Mr. Chairman, ladies and gentlemen:

I have said many times that it's time for both of our countries to take off their coats, roll up their sleeves, tighten their belts and pull up their socks. I'm joining you in taking off my coat, and I'll have a few things to say, I hope, which will impress upon you the difficulties which confront our two countries today, and what needs to be done to rectify the delicate and difficult situation which is fast coming on us.

As you know, I have had the opportunity, by invitation, to speak at a meeting of the Japan Socialist Party, to speak at a meeting of the Japan Democratic Socialist Party and now, thanks to your invitation, to speak with you, representing the dominant political party in Japan.

My job as ambassador is to carry out my country's instructions as faithfully and as honestly as I can, and I do. There are differences from time to time, but those differences have been ironed out. In return, my duty is to report back to my government the situation as I see it in the country to which I am accredited -- to wit: Japan -- and to do that as honestly and as forthrightly as I can. Sometimes there are differences between what Washington thinks and what I say, but we have been able so far to accommodate those differences and to establish
what I think has been a very good and a very fruitful relationship.

I have learned a great deal since I first came to Japan in this particular assignment a little over eight years ago. I still have much to learn, but one thing I have found out is that this relationship -- this bilateral relationship between Japan and the United States -- is the most important bilateral relationship in the world, bar none.

Another thing I have emphasized, and in which I have believed for a long time, has been the future of the Pacific Basin, a future in which Japan has shown great initiative -- beginning with the time that Prime Minister Ohira first raised the possibility of a Pacific Community during his campaign for office. It's an idea whose time has not yet come, but it's an idea whose time will come. And what we're seeing now are the ingredients which make it a certainty that the next century will be the Century of the Pacific. The development of that huge basin, on which four continents impinge, four South American nations front, all of Central and North America, Australia, New Zealand, the islands in the Pacific, all of East Asia; in that basin where 58 percent of the peoples of the world live, an area of tremendous natural resources, great potential markets and, on the whole, friendly peoples and governments. It is in that area where it all is, what it's all about, and where our joint futures lie. I will try to elaborate on that in the course of my remarks.
As I indicated at the beginning, our relationship with Japan is at a critical point. The difficulties are not over defense, where I appreciate very much what the Japanese have been able to do in spite of many obstacles over the past 14 years. Your contribution has meant a great deal to us, and I think it has meant a great deal to Japan as well.

It's not in the area of cultural differences. They are slowly being bridged. It is in the area of trade. In 1983, we had a 16.9 billion dollar deficit with Japan. Last year that figure amounted to approximately 37 billion dollars, and for this year the estimate is from 47 billion dollars on up. Now, regardless of what the reason or the reasons are for that tremendous trade differential, it does create a problem because it is too much of an imbalance, too much of a surplus in your favor. And that means that both of us have to find ways and means to cope with the situation -- which we must -- because we cannot avoid it. If we try to avoid it or postpone it, it will only get worse.

As far as Japan is concerned, the key word is access, access, access. We want the same access to Japan's markets that Japan, generally speaking, has in the American market. And remember, ladies and gentlemen, your most important market just happens to be the United States and that market should be retained. Your exports to us should continue to flow, and as long as they're good exports, competitively priced, we'll buy them. But there has to be a return gesture as well.
While the United States was the only nation last year that I can recall that increased its exports to Japan to the tune of 8.8 percent, nevertheless that did not do much to ease the differential in the imbalance between our two countries. That means that both of us have to do more than we've been doing up to this time. While we want Japan to open its markets, we should not disillusion ourselves that if Japan does so it will mean that the differential in our trade will be done away with. It won't. Because Japan will still have a sizeable surplus with us, and would have it even if you did away with all your tariffs and quotas on both industrial and agricultural products. I wish you'd give such a suggestion the most serious consideration.

Even if that happens, it wouldn't make too much in the way of a difference insofar as the difficulties covering the trade situation is concerned. There are things that my country has to do, too. We can't just point the finger at another country. We can't fob off our responsibility on someone else. We have to look at the motes in our own eyes, but we're afraid to go up to the mirror to see what it will show because there are certain things which we have been responsible for in creating, in allowing to flourish, and to which only we can find a solution.

