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SPECIAL REPORT

MANSFIELD SAYS JAPANESE MARKET NOT CLOSED,
SUGGESTS THAT U.S. EXAMINE OWN TRADE BARRIERS

TOKYO -- (By a BNA Special Correspondent) -- In spite of recent statements by Reagan Administration officials complaining that the Japanese market is still too closed to imports, U.S. Ambassador Michael Mansfield said recently that the market here is not as closed as it is being portrayed, and that the U.S. market is not as open to foreign imports as commonly believed.

In an exclusive interview with BNA, Mansfield said the United States should consider removing some of its own trade barriers. "I think the Japanese market is more open than we realize and ours is not as open as we think," he said. "It's true that there are invisible barriers, since quotas are still maintained, mostly on agricultural products ... but the U.S. market is not as open as some of us think because we've entered into orderly marketing agreements which tend to cut off shipments to an extent or to realign them in such a way that they must conform to our standards." He cited in particular textiles, color TVs, steel and automobiles.

He agreed that U.S. trade barriers should be "gone into very seriously" and removed "unless overriding reasons are forthcoming."

Japan Trade "Most Important"

Despite the Japanese quotas on agricultural products, Mansfield defended the trade relationship with Japan -- calling it "the most important bilateral relationship in the world" -- and cited figures that orange and juice imports rose five times in the past four years. He said he expected it to continue to rise further this year.

During a recent press briefing, one ministry of foreign affairs official complained that criticisms by U.S. government officials about Japan's "closed" market were not constructive. He noted that while the United States is complaining about quotas on oranges, the United States also has limits on Japanese mikan imported into the United States.

Mansfield agreed, saying, "The American orange industry has some complaints that ought to be gone into, and if the necessary corrections can be made, we should create the possibility of an expanded mikan market."

Mansfield denied that the current round of public comments about Japan's markets amounted to increased pressure on Japan or to an attempt to convince the American public that Japan is responsible for U.S. trade problems.

Mansfield also denied that U.S. pressure was responsible for the Suzuki cabinet and Ministry of International Trade and Industry recent announcements of policies to step up imports of manufactured goods into Japan, although he admitted that the United States made "suggestions" and had "talks" about the issue.

That policy, believed to stem from recent criticism especially by the European Community countries of Japan's trade surplus, the government said, would include reductions of some tariffs, investment and technology exchanges, and a method for adjusting the trade flow to and from Japan. MITI said it will attempt to talk with various other ministries, such as Finance and Agriculture before setting its policy later this fall for the upcoming GATT conference.

Protectionism from Auto Agreement

Mansfield also said that the recent auto restraint agreement indicates a general tendency toward protectionism in the West, although he was quick to add that it is only "latent" in the United States, so far. He said one of his main jobs, therefore, is to foresee future economics difficulties and "do what we can to prevent it from getting out of hand and becoming an impossible political issue in which protectionist legislation would play a very important part." He said he definitely sees the possibility for future trade friction concerning semiconductors, high technology, and computers. "We have to expect it," he said. But he also warned that American business in these areas, especially semiconductors, must make an effort to stay ahead of the game. "We can take nothing for granted, and we've got to spend enough on research and development to make sure that lead is maintained," he said.

He also said that the industry reaction in the auto trade talks shows more resistance to voluntary restraints on exports. "The Japanese industry in that respect is beginning to compare somewhat with ours ... they don't depend on the government nearly as much as they used to for financing, guidance, and the like," he said.

Asian Investment

Concerning American businesses in Japan, Mansfield said that Japan and East Asian area is the most profitable for direct manufacturing investment. The American Chamber of Commerce in Japan has issued a report stating that return on investment is about 18 percent in Japan, the highest in the world.

Mansfield said that despite previous restrictions, the Japanese government is more receptive to American investment "because they realize its values and I think the bars are gradually being let down." But, at the same time, he warned American business not to "come into Japan for the quick buck. They should come in for the long haul, carry out the necessary feasibility studies and market surveys ... be prepared to stay in ... recognize that there might be losses in the beginning."

He said that business looking for the quick profit "might just as well stay home."

A transcript of the interview with Mansfield appears on the following pages.

TRANSCRIPT ON BNA INTERVIEW
WITH U.S. AMBASSADOR MICHAEL MANSFIELD

Q. In the past month or so, there have been more comments, particularly from the commerce secretary and U.S. Trade Representative Brock that the Japanese markets are closed. It seems there is pressure from the Reagan Administration to "open" the markets and I'd like to know what you think is happening on that account since I thought we had settled the issue that the Japanese markets weren't all that closed. Do you think the markets are closed or that this is political pressure?

