Foreign Correspondent's Club

Mike Mansfield 1903-2001

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Before beginning my prepared remarks, I would like to say a few words on Japan’s draft defense budget for Japan Fiscal Year 1982. That budget is 2,586.1 billion yen, or 11.8 billion dollars, and is an increase of 7.754 percent over JFY 81. I share completely Secretaries Haig and Weinberger’s high regard for this special effort on the part of Japan in the defense field. It is all the more impressive when we recognize the Japanese government’s efforts to maintain current spending levels in various other programs. The latest Japanese defense budget represents an important step towards establishing a needed self-defense capability.

The 7.75 percent increase over Japan Fiscal Year 81 represents a 4.62 percent increase in real terms, according to GOJ calculations. That is a rate of increase comparable to or much better than those of our other allies, albeit from a smaller base. It is particularly significant at a time when the increase of the GOJ’s general expenditure account, from which the various ministries’ budgets are drawn, has been held to an average of 1.8 percent—the lowest rate of increase since World War II. The defense budget will also account for 0.933 percent of the estimated fiscal 1982 GNP. This is an improvement in the pattern of the past five years, when defense spending hovered at 0.9 percent of GNP.
The draft budget includes a 25 percent increase in what we term cost-sharing -- the Japanese contribution to the improvement of facilities used by US military forces in Japan. It provides for acquisition of major equipment such as 23 F-15’s, 7 P-3C’s, 3 destroyers, 34 type-75 155mm self-propelled howitzers and 13 203mm self-propelled howitzers. These are welcome additions. However, if the GOJ is to achieve by JFY 1984 the equipment levels called for in the Mid-term Operation Estimate, it will of course have to make significantly greater efforts in the next two fiscal years as well.
I AM DELIGHTED TO HAVE THIS OPPORTUNITY TO BE WITH YOU TODAY BEFORE WE LEAVE, LATER THIS MONTH, FOR CONSULTATIONS AND OTHER COMMITMENTS AND SOME HOME LEAVE IN THE UNITED STATES. WE WILL BE BACK AROUND THE FIRST OF MARCH.

I WISH I COULD TRUTHFULLY SAY THAT THIS NEW YEAR WILL BE A PROSPEROUS ONE, FREE OF FRICTION IN OUR BILATERAL ECONOMIC RELATIONSHIP AND IN OUR MUTUAL RELATIONS WITH THIRD COUNTRIES. I DO NOT WANT TO BE OVERLY PESSIMISTIC OR MELODRAMATIC. OUR FUNDAMENTAL RELATIONSHIP IS SOUND AND, IN OUR OVERRIDING MUTUAL INTEREST, WE MUST KEEP IT THAT WAY. BUT I WILL CONFESSION TO BEING UNEASY AND CONCERNED AS I ASSsess WHAT MAY BE AHEAD OF US IN THE MONTHS TO COME. IT IS THIS ASSESSMENT WHICH I WANT TO SHARE WITH YOU TODAY.

WE ARE IN A CRITICAL PERIOD. THE ECONOMIES OF WESTERN EUROPE AND THE UNITED STATES ARE IN RECESSION, PERHAPS THE DEEPEST IN THE POST-WAR PERIOD. JAPAN ITSELF IS EXPERIENCING SLOW GROWTH, AVOIDING A DEEPER RECESSION LARGELY ON THE STRENGTH OF ITS EXPORTS. WE ARE, I HOPE, IN THE FINAL THROES OF ADJUSTMENT TO THE TURBULENT DECADE OF THE 70’S--CHARACTERIZED ECONOMICALLY BY RELATIVE STAGNATION, HIGH INFLATION, MISPLACED DOMESTIC PRIORITIES AND A DRAMATIC INCREASE IN ENERGY
COSTS. Japan has adjusted better than most. It is
rightly envied for its success for which it should not
be penalized. Instead, Japan should share its success.

The root cause of economic friction between Japan and
the United States, and between Japan and Europe is the belief
that Japan's success results in large measure from a freer
and fairer access to world markets than others have to Japan's
market. It is not surprising that this belief increases in
intensity during periods of economic difficulty and large
trade imbalances. In such circumstances it poses a grave
risk to Japan. The solution does not lie in protectionism--
that will only harm the welfare of all of us. The solution
must be found in increased opportunities for foreign access
to the Japanese market.

In the past ten years, many barriers to the Japanese
market have been lowered. Average tariff rates are generally
comparable with those in other industrial democracies.
Japan has removed a large number of quantitative restrictions,
and progress has been made on other non-tariff barriers such
as standards and customs procedures. Nevertheless, access
to the Japanese market for imports is much less than would
be expected, given this lower level of Japanese tariff and
non-tariff barriers. This fact is extremely frustrating
to Japan's trading partners.
In current circumstances these frustrations are manifesting themselves in statements critical of Japan. For example, in the United States one hears an increasing crescendo calling on Japan to open up its market, some with implied warnings that the consequences will be severe if no action is taken. A number of bills to restrict Japanese imports have recently been introduced in the Congress. One would require most automobile manufacturers to include at least 30 percent American parts in each vehicle sold in the U.S. A second calls for a tax of two percent of Japan's gross national product be paid annually to the U.S. in compensation for U.S. military expenditures made on behalf of Japan. In addition, one hears suggestions of taxing all Japanese products sold in the U.S.