I refer to the high dollar. The estimate by the economists is that over the past five years it has increased in value by 40 percent. I think the figure would be closer to 50 percent if you'll do away with the last two weeks' fluctuation in the dollar.
But it's too high. We're pricing ourselves out of foreign markets and we're allowing goods to come in more cheaply than we can compete with. The result is that it is a contributing factor to the imbalance which faces us today.

The second thing I'd like to mention is our high interest rates -- again our responsibility, of our own making -- and while the interest rates have decreased to 9.5 percent today as far as the prime is concerned, a tremendous drop from the almost 21 percent prime rate in 1981, it is still too high. The result has been that there has been a Japanese outflow of capital, a European outflow of capital, some Latin American outflow of capital into the United States to invest in T notes, bonds and the like, to take advantage of those interest rates, and you can't blame them. They are an investment on a short-term profitable basis in my country, and they're needed because that money is used to pay off the interest on our debt -- not to pay off the debt, not to reduce the debt, but to pay off the interest -- which last year amounted to 111 billion dollars, and this year the estimate is somewhere around 135 billion dollars, just on interest on the debt. And not millions, but billions of dollars. This year that will amount to about 13.7 percent of our budget.

The next factor is the huge deficit, again of our own making, and it will be cured on our own responsibility. The Congress has passed two bills, one out of each House. The only thing they seem to agree on is the amount by means of which the
deficit should be reduced, and that amount is 56 billion dollars. But they can't get together in conference on the substance of what each of them has done separately. In the first place, a 56 billion dollar reduction in our deficit is not enough, even though both Houses have moved in the right direction. It's got to be much more, because the way things are going we have to recognize that this responsibility in large part is ours.

The new Trade Representative during his hearings before a Senate Committee prior to his confirmation, Ambassador Yeutter, said that the cause of our difficulties was primarily the over-valued dollar. Several weeks before that, the then-outgoing U.S. Trade Representative Bill Brock said on a public TV program, when asked a question, that two-thirds to three-quarters of the responsibility for our difficulties was ours.

So there are things which have to be done by Japan, primarily the opening of its markets, doing away with, wherever possible, of tariffs and quotas, giving us the same opportunity here, that generally speaking, we give them in our country. It's a big job. We're looking forward with anticipation and interest to the package to be released by the Japanese Government on Tuesday next, the 30th of July. I hope it contains a lot of substance, because I am concerned about what the reaction not only will be in the Congress, but what the reaction in the Congress has been to date, and it has not been good.
So, in addition to what I've mentioned that Japan should do, we'll wait and see what the substance is in the Action Package. I've indicated what we should do. I am delighted that an attempt is being made in the right direction to try and bring about a reduction in the deficit, but not delighted enough.

I am happy that interest rates have been reduced to 9.5 percent for the prime, but not happy enough. I recognize the need for inflow of capital from Japan and elsewhere to help us pay the interest on our debt, but I wish we would be aware of the fact that if that inflow ever stopped and we couldn't pay the interest on our debt, that a whole new ball game would be in the making. I am concerned about our deficit, and I am concerned about the relationship between our two countries because of what has developed.

I've mentioned what I think the Congress should do. I would like to add to that and say that there are other things that Congress should consider doing. One would be to amend the law which forbids the outflow of surplus Alaskan crude outside the United States. If that law could be amended and if that surplus oil, which is very expensively shipped from Valdes in Alaska to the Panama Canal up to the Gulf Coast, could be shipped to Japan and other parts of East Asia, I think it would put a sizeable dent in the deficit which we have with your country, Japan, and that it would amount to somewhere in the vicinity of 5 billion dollars.
You're talking about a big ticket item when you get into that area.

I would also like to see my country do something about the anti-trust laws. Excellent when they came into being around the beginning of the century, but the times have changed. We've got to change with them, and our businessmen should be given the same opportunities in parts of the world where they have to compete with other businessmen from other countries who can operate under more favorable conditions than we do.

