Liberal Democratic Party's US-Japan Parliamentarian's Committee

Mike Mansfield 1903-2001

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TO: Ms. Wanda McCanlies
FROM: CAROL E. LUDWIG
EMI LYNN YAMAUCHI
DATE: 5-17

Wanda--Attached is a "raw" transcript of the Ambassador's remarks at Wednesday's luncheon hosted by the U.S.-Japan Parliamentarians League.

He had asked to be given a copy.

Thanks, Emi

Emi
and Mr. Abe, Governor Atiyeh of Oregon, Mr. Hardey, the President of the American Chamber of Commerce—I almost said Junior Chamber of Commerce—and representatives of the state governments in my country, and members of the Diet:

I came here with a speech to make, but when I saw how much time was at our disposal I decided to make a few extemporaneous remarks instead. A speech would have taken longer than the time allocated to the whole meeting.

But I am delighted to be here and to engage in a dialogue of this kind. Hopefully, there will be some questions after we all get through speaking and to discuss matters of mutual interest and mutual difficulties to both our countries.

The other day I received a list of legislative matters which has been introduced in both Houses of the Congress. That list numbers 27 and all of those measures were directed against Japan. That gives you some idea of the seriousness of the situation which the trade problem confronts us both with at the present time.

First, let me congratulate all of those who have been participating in the areas covering the so-called MOS negotiations. I think out of those negotiations have come some good progress. In telecommunications the progress has been excellent,
though there are still a few items to be discussed.

We are making good progress in the electronics field, in pharmaceuticals and medical devices, and we are beginning to see some glimmers of light at the end of the so-called "tunnel" as far as lumber and wood products are concerned.

But MOSS is only a part of the program, is only a part of the problem. What we would like to see is more access, access, access to the Japanese market. What we want are the same opportunities here that we give you in the United States. We are not asking for guarantees that we will be able to sell when we do enter your market, but we are asking for the opportunity to do so. We think that we can compete with you, on the same basis that—

to repeat—you compete with us in the United States.

We are impressed with the efforts being made by the Prime Minister and the Foreign Minister and the Minister for MITI-affaires. They are moving in the right direction. They are racking their brains—to use a Japanese phrase quite prevalent in the Japanese-English press—to find ways and means to come up with answers to our questions. They are achieving success, but I don't think they are achieving enough success as of yet.

With the understanding being developed in the Diet, I think the prospects for being able to cope, find accommodations, compromises or solutions to our problems are just as good now as they have been in the past. I would hope that in our country there would be a greater degree of accommodation and understanding
between the Administration and the Congress because this is a problem which confronts not just Japan and the United States. It is a global problem in essence.

As in mostly all issues, there are at least sometimes more than two sides to every question. While we want Japan to open up its markets much more than it has to date, we must recognize that we also share a great responsibility in trying to find a solution.

It was interesting to note that on a public TV broadcast in the United States several weeks ago that our former Trade Representative, now Secretary of Labor Bill Brock, said in response to a question that somewhere between two-thirds and three-quarters of the responsibility for finding solutions to our trade difficulties lies with us.

He was referring, I'm sure, in referring to responsibilities, to a number of items which have been of our own making and which will have to be cured by ourselves alone. Japan can't help us. Europe can't help us. No one can help us except ourselves.

I refer specifically to the over-strong dollar, a 60 percent increase in value over the past five years. It's killing us in international trade because we're pricing ourselves out of markets in which we should be participating to a greater extent.
I refer to high interest rates, a big difference between the almost 21 percent prime rate in 1981 down to about 10.5 and 11 percent at the present time.

I'm referring to the fact that there is a great outflow of capital from Japan, Latin America and Europe into the United States to take advantage of our T-bonds and other notes of various kinds so that we can find the wherewithal to pay off the interest on our debt of $11 billion dollars. We paid an interest last year, entirely too much. There must be a stoppage somewhere, and that's where cooperation between the Congress and the Administration must come in.

The third fact, of course, is the huge deficit, something which we created, something which we have to cope with, and those three items are some things which we cannot shift off on somebody else's shoulders.

When I was in Washington last month, I broke an iron-clad rule. I had never intended to go back on the Hill unless I was called back. But I did go up voluntarily. I talked to about two dozen of my former colleagues. I never raised the question of Japan-American trade relations, but every single one of them did, and it was the first question they asked about.