Personally, I believe that adoption of these measures would be bad policy. And—if we manage things right—their adoption is unlikely. However, we must recognize that these bills, and others like them, are an indication of the fundamental frustration that exists over the difficulties U.S. firms face in penetrating the Japanese market.

As I mentioned earlier we can expect these frustrations to receive the greatest attention when the U.S. is going through a difficult economic period, characterized by high unemployment rates, as it is now. I believe that President Reagan is doing the right things to resolve these problems
in the longer term, we will see structural improvement in the domestic U.S. economy as his policies have time to take effect. But we must also see fundamental change in the conditions governing access to the Japanese market if we are to avoid strains in our relations through recurring trade friction of increasing intensity. Also, regardless of what economists might say about the need to view bilateral deficits in their multi-lateral context, a U.S. trade deficit with Japan of around $18 billion in 1981, and perhaps over $20 billion by 1982 is a political fact of life which must be reckoned with. These two factors, when combined with the easier access Japanese products have to our market, cause Americans to question why we can't sell more in Japan in those areas where we are confident of - and have demonstrated - our competitiveness, as pharmaceuticals, laser equipment, chemicals, etc.

In my view the bilateral trade imbalance is not the basic problem—it is only an expression of the real problem. The problem will not be solved by emergency imports alone or the restriction of exports. The fundamental problem will only be solved when and if U.S. and other foreign firms believe they have opportunities for access to the Japanese market equivalent to that which Japanese firms enjoy in the U.S. and elsewhere.

When Deputy U.S. Trade Representative Dave MacDonald was here in December he gave some examples of the kind of
Disparities in market share that exist between the U.S. and Japanese. Let me repeat them for you. Goods imported from Japan had the following shares of the total U.S. markets:

<table>
<thead>
<tr>
<th>Product</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Autos</td>
<td>20 percent</td>
</tr>
<tr>
<td>Steel</td>
<td>10 - 15 percent</td>
</tr>
<tr>
<td>TVs</td>
<td>20 - 30 percent</td>
</tr>
<tr>
<td>Motorcycles</td>
<td>90 percent</td>
</tr>
<tr>
<td>Radios</td>
<td>50 - 60 percent</td>
</tr>
<tr>
<td>Cameras</td>
<td>over 30 percent</td>
</tr>
<tr>
<td>Recording equipment</td>
<td>over 50 percent</td>
</tr>
<tr>
<td>Watches</td>
<td>over 50 percent</td>
</tr>
<tr>
<td>Machine tools</td>
<td>20 percent</td>
</tr>
</tbody>
</table>

And there are more.

On the other hand, aside from airplanes, there are no manufactured goods imported from the U.S. which enjoy as much as a 10 percent market share in Japan. (Someone is sure to counter by reference to computers. I would point out that 70 percent of IBM's sales in Japan are manufactured in Japan.) I have heard some in Japan express concern about the level of U.S. petrochemical exports to Japan. Yet, the U.S. share in this sector is only 4.5 percent. Some are also concerned that imports of steel into Japan have begun to reach a market share of 2 to 3 percent!
The situation is analogous regarding investment. When the Bank of Tokyo wanted to expand in the U.S., it bought the Bank of California. This gave it immediately over 300 branches in California with full power to accept deposits and act as any other U.S. bank. No American bank could do the same in Japan. When Fujitsu wanted American technology and a foothold in the U.S. market, it bought part of AMPahl. No, U.S. company could do the same here. When Green Cross wanted access to American blood plasma, it bought Alpha, the second largest blood collector in the U.S. No U.S. company could do the same here.

Following the Pacific war, Japan understandably took a number of economic measures to protect her industries while they were being rebuilt. Japanese saw Japan as fundamentally fragile and extremely vulnerable both to the forces of nature and to political and economic forces beyond Japan’s control. Japan’s situation was viewed with a high degree of tolerance by Japan’s trading partners. Protectionist measures were considered necessary if Japan was to develop into a strong, viable country able to take its proper place among the industrial democracies, an important goal for the U.S. and the rest of the free world.

To say that these policies were successful is to underststate the case and we applaud that success. Moreover these policies meshed with deeply ingrained Japanese
tradi\tions of protection. But today the situation is
different. Japan is now a mature economic power, with
the obligations which accompany that status. To the rest
of the world the image of a "vulnerable Japan" is outdated
and no longer a description of Japan in the 1980's. The
perceptions of the past--that Japan must limit its imports
generally to raw materials, provide the highest possible
level of added value in Japan and export completed
manufactures--no longer have the same validity. As a
mature, strong economy whose economic miracle has largely
been possible because of the open international trading
system, Japan must now participate fully in that system
and work to strengthen it. In short, this means reciprocity
by letting others, where competitive, gain market share
in Japan by giving them the same kind of free and fair
access to the Japanese market that Japan now enjoys in
their markets.