So these are things which we ought to keep in mind, but basically, this relationship is tremendously strong. This relationship has come a long way. This trade relationship has developed from a 42 billion dollar two-way trade with all of East Asia, including Japan, in 1975. Today, ten years later, our trade with Japan alone last year was about 84 billion dollars, and with all of East Asia, including Japan, pretty close to 180 billion dollars. That indicates just what is happening in this respect. And when you look at the figures since 1975 and compare them with what's been happening across the Atlantic in Western Europe, which used to be our primary trading partner, you will come to the conclusion that the gap between the Atlantic and the Pacific has been widening each year for the past seven years, and widening in favor of the Pacific. That trend is going to continue. That relationship between us must continue because so much of the Basin, so much of the rest of the world, depends upon what Japan and the United States can
do together, and not what they can do separate and apart.

But I am concerned about what's happening in the Congress. I am concerned about the world economic situation. I am concerned about the world political situation. I am concerned about world strategic considerations.

When we look at the economic picture, especially the relationship between Japan and the United States, we see a lot of things being talked about in addition to the economics of the economic situation.

It is fast becoming a political factor as well as an economic factor, and what we see are more bills being introduced in the Congress than there have been in the past 50 years, and more are being introduced all the time. The statements made, the resolutions passed, that 92-0 vote on the Sense of the Senate, the Danforth Resolution, covering primarily telecommunications, were clear indications of how the Congress feels about this relationship, how the Congress is zeroing in on that 35 billion dollar imbalance, an imbalance not in our favor because it's an imbalance in favor of Japan, and the result is that they are becoming emotional, but more so they are becoming frustrated. Almost all of those people who have introduced the bills I mentioned are personal friends of mine whom I've know over the years. All of them, as far as I can ascertain, are basically free traders, but all of them are frustrated and they want something done.
I am concerned when a bill is called up, or when a bill may be called up, this coming week in the Senate, either the Packwood Bill or the Danforth Bill. I don't think it will be, but the possibility is there. If it is to be brought up at all, it ought to be brought up later in the year. Hopefully, neither of them will be brought up at all, but it does indicate the feeling and the power behind what's being done in the Congress of the United States at this time.

Then we have a bill introduced about a week ago by Dan Rostenkowski. The name may not be familiar to you, but you'd better get acquainted with it. He is the chairman of the House Ways and Means Committee, the most powerful committee in either body. It is the committee which considers trade matters, tax matters and things of that sort, and it has prior authority under the Constitution of the United States to do so.

And then we have a campaign going on at the present time -- I just happened to find out about it this morning -- for a vacancy in a House seat in East Texas, and do you know what the issue is? Trade! I think that what many people are thinking of in Congress is that trade may well be the main issue in the next campaign, and if so, we're going to hear much more about it in the weeks and the months ahead.

It is my understanding that there is a certain amount of juggling going on at the present time as to what kind of a trade bill the Republicans or the Democrats in the Congress will
offer. That too plays a part, and as politicians, members of the Diet, you certainly are fully aware of just what it means and what the possibilities inherent thereto are.

So it is a difficult problem. It is a matter which we can't avoid. It is an issue which has two sides to it -- Japan's and the United States'. It's an issue on which both of us must operate, if we can, with reason and understanding, trying to recognize the realities and to get away from the emotional aspects of a problem which could well -- if not attended to correctly by both -- tend to disrupt this all important relationship.

In my opinion, one of the causes of the last war, perhaps not the main cause but one of the causes, was the passage of legislation in various countries which closed markets to other countries, thus forcing other countries to look elsewhere for the raw products, the raw materials, which they did not have but had to obtain, and out of that came a set of circumstances which set one country against another, countries against countries, and out of it came a war.

I don't see that happening again. Conditions have changed, as I've indicated, but I do not want to see a repetition on even a minor scale or a different scale which would put nation against nation, bring about a disruption of a system which has, on the whole, been beneficial to all of us. And incidentally, the country which has most benefited from the present
international trading system has been Japan. And the country which will be hurt the most if that system fails will be Japan. Why? Because of your vulnerability and your great dependence upon the rest of the world for your livelihood. Every Japanese knows that. Every Japanese knows that his country lacks natural resources. You've got some coal left, declining in quantity and quality, increasing in price. You've got your hydro power developed to the utmost, but both coal and hydro will supply no more than 4, maybe 4.5 percent of your energy needs from domestic sources. You've got about 23-24 nuclear energy plants in operation, 8 or 9 more on the boards and you'll have by 1993 around 52 nuclear energy plants in operation. But even that added to coal and hydro power will probably give you no more than 14-15 percent of your needs from domestic sources.