I went up because I was concerned, deeply concerned, at the 92-0 vote by which the Danforth Sense of the Senate resolution was passed. I was very happy that the Easter recess intervened,
allowed the fire a chance to die down and, hopefully, gave our people a chance to go home to look at the facts and figures and to come back with a more reasonable outlook on the situation which confronted this most important bilateral relationship in the world.

Moderation and reason have temporarily replaced emotions and frustration. A hearing has been held on the Danforth and the Chafee bills having to do with telecommunications. The rhetoric has died down to a considerable degree, thanks in large part to the tremendous sacrifices made on both sides in coming to a reasonable agreement on the telecommunications legislation, but it could well be the lull before the storm. Because if steady and significant progress is not made, I would not in the least be surprised if emotions and frustration and legislation once again took over.

Congress, in large part, can only see that $34 to 37 billion dollar deficit we have with Japan, depending on what figures you use. They didn't seem to recall that last year we had a $20 billion dollar deficit with Canada, a $16.9 billion dollar deficit with Western Europe, a $16 billion dollar deficit with Latin America, Mexico included. But these figures did create an impression, and it was a case of being frustrated because not knowing what to do to face up to this new factor or, rather, this accentuated figure which will get bigger this year if we
do not do something to correct the overvalued dollar, the high interest rates and the huge deficits.

On the other hand, it's up to Japan to allow us access, access, access to its markets because we are in a two-way bind. We each have our responsibilities, and I think we ought to be able to face up to them rather than pass them on to upcoming generations.

So I thank you, Mr. Chairman, for allowing me to have this opportunity to speak to you, to speak with members of the state officers here, to meet with colleagues in the Diet, and I to hope that on the basis of reason we shall be able to arrive at mutually satisfactory solutions, accommodations and compromises to the difficulties which confront us at the present time. Thank you very much.

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Thank you for your kind invitation to share some of my thoughts with you on U.S.-Japan relations, present and future. And I thank you in advance for being patient enough to listen to some very frank views.

I have been U.S. Ambassador to Japan for the past eight years -- a period of time that has been rewarding and fulfilling for me. We are, however, facing a difficult situation in our bilateral relations, a difficult situation centering on trade.

In 1983, the U.S. had a $19.6 billion trade deficit with Japan. In 1984, it jumped to nearly $37 billion. And this year all indications are that the trade deficit will increase even more -- possibly surpassing $47 billion.

This has caused a certain amount of concern in the Congress of the United States, and the result has been that we have had numerous protectionist-tinged
legislation introduced within a short period of time in both Houses. And the votes that occurred indicated that the feeling in Congress was strong. I say "was", because at the moment it appears that some of the Congressional emotionalism has died down. But that frustration could bubble up to the surface at anytime in the future, should there be no visible signs of improvement in U.S.-Japan trade imbalances.

We have all seen the newspaper headlines on the U.S. trade deficit with Japan. We have all heard the accusations about closed markets, high tariffs and non-tariff barriers on one side; and the high dollar, high interest rates, and an enormous deficit on the other side.

While the U.S.-Japan relationship is fundamentally sound and healthy, if our relationship is to continue on the right track, we must tackle this serious and growing problem between us -- our huge trade imbalance -- a trade imbalance that also threatens to do real harm to the international free trading system.

There is no doubt in my mind that the figures are ominous. Japanese exports to the U.S. increased 40 percent in 1984, while U.S. exports to Japan increased only 8.9 percent. Moreover, our $37
billion deficit with Japan last year amounts to nearly 44 percent of our two-way $84 billion trade.

I think we can all agree that a deficit of this size has consequences far beyond economics. It spurs protectionist sentiment not only in the United States but elsewhere. It pressures our political institutions to act in ways that may be very short-sighted. And if left unremedied, it can undermine mutual trust and eventually, our overall relationship.

The time has come, therefore, to drop the rhetoric of mutual recriminations, and get on with the business of problem solving.

Nowhere was this attitude made clearer than at the recently concluded Bonn Summit of the Advanced Industrialized Nations. The "Bonn Economic Declaration Toward Sustained Growth and Higher Employment" was an extraordinary document. In it, the seven heads of government committed themselves to sets of specific priorities for national policies to help attain the dual goals of sustained growth and higher employment.

