the resilience and the independence of those nations. Our policies are not coordinated, and indeed we are in some respects competitors there. But our approaches are complementary and our competition healthy. We both value our relations with the countries of ASEAN, and I am sure we both will continue to make important contributions to the progress of that region.

-- United States-Japan cooperation in diplomacy and international affairs extends beyond East Asia. We collaborate closely and effectively in the United Nations, where our positions on the major issues are very often alike, and we consult as well on international political and economic issues outside the formal purview of the United Nations. Whether it be in efforts to arrange aid consortia for particularly needy countries, to exchange analyses and information on crisis situations such as the recent one in Iran, or to consult more routinely on trends in distant regions, our record of cooperation and coordination is probably unexcelled among the industrialized democracies.
One other significant measure of Japan's growing international stature, and of the heavier responsibilities it has undertaken as its power and influence have grown, is its participation in what has become the annual summit meeting of the advanced industrial democracies. This year the summit will of course take place in Tokyo. I mention it here, rather than in my earlier discussion of our economic problems and prospects, because this multilateral summit, like its predecessors, is as much a political as an economic event--just as the problems of economic coordination its participants will address are also political issues of great magnitude. As the host country, Japan's new leadership role will be even more clearly etched.

Our cooperation is hardly limited to these areas I have mentioned. A complete listing would exhaust my voice and your patience--as advanced industrial democracies we are, for example, in the forefront of international efforts to deal with problems of the environment, of resource scarcity, of development and conservation, and the sociological challenge of post-industrial society. But no discourse on this general subject would be complete without at least passing mention of what we are doing together in the area of science, technology and cultural exchange. Our cooperation in science and technology is probably more productive, and advanced, than between any other two countries. We have important programs underway in space technology, nuclear energy research,
medical research and in virtually all of the physical and natural sciences. Former Prime Minister Fukuda proposed during his visit to Washington last May that we join with Japan in a new program of energy-related research and development. Detailed discussions are still going on and we anticipate final agreement on specific research projects, ranging from coal liquefaction to fusion, later this year.

We continue to have smooth and productive cooperation in the nuclear energy field—a source of serious contention only two years ago. While we still have differing assessments as to the proper future direction of nuclear energy programs, balancing energy requirements on the one hand against our mutual desire to curb the proliferation of nuclear weapons on the other, we are working together toward conclusions and policies that both of us and our European partners can accept, and an atmosphere of cooperation and understanding has replaced the air of imminent crisis which so recently existed.

In the cultural area as well, the past year has been unusually productive. An especially significant achievement was our recent conclusion of a new Fulbright Agreement with Japan. Under the terms of that agreement, Japan will pay fully 50 percent of the costs of our cultural exchange activities. We have similar agreements with other countries, but few if any are as large as this one. It will lend still greater vitality
to our already lively and productive interchange in culture and the arts. The state of our relations and the plethora of communication linking our two societies has meant that government plays a relatively smaller role in interpreting one nation to the other. But that role can nonetheless be crucial, in identifying and illuminating nascent problems and in introducing people of influence or special insight to their opposite numbers. Both our governments recognize this, and have given this aspect of our relations deservedly greater attention.

All of these diverse activities underscore the breadth and variety of United States relations with Japan. Our partnership is as complex as it is productive. We are never without problems in one area or another, and sometimes they are serious ones. By the same token, there is never an absence of progress in one area or another, often of profound importance to both our countries and to the world. In our focus on the particularly acute problems, we have tended to overlook the areas of progress, achievement, and growing strength in our ties.

United States-Japan relations are robust enough to stand the strains and tensions of the moment. At the same time, it is incumbent upon both sides to be alert to strains when they appear, and to try to eliminate their source. If we do not pay attention to what we are doing and where we are going,
(a gradual erosion of our partnership is not only possible but inevitable.) This has not happened between us, and need not. We must, however, remain alert, and be willing to exert extra effort when circumstances require. We have recently faced such circumstances in our economic relations, just as in the not too distant past our defense ties were a source of serious problems. We have made the necessary extra commitment to find solutions to those economic problems and to move beyond them, and I am sure we will eventually succeed. It is unlikely that we will ever be without problems in the economic field, but I am confident we will be able to handle them -- it has yet to be proven that any problem is beyond our capacity working together to resolve. We must continue to be careful about what we say, circumstantially, in our actions and understanding of each other.

Finally, it is insufficient merely to list the many examples of our cooperation, or to express confidence that it will continue to flourish, without noting an intangible feature of our relations which will have an increasing impact on the shape of our ties in the years ahead--changing perceptions in each country with respect to the other. Our relationship has gone through several stages during the past thirty years, from a period of thorough dominance by the United States to this contemporary era of partnership. The United States increasingly looks upon Japan as co-equal, a source of leadership as well as simple participation. This perception naturally came
first in the economic area, but it is no longer confined to that realm. Just as Japan's vision of the role it can and should play in the world is expanding and changing, so the world's expectations of Japanese contributions in all fields are increasing. As this has happened it has become even more widely accepted in the United States that our relations with Japan are and should remain the cornerstone of American policy toward Asia. Their growing importance on a world basis has also become more generally acknowledged—our partnership clearly is global in scope.

As for Japanese perceptions of the United States, I hope that if we appear at times troubled, we nonetheless continue to be regarded as a constant friend, steadfast in our commitments and in our pursuit of fundamental goals; a worthy partner if no longer an always dominant influence. As the idea of equality in our relations becomes more widely accepted in both our countries, the possibilities for creative, productive collaboration will grow; more and more areas of potential cooperation will be identified; the psychological basis for effective cooperation will be strengthened; and the immense importance of this relationship to both our countries, to Asia and to the world, will be even more obvious than it is today.
Important differences in our respective roles will of course remain, as will some differences in our goals and our perceptions--we are, after all, very different countries. It is the task of all of us not to eliminate differences, but to continue to bridge them and to insure that insofar as possible our will and our capacities remain joined together. In that way we can accomplish far more for our own people and for the world than either of us could hope to achieve alone. The relations between the United States and Japan are one of the most important constructive influences of this age. I am convinced that they will also prove among the most durable.
Circumspect in our deeds, careful of what we say + mutually understanding of each other's difficulties + problems.
Mike Mansfield Papers, Series 32, Box 1, Folder 39, Mansfield Library, University of Montana