Japan's General Trading Companies: The Next Great Challenge

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President Mimura, and the gentlemen of the Japan Foreign Trade Council, I am honored to be invited to speak to you today about the increasingly important role that Japan's general trading companies can play in promoting improved economic and trade relations, not just between our two countries, but throughout the whole of the Pacific Basin. I am sure that you are all aware of my strong views on the importance of our bilateral relations to the peace and prosperity of the Pacific Region.

I am equally sure that you have heard often my strong conviction that the next century will be the Century of the Pacific. This is where the action is, and where it will be in the future. Two-way trade between the two sides of the Pacific Ocean has grown explosively over the past ten years, rising from $42 billion in 1975 to about $200 billion last year. For the seventh year in a row, America's trade with East Asia exceeded that with Western Europe, and that difference is going to grow. Rising trends in trade, investment and culture are coming together in what is known as the Pacific Basin, an area where 58 percent of the peoples of the world live, an area with tremendous natural resources, great market potentials and, on the whole, friendly peoples and governments.
As is well known, Japan's general trading companies have a long tradition of contributing greatly to Japan's rapid economic growth. In the post-war period, the general trading companies have played an important role in propelling the Japanese economy from devastation toward a developed industrial structure and greater prosperity for the Japanese people. The formula was deceptively simple; Japan imported raw materials for processing by its hard working and industrious people, and exported manufactured goods to obtain foreign exchange to pay for vital energy and food imports. Your buyers scoured the world for inexpensive raw materials to fuel rapid reconstruction. Many of the Pacific Basin countries were reliable suppliers of needed natural resources.

In addition, as part of this concept, Japan sought to manufacture domestically many goods, despite high production costs, to conserve scarce foreign exchange. The Japanese people saved at high levels, and poured their savings into industry. The results of this formula speak for themselves. Japan now has the second largest economy in the free world, and per capita income is rising steadily.

Even as Japan's domestic economy is becoming more sophisticated, its foreign trade surplus has mounted steadily. Almost overnight, Japan has been transformed from a foreign exchange scarce poor country, to one whose accumulated foreign trade earnings are beginning to rival those of the OPEC oil
exporting countries in their heyday. This phenomenon is engendering dangerous protectionist attitudes toward Japanese goods, attitudes which, if not checked, would seriously harm Japan's vital economic and trade interests and threaten the integrity of the international trading system.

The new foreign trade situation creates a unique opportunity for the general trading companies brilliantly to serve again in Japan's vital national economic interest. I am referring, of course, to your active support for the Japanese Government's current program to boost imports, particularly of manufactured goods.

Prime Minister Nakasone courageously made 1985 an extraordinary year for trade reform and market opening in Japan by organizing the Action Program and lowering tariffs. These were excellent moves, not enough, especially on the tariff cutting and quota liberalization, where more must be done, but definitely in the right direction. The Prime Minister astutely realized, however, that these external market opening measures, although essential, are insufficient to stimulate large scale increases in imports.

To achieve that goal, he also needed internal measures to modernize the attitudes of the Japanese people, to make their attitudes consistent with the reality of Japan's new affluent
status and its world economic responsibilities. The Prime Minister even spoke on television, urging individuals to buy more foreign products. On the corporate level, MITI launched a campaign among 134 prominent Japanese firms to change Japanese corporate attitudes toward foreign manufactured goods. I understand that most of your firms are participating in this campaign.

In response to the Japanese Government's call, many Japanese firms have issued press releases professing good intentions, and sent highly publicized buying missions to the U.S. Speaking frankly, so far results have been disappointing. Despite the Government's campaign, in 1985, Japanese imports of American manufactured goods rose by less than two percent. It reminds me of an old Asian expression "much thunder and little rain." By contrast, in 1985 Japan's manufactured goods exports to the U.S. increased by over 30 percent. Japan must do better than this to cope with tremendous and growing protectionist pressures in the U.S., the EC countries and in the ASEAN countries.

I understand from press reports that a private advisory committee to MITI is now considering a new industrial policy for the 21st Century, and is discussing Japan's role in the international division of labor. MITI's concept appears to be based on the principle of the relatively most efficient producer exporting freely to overseas markets, to the benefit of the
international trading system and the consumers of all countries. Perhaps more than any other country, Japan has reaped the bountiful benefits of this principal in exporting. Now that Japan has a mature economy, it is time for Japan itself to implement fully and thoroughly this principle in granting unimpeded ACCESS to the Japanese market. It is very much in the interest of Japan to do so.