I cite just the one sector to indicate how vulnerable you are and how dependent you are upon the rest of the world, and because of that dependence -- that interdependence really -- we have to work together, we have to find solutions to this problem. We have to avoid protectionism because protectionism means things bad for all of us and benefits none of us. We face a period of great concern, we face a period in which both our countries will have to make sacrifices. You have, for example, to contend with the farm bloc here. We have, for example, to contend with the farm bloc in the United States. They are both powerful, they are both politically potent, and they both are well represented. But the time has come to make sacrifices, the time has come to cut the rhetoric, the time has come to face
reality and to recognize the facts. And the fact as far as Japan is concerned is to open its markets more, much more, perhaps pay more attention, much more, to its domestic economic development. And for the United States, it is up to us to do something if we can, and will, about the strong dollar, the overvalued dollar, high interest rates, high interest payments on the debt, and something about the huge deficit.

Together we can do a lot. Separate and apart -- to repeat -- we lose a great deal of our strength. But so much depends upon this relationship that if it means sacrifice let's sacrifice.

Let's both of us do it. Let's preserve this international trading system which has been beneficial for both of us, and let us do it together so that this most important bilateral relationship will become stronger in the years to come, will be more beneficial to both our countries in the decades ahead, and will be a force for good, for peace and prosperity throughout the world.

Thank you very much.

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Mr. Saito: (in Japanese)

Ambassador: First, let me say that "demand" -- as far as I'm concerned -- is the wrong word. I don't believe in demand; I don't believe in pressure; I don't believe in threats. But I do believe in making suggestions and I do believe in laying the bare facts out for all to see and arrive at judgments on.

Most of what you said, except for the use of the word "demand", is correct. But my recollection is that Senator Danforth -- in introducing his bill covering telecommunications -- indicated that he was not "bashing Japan", but was directing his efforts toward the Administration. Because he was saying that the Administration -- to wit: the President, Mr. Reagan and his people -- were not enforcing the law. It's understood that there is no quick fix, that no matter what was done this year that the at least 47 billion dollar deficit which we anticipate we'll have with you, probably a little more, will not be changed. The same would apply to next year too, but I would hope that out of the Action Package would come enough substance in the way of meat, for example, in the package, in the way of a program laid out over the next several years indicating what can or might be done under certain circumstances.
As far as getting into the Japanese market is concerned, we're not asking for a guarantee that Japan will buy our products. We're asking for the opportunity to break into the Japanese market, to penetrate. We think we can sell in the area of telecommunications, electronics, pharmaceuticals and medical devices, even in lumber and wood products. If we can't sell, that's our hard luck. But we want the opportunity. We don't like the extremely high tariff rate that we pay on lumber and wood products. We have a good product; we can compete with you; we can compete with outsiders. But the tariff rate is too high.

We think we're making excellent progress on the Telecommunications Bill. There are a few additions we would like to have to what has already been agreed to. We're satisfied, though it's slow, that the electronics meetings are going well. We are reasonably pleased with the way pharmaceuticals and medical device talks are going, but we're very concerned about lumber and wood products.

So we're not threatening, we're not demanding, we're not pressuring. We're just laying it out for you to see, and those of you who belong to the LDP are good enough politicians to recognize the fact that politics often enters into the study of economics and at times distorts it. And just as you members want to be re-elected to your present office, if not a higher one, so do American congressmen want to be re-elected, and that's why all this frustration, all these speeches, all these statements, all these resolutions and bills are being
introduced. The feeling is there. It's critical. It's going to be up to the politicians on both sides -- both Japanese and American -- to get their feet on the ground, to make sacrifices if necessary, and through patience and understanding help to bring about an accommodation, a compromise or a solution to these difficult problems which confront us today.

Thanks for raising the questions. Good points.

Mr. Tamazawa: (in Japanese)

Ambassador: May I say that I'm not surprised. That was a very excellent summary on a number of subjects and, by and large, I agree with just about everything you said. However, I would point out that in addition, in the matter of unfair practices, that is what some of the American congressmen think. I would refer to them as "unusual practices," in some instances based on cultural differences, but substantial progress has been made in certification, inspection, standards and the like, and we're very appreciative of that.

