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The United States and Japan
A Time for Good Sense and Even Temper
By Mike Mansfield, U.S. Ambassador to Japan

The recent official visit by Prime Minister Nakasone, underscored a point I've been making since I took up my job in Japan ten years ago -- there is no more important bilateral relationship in the world than the one between the United and Japan. This visit took place at a time when our economies, and therefore, our lives, are more closely linked than ever before.

A recent headline in The Wall Street Journal read, "U.S., Japan to Adjust Rates to Aid Dollar; Bonds Surge, Currency Improves Slightly." Concise as it is, the statement implies much more. Government policy in either country affects interest rates, exchange rates, economic growth, investment, securities markets and ultimately living standards in both.

The intertwining of the two economies is a source of common prosperity and strength. But it can be, as we have seen, a source of friction as well. The large trade imbalance, remaining Japanese trade impediments and the insularity of some Japanese business practices are irritating to Americans. The seemingly endless American demands to open markets and change economic policy are irritating to the Japanese. Yet nothing could be more obvious than that the United States and Japan must
cooperate on economic policies. Good sense, our national interests, and, as the headlines show, the financial markets demand it.

Annual meetings between the President and Japan's Prime Minister have become established practice. But this one was qualitatively different from previous encounters. Of course, it was an official visit meant to honor both Prime Minister Nakasone and his country. What was striking this time, however, was that the Prime Minister, the President and their respective advisors got down to the details of economic policy coordination.

They agreed that the current trade imbalance is politically unsustainable and requires urgent attention. The Prime Minister told President Reagan that:

-- Japanese short term interest rates will decline;

-- Japan will enact fiscal stimulus measures totalling at least 34 billion dollars to spur domestic growth and pursue structural reforms in accordance with the recommendations made in the Maekawa Report;

-- The Japanese Government will discuss all its agricultural policies in the Uruguay Round if other countries place theirs on the table;
will provide an additional $20 billion in untied credits to developing countries; and

-- Japan will continue the process of financial market liberalization.

For his part, President Reagan emphasized his determination to:

-- Reduce the U.S. budget deficit;

-- Pursue policies designed to improve the competitiveness of American industry; and

-- To resist firmly protectionist pressures.

The President and the Prime Minister reaffirmed their commitment to strengthen economic policy coordination. They agreed that outstanding trade problems should be resolved expeditiously and that a further dollar decline could be counterproductive to efforts to increase economic growth and reduce the trade imbalance. Both leaders expressed their strong commitment to multilateral trade negotiations in the General Agreement on Tariffs and Trade (GATT) Uruguay Round.

The impact of these measures will depend on the details and timing of implementation. What we can say now is that the Nakasone visit reaffirmed the vital necessity and soundness of
our overall relationship with Japan, cleared the air on some of the economic issues and set an economic agenda for ongoing action. We must follow through with that agenda.

The most urgent matter for Japan is to increase domestic-led growth. More buoyant domestic growth will make it much easier for Japanese industries to shift away from their over-dependence on export markets, will increase demand in Japan for imports and will spur domestic investment.

Japan has made a tremendous leap in the last 35 years from a poor, agrarian country to a wealthy nation with stunning technological capabilities. It is hard for Japanese, or for Americans for that matter, to comprehend fully the amazing changes in Japan and their permanence.

But Prime Minister Nakasone and, increasingly, other Japanese see that with Japan's prosperity has come responsibility. They know that export-led growth and large trade surpluses are no longer possible, that they disrupt trade relations and prevent an improvement in the domestic standard of living. By removing trade impediments, by planning more rapid domestic-led growth, and by increasing aid, the Japanese Government is heading in the right direction.