A. I think the Japanese market is more open than we realize and ours is not as open as we think. It's true that there are invisible barriers, since quotas are still maintained, mostly on agricultural products, but it's my understanding that all those quotas on agriculture and fisheries amounts to only half a billion dollars over five years. I've discussed this matter with the agricultural attache and that's the source of that estimate.

One big door that was closed was NTT, but on the basis of the agreement reached last December that door is gradually being opened. In my opinion, an honest and straightforward attempt is being made by that agency to open it as much as possible in the months and years ahead. The U.S. market is not as open as some of us think because we've entered into orderly marketing agreements which tend to cut off shipments to an extent or to

realign them in such a way that they must conform to our standards. I refer, for example, in the first instance, to textiles and color tvs. In the second, to the creation of a trigger or reference price system for steel imports based on Japanese costs, I believe, worldwide. The auto agreement falls into neither category because it was an oral agreement between two governments under which the Japanese accommodated themselves to our difficulties by agreeing to reduce their exports 7.7 or 7.8 percent this year below last year.

Pressures by the Administration are nothing new. It depends on how you define the word pressure. I would say it's a continuation of the policies of preceding Administrations. Concerning agricultural and fishery products, I should amplify my answer by stating that Japan is far and away our best agricultural customer. Nobody's even a close second. In calendar 1978 they bought \$5.3 billion worth of agricultural products from us. Last year the figure was \$6.1 billion. This year we're hoping to hit \$7 billion. So the trend has been steady, significant and upward year by year.

We hear calls that the Japanese should buy more citrus, beef, and grains. As a matter of fact, over half of the agricultural products which they ship into this country is composed of grains. As far as meat is concerned, the latest figure I've seen is that the highest total we've exported from the United States over a three-year period is roughly 55 thousand metric tons worldwide. And

the Japanese did buy last year 33 thousand metric tons -- more than half of the meat exports on a worldwide basis. As far as citrus is concerned we have a lock on the market here with California lemons -- roughly 100-110 thousand metric tons average over the last three years. We have a lock on the grapefruit market -- most of which comes from Florida, Arizona and Texas, but mostly Florida. That mounts to somewhere between 130 thousand metric tons and 140 thousand metric tons over the past three years. We have been able since I've been out here to increase the imports of oranges from 15,000 metric tons a year up to about 73-75 thousand this year and I think next year it'll hit 82,000 under the bilateral agreement. At that time, we will renegotiate and hopefully we'll be able to increase our orange shipments and our orange juice.

So in the past four years they've increased their orange imports from us five times. That's not a bad record.

Q: Is that as an adequate response? Are you satisfied with this record?

A: For the time being. We hope next year when negotiations are reopened under mutual agreement that we will be able to up orange shipments and up beef shipments. I don't know how we can up our grain shipments very much.

U.S. Barriers

Q: A Ministry of Foreign Affairs spokesman commented recently that the United States complains about orange exports to Japan, but the United States won't import Japanese mikan. Do you think that the United States should reciprocate by removing any of our own trade barriers?

A: Yes, I think that ought to be gone into very seriously, with that objective in mind, and unless overriding reasons are forth coming. Mikans are shipped into six states -- in the northwest, Washington, Idaho, Montana, and Oregon; plus Alaska and Hawaii. The American orange industry does have some complaints that ought to be gone into, and if the necessary corrections can be made, we should create the possibility of an expanded mikan market.

Incidentally, in Japan, more years than not they have a surplus of mikans, which indicates more strongly how much they accommodate themselves to our desire to ship more oranges into Japan. When they entered into that agreement in 1977 or 1978 on oranges and beef, they at the same time ordered 20 percent of their orange trees cut down. But they still have surpluses.

Q: Do you think the Administration is attempting to convince the U.S. public that Japan is the scapegoat for our own trade problems?

A: No, I think it's a good continuing policy to try and ship more agricultural products abroad. It's the shining factor in our overall trade picture. For example, while the figure was \$6.1 billion in exports to Japan last year, Japan shipped less than \$100 million worth of agricultural products to the United States. That leaves about \$6 billion in the clear.

Q: Since the Reagan Administration took over, what changes have you seen in policies toward Japan, if any?

A: A desire to work out agreements not necessarily written, by means of which an accommodation can be reached, to help us out of our difficulties, such as automobiles. The labor unions, the UAW, and the auto industry, wanted two things: Japanese investment in the United States. Honda is investing \$200 million in Ohio, Nissan \$500 million in Tennessee, and reduced shipments to the United States. They've done both, and in doing so they've calmed the move for protectionist legislation, and gained a little breathing space and acquired a little more

flexibility. But neither one will solve the auto issue, which will have to be solved in Detroit, with cars which are competitively priced, as good or almost as good in quality, good follow through service and with the appropriate anti-pollution devices plus higher gasoline mileage.