As far as the markets are concerned in both countries, the Japanese market is not as closed as many Americans think, nor is the American market as open as many Americans say. We have had our share of orderly marketing agreements covering such things as color TV for example, "voluntary" reductions on auto exports to the United States, the Peril Point agreement on imported steel, the imposition of extremely high tariffs on Japanese
motorcycles to benefit the lone American motorcycle producer Harley Davidson, and so there is enough give and take on both sides to recognize that one isn't as bad as some people think and the other isn't as good as other people say.

I recognize the fact that Japan has the lowest average across-the-board tariff rate of any of the major industrial nations in the world; but in that average, certain selected items are left out which tend to bring about a different weighing to the problem as a whole.

Frankly, if the Japanese were to remove all their imports and quotas on their agricultural products—that seems to be your specialty—my estimate is that the difference would amount to no more than a billion, at the very most 1,500 million dollars. That wouldn't have much of an impact on our trade, and I doubt it would get far even within a five-year period.

As far as the industrial reductions are concerned, there have been statements coming out of highly-placed Japanese, I believe, in the government, from time to time, that that's a matter that should be considered. This system has meant, I repeat, a great deal to Japan. I repeat, as you have, that Japan has been the chief beneficiary of this system -- rising from the ashes of nothing to be the second world economic power today and if the system breaks down it's going to suffer more than the others, but we're all going to suffer in the process.
So thank you for your very lucid remarks, your splendid arguments. I hope that we can work together and bring about an answer to some of our difficulties with a mutual recognition of the fact that the blame doesn't lie with one or the other, but with both of us.

Mr. Morita: (in Japanese)

Ambassador: As I've indicated -- and I think we're in agreement -- to answer the second part of your question first, what the United States has to do is to face up to its responsibilities. I am not a financier or an economist. I don't know how the matter of an over-valued dollar will be handled, perhaps in an international conference. I don't know. That's for the authorities in Washington to decide. They're fully aware of how this dollar is pricing us out of the world's markets. Then I mentioned the fact that interest rates ought to come down further. They have been coming down nicely, thanks to the attitude of the banks and the Federal Reserve.

As far as the debt is concerned, the Congress is facing up to it. The bills each House introduced are now in conference, and they don't seem to be getting anywhere, but at least they're moving in the right direction -- even if it isn't fast enough or going far enough.

So those are things, to repeat, that I think should be done. Evidently we're in agreement on that matter.
You also mentioned Alaskan oil. As a matter of fact, the present law has an amendment to the Export-Import Act, which forbids the shipment of U.S. oil outside the continental limits of the United States. The result is that the West Coast, which hasn't sufficient oil refinery capacity, cannot take care of the overflow of surplus Alaskan crude. So they ship it from Valdes, the shipping point in Alaska, at a cost of about $5.50 or $5.60 a barrel, all the way down the West Coast through the Panama Canal, either through transporting it onto smaller tankers or through the pipeline, then up to the Gulf Coast. We could ship oil just as well in from Mexico for 50-75 cents a barrel at the moment.

But if we could get the bill amended -- and this is Congress' responsibility -- the Administration, the President and his Administration, are in favor of shipping that Alaskan surplus crude not to just Japan, but Japan and East Asia.

Incidentally, both the President and Secretary Shultz are very Pacific, East Asia-oriented, I think they are our first President and our first Secretary of State who have recognized the importance of this area.

But if the law could be amended that surplus crude could be shipped to this part of the world, it would help diversify Japan's sources in the Middle East, which I think amount to about 72 percent of its energy imports, and give it another source of supply.
Incidentally -- I think that some of you know, maybe some of you don't -- to illustrate the relationship between our two countries and the importance of oil in that relationship, at the time the Iranians were holding the American Embassy people hostage, at the beginning of that, the Japanese Government, at our request, refused to pay the $2.50 a barrel that the Iranians demanded of the Japanese. The result was that two days later Iran cut off all its oil shipments to Japan -- which in that year, or the year before, amounted to 13 percent of all of Japan's imports. So that indicates Japan's dependence upon that part of the world, its vulnerability. And this would help not only to fill in the gap, but it would create a diversified source for Japan and, at the same time, it would put a sizeable dent in the budget deficit that we have with your country.

Very good questions. I hope I've answered them to your satisfaction.

Moderator: (in Japanese) Thank you.

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