We ought to view the bilateral trade imbalance with some perspective. Even if Japan eliminated all of its trade barriers, it would not eliminate our bilateral trade imbalance.
The United States had a global trade deficit last year of $170 billion, and of that the deficit with Japan was $59 billion — intolerable, but still only about one-third of a global problem the U.S. has. Most experts estimate that if the Japanese did everything we have asked them to do to eliminate barriers, an increase of $8-10 billion would result. Let's make it $15 billion to be generous — still leaving a deficit of $44 billion. Our global deficit and much of our deficit with Japan is mainly determined by our macroeconomic policies particularly our massive federal budget deficit. Until we get our budget under control, we may find that reducing a bilateral deficit is not going to eliminate the problem. Moreover, the United States is not without blame. We maintain quotas on, steel, textiles, machine tools and other products. Sanctimony and self-righteousness rarely results in sound policy.

Finally, most experts agree that even if both countries had global trade in balance, Japan would have a sizable surplus with the United States because of the structure of our trade exchanges.

There are also many economic benefits of our relations with Japan and a number of myths. Trade with Japan has not cost jobs: roughly 650,000 Americans owe their jobs to exports to Japan from America. Roughly 240,000 Americans work directly for Japanese companies, which have invested over $25 billion in the U.S. Moreover, we export more to Japan than we do to West Germany, France, and Italy combined. We exported nearly $6
billion in agricultural products to Japan, roughly 20 percent of our total exports of agricultural products to this nation that is far and away our biggest overseas agricultural market. Running a distant second is the Netherlands, the entry point for most of Western Europe, which imported less than $3 billion. Capital flows, loans from Japan to the U.S., help cover our interest payments on the federal debt, and lower interest rates in the United States.

The United States and Japan have a broad and wide-ranging relationship, going far beyond commerce. The peace and security of the Pacific depends upon our strong alliance with Japan. U.S. military bases in Japan deter aggression throughout the region; not only do the Japanese provide these facilities, they are now also contributing some $1.7 billion annually to maintain them. Japan has also stepped up its own self-defense efforts. Its defense budgets have averaged over 5 percent real growth throughout the last decade, consistency no other U.S. ally can match. In January, Japan officially repealed its one percent of GNP ceiling on defense spending, the better to ensure its military build-up meets the growing Soviet military threat. Already, Japan has the sixth largest defense budget in the world, and the second largest among America's non-nuclear allies.

Japan's forces are strictly defensive - a commitment the U.S. fully supports -- but Japan also contributes to security beyond its borders not only by providing bases for U.S. forces, but also through a rapidly expanding aid program to key nations.
such as Thailand, the Philippines, Pakistan and Egypt.

Japan and the United States have common interests and views on a score of international issues. For example, Japan's foreign assistance complements U.S. foreign assistance to the Philippines. Our coordination on defense, political matters and foreign assistance has become a well-established tradition.

This is not to suggest that it is anything less than crucial for Japan to carry through quickly and fully with the economic program that Prime Minister Nakasone outlined during his visit. But we should approach Japan with good will and an even temper. There should be no more talk about trade wars and arbitrary or mandatory reciprocity. Japan is a reliable ally and a cooperative partner. The trade, financial, and cultural ties between us are complex and on balance beneficial to the United States. The relationship may be uncomfortable from time to time. But cooperation, not confrontation and protectionism, is the right prescription. As I said at the outset, good sense and the markets tell us that is so.

It is high time that we quit nickling and diming this vital relationship by protracted negotiations on sometimes obscure sectoral issues and started looking for means to deal constructively with our overall economic relationship with Japan. This means close coordination of our macroeconomic policies, which the President and Prime Minister agreed to do in Washington. We might also consider a personal proposal of mine.
- and I stress that it is personal - the idea of a free trade agreement between Japan and the United States. We are working on one with Canada; we have one with Israel; and have broached the subject with the Association of Southeast Asian Nations (ASEAN). The economies of the United States and Japan are already in the process of being integrated. A free trade agreement could accelerate this process, open markets in both directions, and perhaps serve as the prelude to a vast free trade agreement embracing much of the Pacific Rim. This would be a worthy and fitting goal for the United States as we enter the 21st century - the Century of the Pacific.

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