The Tokyo Summit and Asia

Mike Mansfield 1903-2001

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I am very pleased to address this distinguished gathering from the political, business and academic worlds. I understand this is the first meeting of the East Asia symposium, and am most honored that you have selected me as your speaker.

This morning, I want to focus my remarks on the recently concluded Tokyo Summit and its meaning for Japan and the Asian region. But first, let me extend my special thanks to Prime Minister Nakasone and the Japanese government for a job well done: the Summit was superbly managed. All of us were particularly impressed with the courtesy and efficiency of the Japanese police, who had to cope with the thousands of foreign government officials and journalists descending on Tokyo for the event.
Overall, I give the Summit high marks for its accomplishments in the policy area. The declaration on terrorism, the statement on nuclear safety and the commitment to coordination of economic policies are important steps forward, and could not have been accomplished without Prime Minister Nakasone's skillful chairing of the working sessions.

I was especially pleased with Japan's decision to join in the Summit's strong condemnation of terrorism. Acts directed against innocent people, who are not individually responsible for the policies of their governments, are a threat to civilized society. The measures agreed to at the Summit make clear to terrorists, and the nations that harbor them, that the Western alliance will not tolerate these outrages any longer.

I also note that the Summit's affirmation of unity on East-West issues has created an atmosphere favorable to serious discussion of mutual arms reductions at the resumed arms control talks.
The Summit participants were well aware of the significance of its Asian venue. To underscore this importance, President Reagan met prior to the Summit in Bali with the ASEAN foreign ministers and Indonesian president Suharto—the first such ASEAN visit for a U.S. president since 1975. The meeting reaffirmed U.S. confidence in the democratic institutions and trends in the area, and reiterated our resolve to meet our aid responsibilities and to promote regional economic growth through the expansion of trade.

Asian issues were also prominent on the Summit agenda. Prime minister Nakasone in his chairman's statement noted summit-country support for the North-South dialogue and the 1988 Olympics in South Korea, cooperation with respect to ASEAN's Cambodian peace initiative, commitment to support democracy and rebuild the economy in the Philippines, and determination to seek a Soviet withdrawal from Afghanistan.
I know there was some disappointment in Japan that the summiters did not jointly intervene to slow the appreciation of the yen. Let me assure you that the difficulties confronting small and medium-sized firms in this period of transition are well understood. But there is another side to the story: a yen truly reflecting the international strength of the Japanese economy benefits both Japan and its neighbors.

Japan is known as an exporting nation, but it is also a great importer—whether agricultural products or high fashion. A strong yen makes them cheaper, and should raise the standard of living for the Japanese consumer. Although the effects are slow in coming, the signs should appear soon with less expensive meat, international telephone calls and airplane tickets.

Already monthly fees for electricity will be cut nationwide an average of 458 yen, and for gas 543 yen. Moreover, these benefits are not limited to households. One large automaker estimates that it will save 5-7 billion yen next year.
A stronger yen also benefits Japan's Asian neighbors. Access to the Japanese market has often been frustratingly slow for Korea, Taiwan and the ASEAN nations, with Japanese companies perhaps understandably unwilling to gamble on unknown new suppliers. But with the price differential provided by the strong yen, this too will change.

Japanese companies are already shifting their procurement policies. Manufactured imports from Asian nations in March were 6.7 billion dollars, up 26.9 percent from last year. Items included steel, precision machinery, office equipment and chemicals. These higher sales will encourage Asian suppliers to improve their products and boost their sales efforts in Japan, leading to increased growth and benefits for all.

Appreciation of the yen without limit is in no one's interest. Steady, non-inflationary growth of the Japanese economy is essential to the prosperity of the developing economies of the Asian region. But exchange market intervention by the central banks can be a stopgap measure at best.
The G-5 intervention in September boosted the yen so successfully because the underlying fundamentals (most prominently, Japan's enormous trade surplus) were already pushing it in that direction anyway. With the fundamentals unchanged, intervention in the opposite direction would have had only a short-lived effect, if any.

The Summit addressed this issue squarely in its economic declaration, setting the stage for an historic movement forward in international economic cooperation. The Summit leaders committed themselves to creating a surveillance and monitoring system that will treat the causes of trade imbalances rather than their symptoms.

Finance ministers will be meeting later to determine the specifics, but the system will likely use a set of ten indicators--including gross national product, inflation rates, unemployment rates, current account and trade balances, exchange rates, and monetary growth rates--in an attempt to coordinate economic policies among the advanced nations from a long-range perspective.
As President Reagan noted at his press conference after the Summit, "this will result in greater stability in the yen/dollar relationship, something both Japan and the US desire."

Japan is considering the first steps in this direction through examination of the Maekawa report, which sets the goal of making profound structural adjustments in the Japanese economy. These changes will take time, and will not be easy. But the cooperative arrangements of the Summit declaration assures that Japan's moves toward more domestic-led growth will be reciprocated by necessary policy changes in the economies of its summit partners.

When we were first planning for the Tokyo Summit, there was some fear that the meeting could become an occasion for mutual recrimination, as each participant berated the others for their trade practices. That did not happen.
The Tokyo Summit under the Prime Minister's chairmanship was not swayed by immediate domestic concerns with exchange rate fluctuations or unemployment levels. Instead, the seven leaders squarely set their sights on the fundamentals, agreeing to long-range measures for strengthening the international economic system.

In closing, let me express my confidence about the future of the Pacific Basin. I have said many times that the 21st century will be the century of the Pacific. It is here we find the strongest prospects for continued economic growth and the growth of democracy.

I am most pleased that the members of the East Asia symposium have chosen to explore Japan's role in the region and to have had this opportunity to share my thoughts with you on the accomplishments of the Tokyo Summit.