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### Essay for *Economista Magazine*

Mike Mansfield 1903-2001

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## INTRODUCTION

As many of you may know, my interest in and association with Japan began back in 1922, when I was a 19-year old marine on a ship that stopped at Nagasaki to take on coal. My fascination with this beautiful country has continued ever since. And the eight years that I have been privileged to serve as United States Ambassador to Japan have solidified my belief that the U.S.-Japan relationship is the most important bilateral relationship in the world -- bar none.

It is hard to believe that 40 years ago our two countries were locked in a bloody and bitter war. Today we are the firmest of friends and staunchest of allies. Nothing must be permitted to compromise or weaken our relationship. Nothing.

My job as ambassador is to carry out my country's instructions as faithfully and as honestly as I can -- and I do. True, there are differences from time to time, but those differences get ironed out through discussion. 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, Japan, and to do that as perceptively and clearly as possible. So far we have been able to accommodate those differences and establish what I believe has been and continues to be a good relationship.

Because I feel so strongly about this U.S.-Japan relationship and about the Pacific region in general, it is appropriate to discuss with you the very serious strains in our current trade relations. We have had trade problems for the past 20 years, true, but the present situation is something new, something dangerous, and something that causes me deep concern.

#### PROTECTIONIST SENTIMENT IN THE U.S. CONGRESS

Japan should not underestimate the strength of protectionist sentiment in the United States. Whether one considers it overly-emotional or over-reacting, it is there. People, well-respected people -- like Senate Majority Leader Bob Dole, House Trade Subcommittee Chairman Sam Gibbons, Ways and Means Committee Chairman Dan Rostenkowski, Senators Danforth, Chafee, Bentsen and others -- have had to make difficult, painful decisions. Make no mistake about it: they have heard from their constituents, and their constituents are unhappy.

The result? Frustration and impatience with the perceived hollowness of the Japanese Government's trade packages issued to date: promises but few visible results. Depending on your source, there are 200, 250, 300 proposals and bills -- more than we have seen at anytime during the past 50 years -- before the Congress that would somehow act to restrict rather than expand the trade both our countries depend on. Senator Dole has said that based on his assessment of Congress' mood, he believes the "protectionist pot is about to boil over". I have

known Bob Dole and Sam Gibbons and the others mentioned above -- all basically free traders -- for many years. They understand the importance of fair and open market access to the health of the international trading system.

But what happens when fair and open market access is denied by one or more countries to their trading partners? Sometimes even to their very best trading partners? Restrictive or reciprocal trade legislation is only the symptom of this problem. The problem is our increasingly lopsided bilateral trade deficit. And this problem's roots -- from the U.S. point of view -- lie in the lack of market access here in Japan, the high U.S. budget deficit, and the over-valued dollar.

#### PROTECTIONIST LEGISLATION BEFORE THE CONGRESS

To give you a brief rundown of some of the "symptomatic" restrictive trade legislation before Congress:

1) a bill introduced by Representatives Rostenkowski (D-Ill.) and Gephardt (D-Mo.) and Senator Bentsen (D-Tex.) that would assess a 25 percent surcharge on exports from places such as Japan, Brazil, Taiwan and South Korea, unless they reduce their trade surpluses with the United States by 5 percent. According to this bill, any country that meets three requirements -- (a) each has a global surplus where its exports exceed its imports by 150%; (b) each has a surplus with the U.S. where its exports exceed its imports by 165%; and (c) each has trade restrictions would be considered.

2) a bill introduced by Representative Jenkins (D-Ga.) and Senator Thurmond (R-S.C.), with over 60 co-sponsors in the Senate and more than 300 co-sponsors in the House, that would reduce textile and other apparel imports from several countries -- particularly Korea, Taiwan, Thailand, China and Hong Kong;

3) a bill introduced by Senator Danforth and Senator Bentsen that would empower the President to negotiate reductions in barriers to international trade in telecommunications. Japan, with a bilateral telecommunications agreement with the U.S., would be subject to almost immediate countermeasures should it be determined that it was not implementing this agreement;

4) several bills that would authorize countervailing duties against imported articles manufactured from government-subsidized raw materials or against governments that "target" certain export industries for expansion;

5) a proposal by Representative Lundine (D-N.Y.) that would place a 2-year tariff surcharge, anywhere from 20 down to 10 percent, on all goods entering the United States;

6) several bills have been introduced that seek to reduce Presidential discretion under Section 201 of the 1974 Trade Law provision, under which President Reagan recently denied relief to the shoe industry. These bills would shift the decision-making power to the U.S. Trade Representative's office.

Congress reconvened at the beginning of September and it is likely that one -- if not several -- of the hundreds of pending trade bills will be debated and acted upon by year's end. At this point, Congress is talking about putting its "action program" into effect within the next three months, not the next three years.

#### REAGAN ADMINISTRATION POSITION ON PROTECTIONISM

I would be remiss in my duties as ambassador if I did not report these congressional trends to you. Likewise, I would be remiss if I did not explain the Administration's position on trade and protectionism.

As President Reagan eloquently emphasized in his September 23rd trade policy statement, "Our commitment to free trade is undiminished. We will vigorously pursue our policy of promoting free and open markets in this country and around the world. We will insist that all nations face up to their responsibilities of preserving and enhancing free trade everywhere. But let no one mistake our resolve to oppose any and all unfair trading practices. It is wrong for the American worker and American businessman to continue to bear the burden imposed by those who abuse the world trading system."