I am pleased to see that steps are being taken in
this direction. Under the leadership of Prime Minister
Suzuki, a process has been undertaken in which possible
barriers to market entry are being examined and solutions
are being proposed. We welcome the decision to advance
Japan's duty reductions negotiated in the MTN by two
years. I also believe the actions being taken to stimulate
the domestic economy are important. We anticipate that
the Diet will in this session address the trade issue in
A broad way, recognizing that the national interests of Japan extend beyond that of any particular interest group. But most important of all I am impressed by the growing awareness of the political and business leadership and the mass media of Japan that the potential economic and political risks to Japan are great and could get greater unless the "old ways" of doing things are changed.

We know that there are important domestic constraints on Japanese actions, including the current slow rate of growth in the economy and the budgetary deficit. Other countries, including my own, have similar or even worse problems. I am confident, however, that with firm will, these domestic constraints can be overcome.

I want to stress that both of us bear a responsibility for ensuring that the current trade problem does not reach proportions whereby it causes even more severe strains in our overall relationship. If this were to happen it would be much more difficult for the industrial democracies to deal together with the important problems we face—problems that are crucial to world peace—problems such as Russian troops in Afghanistan, the Polish situation, the concerns of the developing countries, and global negotiations.

As I have often said during my service here, the relationship between the United States and Japan is the
MOST IMPORTANT BILATERAL RELATIONSHIP IN THE WORLD--BAR NONE. THE TRADE PROBLEM MUST BE SEEN IN THE CONTEXT OF THIS LARGER RELATIONSHIP, AND IT IS IMPERATIVE THAT IT NOT BE ALLOWED TO BE WEAKENED AS A RESULT. ALTHOUGH BOTH OF US ARE RESPONSIBLE FOR MANAGING OURSELVES THROUGH THE CURRENT TRADE FRICTION, I MUST FRANKLY SAY THAT THE LARGEST PART OF THE DECISIONS LIE WITH JAPAN. WE CAN POINT TO THE PROBLEMS AS WE SEE THEM, BUT ONLY JAPAN CAN TAKE THE ACTIONS TO SOLVE THEM. JAPAN NEEDS TO TAKE THE LEAD--FOR THE GOOD OF THE INTERNATIONAL TRADING SYSTEM AND THE WESTERN ALLIANCE--IN FINDING WAYS TO MAKE THE FUNDAMENTAL SHIFTS REQUIRED SO THAT FOREIGN PRODUCTS HAVE REAL AND FAIR ACCESS TO THE JAPANESE MARKET. THIS WILL NOT BE EASY, BUT IT IS CRUCIAL.

BEFORE CLOSING, I WOULD LIKE TO SAY JUST A FEW WORDS ON THE COSTS OF PROTECTIONISM. THERE HAVE BEEN A NUMBER OF PRESS STORIES IN JAPAN IN THE PAST SEVERAL WEEKS SPECULATING THAT WHAT JAPAN'S TRADING PARTNERS ARE REALLY INTERESTED IN IS RESTRICTIONS ON JAPANESE EXPORTS. SPEAKING FOR THE UNITED STATES, LET ME TELL YOU EMPHATICALLY THAT THIS IS NOT THE CASE. AMERICANS HAVE BENEFITTED GREATLY FROM JAPANESE EXPORTS, AND PORTIONS OF OUR BUSINESS COMMUNITY HAVE BEEN STIMULATED AS A RESULT OF THESE EXPORTS. JAPANESE EXPORTS TO THE U.S. HELP ENSURE THAT THE AMERICAN CONSUMER WILL HAVE A WIDE RANGE OF CHOICE AMONG QUALITY PRODUCTS AT COMPETITIVE PRICES.
Similarly, protectionism—whether through high tariffs, non-tariff barriers or other means—has costs for Japan. Consumers have less choice and pay higher prices. Manufacturers pay higher prices for their inputs resulting in higher prices for their output, or lower profits, both of which affect their international competitiveness. Thus, it is not out of some sense of obligation or of doing special favors for an ally that Japan should internationalize its economy. Rather I would argue that it is in Japan’s own interest to do so.

As I said, the United States welcomes imports from Japan, and the benefits they bring. When our exporters believe that Japan welcomes their products in the same manner, then and only then will the trade problem begin to be resolved. I know that these are hard words for my Japanese friends and colleagues to hear, but I believe the world economy may be facing its most critical point since the 1930’s. Japan cannot afford to look inward. It is crucial, for Japan and for the world, that this problem be resolved. Working together, we can—and must—succeed.
CORRECTION
January 6, 1982

The Embassy regrets that a mistake was made in the text of Ambassador Mansfield's speech at the Foreign Correspondents' Club on January 6. The mistake occurred in the second and third sentences in the first paragraph on page 6, which read:

"When the Bank of Tokyo wanted to expand in the U.S., it bought the Bank of California. This gave it immediately over 500 branches in California with full power to accept deposits and act as any other U.S. bank."

The Bank of Tokyo did not buy the Bank of California. Rather, the Bank of Tokyo bought the California First Bank, which at the time had over 100 branches in California.