Q: Do you think they'll be successful?

A: I think so, given enough time. That's one of the reasons the Reagan Administration was so desirous that the Japanese do what they did this year to help gain a little time, a little space, a little flexibility, for the U.S. auto industry.

Bilateral Agreements

Q: When Arthur Dunkel, the director of GATT, was here, he was quite critical of bilateral agreements such as the voluntary auto restraints. He seemed to think this was going to undermine the multilateral trade system.

A: I wouldn't agree with him because the American market is, comparatively speaking, a lot more open market than the European, with the possible exception of Benelux. Among the major countries, Germany is the best with a 14-percent import tax, whereas we have four percent.

The Italians have a very strict quota basis, the French, also, plus they went to the extreme of holding their cars in port, while others were kept offshore on ships. The English have some restrictions. The relationship between Japan and the United States is not only special, but the differentials in the markets concerned give us more in the way of asking the Japanese to do what we suggest than it is for the Europeans until they open their markets more.

Q: Do you see what is happening, with the autos in particular now, as a trend toward protectionism?

A: In the United States, not at the moment.

Q: In the West, in general?

A: Yes.

Q: But not the United States?

A: No, but it's always latent in the United States. It's always latent in any country, because it's natural to protect your own industries as much as you can. Part of our main job out here, as we see it, is to try and see these economic difficulties coming up in time so we can do what we can to prevent them from getting out of hand and becoming an impossible political issue in which protectionist legislation would play a very important part.

Q: Let's say we continue to have the scenario we have now: the western economies are weak, they tend to want to protect their own markets, Japan continues to be strong. If this continues, what will happen to U.S.-Japan trade relations?

A: We want to do our best to see that it doesn't get out of hand. We have to anticipate difficulties from time to time. After all, we are the two greatest industrial democracies. The two-way trade between our two countries amounted to about \$52-53 billion last year and it is growing all the time.

This is the most important bilateral relationship in the world, and we ought to recognize that fact. I think that that fact is sinking home among the American people, and in the American government.

Q: In trade relations with Japan we've gone through waves of crises -- textiles, steel -- then we've moved into autos, electronics. In the future, there may be problems with high technology, integrated circuits, services. Do you think we're going to see the same kinds of Japanese, "overexporting,"

A: Yes. Yes. We have to expect it. I wouldn't say "overexporting," though. After all, Japan is a

vulnerable country in more ways than you can shake a stick at. It's earthquake prone. It's economically very poorly off as far as natural resources are concerned. It has to import raw materials to manufacture to export to survive, to take care of a population of 117 million people, in a country which is 3,000 square miles smaller than my own state of Montana.

Strategically, they are located in the midst of one of the most important areas of the world -- the PRC, the Soviet Union, the United States and Japan, with Korea, also. So they have to make do with what they haven't got in the way of natural resources by importing. What they have got is human resources, with productivity, drive, creation of competitively priced quality products for which they achieve a reputation and for which there's a demand.

Semiconductors, Computers

Q: But you do see problems in the future?

A: Yes, in semiconductors, high technology, and computers. I was talking to some people from the semiconductor industry. They said they had 60 percent of the market worldwide. Last year, our shipments of semiconductors into Japan exceeded those of Japan into the United States. This year so far it's 50-50 roughly. But we still have the lead. It's up to us to spend enough on research and development to make sure that we maintain that lead. But I notice already that when it comes to chips, outfits like Hewlett Packard, Texas Instruments and others are buying their chips from the Japanese because they are dependable, and of a better quality. Now I think it's shifting and we're doing a better job, and we'll have to do it to keep the Japanese from coming up too fast.

We can do it if we will, but we can take nothing for granted. We've got to spend enough on research and development to make sure that that lead is maintained.

Q: Are there any talks or negotiations going on now to head off this problem?

A: Yes. There are Japanese companies investing in the United States. There are American concerns investing more over here. TI, I believe, is doing that; Motorola and probably others. That's the way things ought to develop because we do have to work closely with each other.

We hope we can work out an agreement -- and the prospects look good -- whereby the Japanese will reduce their import duty on semiconductors to 4.2 percent, and we likewise will reduce our present import duty to the same figure.

Q: Do you see a trend toward Japanese direct investment in the United States in particular?

A: Yes, I mentioned Honda and Nissan. Sony has direct investments in the U.S. Hitachi. I think that's increasing, though the direct investment lags behind that of Canada, the Netherlands, United Kingdom, and a few more other countries.