Along with President Reagan, Secretary Shultz, USTR Yeutter, and Secretary Baldrige have stated time and time again that America is committed to making world trading partnerships freer

and fairer for all. We continue to stand by that commitment.

Protectionism benefits no one. It cuts off avenues of productive exchange among countries; hits the consumer with higher prices for fewer choices; cuts efficiency; and invites retaliation that ultimately will result in shrinking economies for the world's nations.

True, this Administration and others previous have had to bend a little here and there. We have had our share of orderly marketing agreements covering such items as color televisions, "voluntary" restraints on auto exports to the U.S., and the peril point agreement on imported steel, to name a few. But on the whole, we have held the fort.

But can we continue to hold the fort much longer? Not unless we attack this trade deficit problem at its roots.

#### INTERNATIONAL TRADING SYSTEM AT STAKE

Headlines in both the United States and Japan have emphasized the enormity of our trade deficit with you: a \$37 billion deficit last year, and a projected \$48 billion deficit this year. Congress has homed in on these figures -- even though our deficit with Japan should be seen in the context of our worldwide deficit of \$123 billion.

Let me emphasize what is at stake here. The U.S. and Japan are the number one and number two economies in the free world; we are your number one export market, taking 35.2 percent of your total exports in 1984, and you are our number two export market, just behind Canada. Our GNP's account for more than 30 percent of the world's output. U.S. trade with all of East Asia was \$42 billion in 1975. Today, ten years later, our trade with Japan alone amounts to double that -- \$84 billion -- and our trade with all of East Asia is more than \$180 billion. Clearly we share responsibility for ensuring that the international trading system continues to expand and continues to benefit countries that participate on a fair and open basis.

#### WHAT THE U.S. CAN AND SHOULD DO

As I see it, there are actions that both the United States and Japan can take to remedy the current situation. These actions involve going directly to the roots of the problem.

First, we Americans must bring our federal budget deficit under control. Some members of Congress made a valiant attempt to cut the FY 86 budget by \$55 billion, but we will be lucky if the actual cut amounts to \$35 billion.

This huge deficit results in more U.S. Government borrowing in capital markets. In 1984, we paid \$111 billion just to meet interest payments on the national debt. Continued and/or increased borrowing will influence interest rates, which are

still too high by historical standards. These high interest rates in turn attract foreign capital to the U.S. in record amounts, exacerbating the already over-valued dollar.

This is the second item we Americans must correct. Economists estimate that the dollar has increased in value by 40 percent over the past five years. The result? We are pricing ourselves out of foreign markets, pricing ourselves out of competition, thereby admitting a rush of less expensive foreign products.

President Reagan recently authorized Treasury Secretary Baker to join his counterparts from other major industrial countries to announce measures to promote stronger and more balanced growth in our economies -- thereby strengthening foreign currencies. This will provide better markets for U.S. products and improve the competitive position of our industry, agriculture, and labor.

And in addition to our correction of these macro-economic factors, we must revive in America what I call the "old-time religion". Increased productivity, more cooperative relations among labor, management, and government, heightened quality-consciousness, competitive-pricing, and reliable follow-through service are essential. We need to buckle down to business.

One positive step the Congress could take toward reducing the trade deficit would be to amend the section of the Export-Import Act that forbids shipment of U.S. oil outside the continental limits of the United States. An amendment would allow us to ship our surplus Alaskan crude oil to Japan and the rest of East Asia, and is something that this Administration has supported.

#### WHAT JAPAN CAN AND SHOULD DO

For Japan's part, it must open its markets to imported commodities and goods. Access is the key word here. Generally speaking, we seek the same access to Japanese markets that you have to our markets.

Japan should also move ahead on steps to promote its domestic growth. Your economic growth has for too long depended on exports -- often to the detriment of your trading partners. Stimulating domestic demand would not only ease the pressure to export, but would also increase imports from the U.S. and other nations as well. As the second largest free-world economy, Japan should be willing to meet this responsibility to the international trading system.

#### IS THERE A SOLUTION?

I have heard visitors from Washington, as well as Japanese colleagues, quote from apparently contradictory opinion polls.

Yes, many Americans believe Japan's markets are closed. Yes, many Americans believe action should be taken to correct the lopsided trade imbalance. Some would even be willing to pay higher prices for their purchases as a result of these measures. Therefore, some of our Washington visitors conclude that import surcharges, reciprocal quotas or tariffs are the answers that the American people advocate.

In the same opinion poll, many Americans responded that they think Japanese products are superior to their U.S. counterparts -- in both performance and value. Therefore, conclude some of my Japanese colleagues, why should we restrain our exports?

Exactly. Export restrictions aren't the answer, nor are import surcharges, quotas or tariffs -- on either side. The international trade system, from which Japan has benefited so greatly, depends on access and expansion. We should not and cannot close off our respective markets from each other.

We are not asking for a guarantee that Japan will buy our products. We are simply asking for the opportunity to enter the Japanese market, to be given a chance to compete -- particularly in such areas as telecommunications, electronics, pharmaceuticals and medical devices, and forestry products, where we have proven ourselves internationally competitive. The U.S. trade deficit with Japan will not disappear, but at least we will have had our shot. And in America, equal opportunity and fair play are important.

I have been frank with you, as only a friend can be. Our two countries face a crucial turning point in our relations, and how we settle things will have an impact on the rest of the world. Our bilateral relationship is a tightly woven fabric -- full of brilliant colors, interlocking threads, and a sturdiness that has weathered the years.

Nothing should tear it asunder.

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