As I mentioned earlier, many countries in the Pacific Basin previously supplied raw materials to Japan. Now the developing countries want to process their own raw materials and export manufactured goods. They must be encouraged. In 1983, the U.S. imported about 58 percent of all LDC manufactured exports, most of which come from the dynamic Pacific Basin countries. Japan imported only 8 percent. Slower economic growth in the U.S. will slow our imports from the developing countries. Increased Japanese imports of plywood and other processed goods would further diversify trade of the Pacific Basin countries, and further stimulate their economies to still greater heights, heralding a new era of truly mutually beneficial prosperity. Every yen's worth that Japan imports will help a trading partner and contribute to world growth.

Another reason given by some Japanese companies for not increasing manufactured imports from the United States is that they say that American firms are less export oriented. I will be the first to admit that there is some truth to this statement. I
have repeatedly urged American exporters to study the Japanese market carefully and make the effort to succeed here. They should do more to produce the highest quality at the lowest prices and should be more attentive to their customers.

But you need not necessarily look only to new American exporters. You have only to look in Tokyo for American companies willing and able to respond to your requirements. The 600 members of the American Chamber of Commerce, by establishing offices here, have demonstrated a long-term commitment to the Japanese market, and to the Japanese way of doing things. I urge you, the members of the Japan Foreign Trade Council to contact these companies. If you mounted an aggressive effort to sell low cost American goods such as wood and paper products, aluminum ingot, bulk petrochemicals, soda ash and fertilizer, your efforts would be sure to have a favorably dramatic effect on the bilateral trade balance.

Japanese decision-making is famous for thoroughly discussing a problem, achieving a consensus, and then rapidly and effectively implementing the solution. Now the Prime Minister has taken the lead to forge the consensus that manufactured imports should be increased rapidly, and soon. Your implementation, if conducted actively and aggressively, would be an important element in supporting President Reagan's efforts to defeat highly dangerous protectionist legislation in the U.S. Congress. A stunning success in the import promotion campaign
would prove to critics in the U.S. Congress that Japan does truly support free trade, and that the Japanese people are capable of shouldering their increasingly important responsibility in the world trading system. And the general trading companies, which by themselves handle half of Japanese imports, can play a key role in this great task.

Recently, some observers commented that since Japan's exports are increasingly sophisticated, with more companies directly exporting and marketing abroad, the bulk commodity oriented general trading companies might become obsolete. Now is the time for Council members to rise to this new challenge. Where your country once needed you to import low cost raw materials for heavy industry processing, now your country needs you to import low cost manufactured goods. With your broad world perspective and vast network of contacts throughout the Japanese business world, you are in the ideal position. You can prove that once again general trading companies can serve in Japan's national interest by purchasing not just low cost manufactured goods, but more importantly obtaining continued support for the world free trade system on which your own companies' prosperity depends.

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The 135th Executive Board Meeting

Japan Foreign Trade Council, Inc.
Thursday, February 13
Just for your information

The 135th Executive Board Meeting, JFTC

Attendance List

(President)
Mr. Yohei Mimura
President, Mitsubishi Corporation

(Vice President)
Mr. Seiki Tozaki
Chairman, C. Itoh & Co., Ltd.
Mr. Mitsuo Ueda
Chairman, Nissho Iwai Corporation
Mr. Kazuo Haruna
President, Marubeni Corporation
Mr. Tadashi Itoh
President, Sumitomo Corporation
Mr. Toshio Iijima
Vice Chairman, Mitsui & Co., Ltd.
Mr. Toshio Takeuchi
President, Toyomenka Kaisha, Ltd.
Mr. Hideo Suzuki
President, Kanematsu-Gosho, Ltd.
Mr. Tetsuzo Hibino
President, Nichimen Corporation
Mr. Tetsuo Tominaga
Chairman, Toshoku, Ltd.
Mr. Eiki Konno
President, Chori Co., Ltd.
Mr. Toshihisa Kawazato
Executive Vice President, Okura & Co.
Mr. Taizo Kotera
Chairman, Kinsho-Mataichi Corporation
Mr. Toshio Imamura
Executive Vice President, Nozaki & Co., Ltd.
Mr. Shozo Iimura
Chairman, Matsushita Electric Trading Co., Ltd.
Mr. Shozo Nagase
President, Nagase & Co., Ltd.
Mr. Osamu Sakai
Senior Managing Director, Kowa Company Ltd.
Mr. Zenji Kyomoto
Executive Managing Director,
Japan Foreign Trade Council, Inc.
Mr. Kikuo Kunugi
Managing Director,
Japan Foreign Trade Council, Inc.