Q: The American Chamber of Commerce in Japan figures show that American manufacturing investment in Japan has the highest return on investment in the world, about 18 percent. They are encouraging more companies to invest here. Do you agree with that and is the American embassy encouraging American companies to invest here?

A: I would say with Japan and East Asia, you get the biggest returns on investments over the past years of any region in the world. American investment in Japan is about \$5.8 billion, and in the rest of East Asia \$20.8 billion. Americans who come over here to look at Japanese industry ought to look at what American industry is doing over here, find out how they can make

a go of it and realize that the returns on their investments are excellent and hopefully more would come and invest and participate as we want Japanese to come and invest and participate in our market.

Q: Will Japanese government officials be receptive to that?

A: They are receptive to American investment from the United States because they realize its values. The bars are gradually being let down to encourage more American investment here. The Japanese have said publicly they would like more American business to come to Japan.

Q: What mistakes do you think American businessmen are making in Japan?

A: It's a little hard for me to give you all the answers. One thing American business should not do is to come into Japan for the quick buck. They should come in for the long haul, carry out the necessary feasibility studies and market surveys, as the Japanese do, recognize that even the Japanese sometimes suffer a loss, be prepared to stay in, build up towards steady profits, recognize that there might be losses in the beginning. But do not come in for the quick buck because those people might just as well stay at home.

Japanese Imports

Q: MITI has announced a policy for increasing imports, particularly from Europe, what will be the effects of the United States?

A: As the dollar becomes stronger, what we sell becomes more expensive. There has been a steady increase over the last three years in manufactured imports. There was a 22 percent increase over the previous year three years ago; two years ago it was up 36 percent; last year, it was around 16 percent over the year before. And this year, for the first half, I think the figures indicate about a 7 percent increase for the first six months over the first six months of last year.

There has been a large continuing increase. The Japanese are interested in quality. For good things they'll pay the price, but they won't buy shoddy goods.

Q: Were you part of the talks leading up to this announcement and what were the reasons behind it?

A: We've always urged them to increase imports; Brock, the U.S. Trade Representative, has urged them; Baldrige and others have urged them to buy more American products. And they are. But, of course, we have a wide divergence in the trade picture. Last year it was \$9.9 billion in Japan's favor. This year it's going to be larger, based on the first six months figure, if this trend continues.

When we look at those figures at home we begin to get concerned. But you have to look at the whole trade picture and not just the segments which individually make up the whole. Whereas we had a \$9.9 billion deficit with Japan last year, we had a \$17.2 billion surplus with the EC last year, and with all of Western Europe about a \$21.2 billion surplus.

Q: Is this Japanese import policy the result of pressure from the United States?

A: I wouldn't say pressure. Suggestions. Talks.

Q: There was criticism during the auto talks that the resistance of the Japanese auto industry to the restraint program indicated a new resistance among Japanese industry to settling trade problems in that way and that this is a changing attitude among the Japanese. This kind of resistance never would have happened in the past with the steel industry, for example. Do you think there's more of an attitude of resistance in the Japanese private sector?

A. Yes. I think the Japanese industry in that respect is beginning to compare somewhat with ours. After all, the private sector is based on a capitalistic economy as ours is. They don't depend on the government nearly as much as they used to for financing, guidance, and the like. They were not at all happy that this accommodation was worked out. There was a limited amount of guidance from the government. The government had expressed its opinion quite vigorously for the past several years and the auto industry reluctantly came along.

The auto industry, the private sector in general, is in much better shape financially than is the government of Japan which for the past two years has been operating at more than a third of its national budget in deficit, and for next year will be about 28 percent or 29 percent in deficit. They have their troubles. They have an internal debt that is increasing at an astronomical rate.

Q. What do you think that means for the future of the Japanese economy and its ability to grow?

A. They have no choice. The Japanese will try to stay ahead of the field. They will go more and more

into high technology. It's an indication of their vulnerability that they have to look ahead as far as they do in order to remain afloat.

Q. What do you think about the criticism of the U.S. high interest rate policy, that was discussed at the Ottawa talks. Is it creating a problem here in Japan?

A. They are concerned about it. But it's a problem that the Japanese seem to be able to surmount. They've been able to cope with it. It's the Europeans who seem to be the most worried about interest rates. But what the Europeans and the Japanese ought to remember is that we're worried about high interest rates, too, and the effect it has on auto sales and home construction. The purpose behind the high interest rates is to curb inflation, and evidently that part seems to be working.

Q. In Japan, you don't see any significant complaint or pressure?

A. I don't see it. They are concerned but they are understanding.

-- End of Section B --