To quote the Declaration:
"The President of the United States considers it essential to achieve a rapid and appreciable cut in public expenditures and thus a substantial reduction in the budget deficit. He stresses also the need for further deregulation and for a reform of the tax system aimed at encouraging the efficient use of resources and stimulating new saving and investment."......

"The Government of Japan considers it essential to persevere with its policy of budgetary discipline and strengthening market functions, particularly with a view to fostering investment. It intends to achieve further progress in deregulating financial markets, promoting the international role of the yen, facilitating access to markets and encouraging growth in imports."

We need to put these commitments into real action, for what we are really talking about is the survival of the free trade, free enterprise system -- a system that is absolutely vital to both Japan and the United States. It is a system that we are more than ever jointly responsible for maintaining.

For our part, there are things we Americans must do at home. Our domestic economy has been experiencing its strongest recovery in 30 years.
Investors around the world, expressing confidence in that recovery, have bid up the value of the dollar. This has made American exports more expensive for people of other countries. These macro-economic factors -- a high domestic economic growth rate, increased consumer demand, and the high value of the dollar -- have also played a role in creating a bulging trade deficit.

Americans must maintain steady growth without inflation, reduce the federal deficit, and reduce interest rates -- which in turn will produce a more realistic exchange rate. We must also continue the major industrial restructuring now underway. Our economy has become more efficient, and there are signs of a renewed commitment to producing better products and better services at low cost.

But if we are to compete, even more American hard work, increased productivity, respect for quality, competitive pricing, and follow-through service will be essential.

In connection with this, I am pleased to note that 25 states have established state offices here in Japan. In the past year, 16 governors have visited Japan, showing their commitment to increasing Japanese investment and joint ventures in their home
states. The importance of having information readily available and expressing personal interest in the success of a trade endeavor cannot be stressed enough.

For its part, Japan must simply provide equal access to its markets. This means that if all things are equal, any country with good quality, low-priced products can enter a market and sell freely -- without tariff or non-tariff impediments. It means letting the market decide what is available to consumers, and at what price. Equal access means not restricting imports through non-transparent ordinances, administrative guidelines, repetitious and time-consuming certification procedures, and informal cartels. It means abandoning long-standing purchasing patterns that are based solely on "old boy" business connections.

For its part, Japan must also adhere to the rules of fair play. The other day a reporter asked one of our visiting trade officials if the U.S. would settle for a strictly bilateral agreement with Japan regarding market opening measures. The answer of course was no.

We are not seeking special or preferred treatment for American companies and their products.
Our goal -- as President Reagan has said -- is an economic system of free and fair trade in goods, services, and capital. We are seeking equal access for everyone, across the board, because that is what we consider fair play.

I cannot emphasize enough how important equal access and fair play are for the well-being of the international trading system. Japan has been the chief beneficiary of this system, and would be the one who would suffer the most -- without question -- should this system falter, deteriorate or breakdown.

Now let me add that no one in the U.S. Government believes that even if all Japanese tariff and non-tariff barriers were dismantled, our trade deficit with Japan would disappear. Any American who thinks that equal market access would somehow translate into a bilateral trade balance is mistaken, because it won't.

Furthermore, we Americans will not solve our own economic problems by looking only beyond our borders for the sources of our ills. Raising a wall of protectionism to hide behind will not improve our situation. It will only make it worse.
The ugly phrase "U.S.-Japan trade war" has already made its appearance in newspaper stories and television interviews. Whatever America and Japan do — as the two largest free enterprise economies — will have an impact on the rest of the world. We must take this responsibility seriously.

Commitment to the priorities set forth in the Bonn Economic Declaration and concrete actions to be taken on them are what we must set our sights on. Next year the Summit of Advanced Industrialized Nations will take place in Tokyo. It is no exaggeration to say that the world will be watching what we do here, AND taking stock of what we have accomplished in the preceding year.

We have our work cut out for us. The stakes are pretty high. As a former legislator myself, I can appreciate the importance of Congress and President, Diet and Prime Minister, working together toward common goals. Partisan politics, special interest groups, and grandstand tactics are not worthy of either of our nations. I have said it before, and I will say it again: Together we can accomplish a great deal that alone we cannot.

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