Keidanren's Higashi-Fuji Forum

Mike Mansfield 1903-2001

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DATE: July 2, 1986
REPLY TO ATTN: CPAO - Jack H. Shellenberger
SUBJECT: Suggested Talking Points for the Keidanren Higashi-Fuji Forum (July 24-26)
TO: The Ambassador
Thru: DCM - Minister Anderson

Because the Keidanren Higashi-Fuji Forum will take place in an informal, relaxed atmosphere (much like the LDP Karuizawa Seminar where you spoke off-the-cuff), we would like to suggest the following talking points for your consideration:

1) Introduction: Perhaps noting the just-completed Japanese elections, lead into your assessment of the congressional and American public's "mood(s)" prior to our November elections.

2) Reaffirmation of U.S.-Japan relationship as most important bilateral relationship in the world -- bar none. BUT, that the singlemost divisive issue between us remains the trade imbalance.

3) As an example of congressional mood, describe implications of Omnibus Trade Bill.

4) Moving into a discussion of strategies for managing U.S.-Japan economic relations -- highlight the Maekawa Report, market access, increased domestic demand, international bidding, direct investment and joint ventures in the U.S. (example of Tennessee), efforts to reduce federal budget, Reagan Administration's commitment to fight protectionism.

5) Conclude by noting that unhindered economic development/prosperity cannot occur separate from a peaceful, stable political environment -- Soviet buildup, aid for the Philippines, Century of the Pacific.

Clearance: ECON/C: Ms. Meyers
POL/C: Mr. Breer
(by phone)
DPAO: Jinman
Thank you, Mr. Saito, Mr. Hirawa, Mr. Toyoda, ladies and gentlemen.

I have been asked to discuss as the subject of my speech today my thoughts on U.S.-Japan relations. First, let me say that I am delighted with the emphasis which Chairman Saito has placed on the attendance of women at a meeting of this kind. I think it's a step in the right direction. I hope the movement will be accentuated nationwide and that women will be given their rightful place in this society which is based on egalitarianism and equality.

I was also interested to note Mr. Kono stating that there will be a golf tournament and that those who wish to participate would have their handicaps accepted. I look forward to nothing but winners in that tournament, and I think that's the way tournaments should be conducted.

In looking over the list of participants, some thoughts come to my mind. I see that on my right Mr. Hirawa is here representing the Tokyo Electric Power Company, and I am interested, very much interested, in the fact that Japan has built approximately 30 peaceful nuclear reactors, that they will complete about 60 by the year 1992, and that around the year 2002 the number will be somewhere in the vicinity of 100, the purpose
being, of course, to supplement Japan's dependence of outside energy sources and in this way to take care of the electricity needs of the nation to a considerable extent.

On my left is my old friend Mr. Eiji Toyoda, who has done a remarkable job in pushing his country into a position of worldwide prominence. It's interesting to note that in relation to automobiles—not just Mr. Toyoda's, but to the Japanese auto industry as whole—that approximately almost exactly one-half of the 37 billion dollar deficit you had with us, with the United States, in 1984, was in the auto sector, and last year almost exactly one-half of the 50 billion dollar deficit you had with the United States was in the auto sector, a very interesting observation.

There are some people here who represent banks, but I won't spend too much time on them because most of them are listed among the first ten among the world, which indicates the very strong creditor position that Japan is in, and deserves, at least...

I note that there are some officials here from Mitsui & Company, and I recall talking with my old friend Mr. Ikeda several years ago. The question was imports into Japan and exports to the United States. If I recall correctly, he told me at that time that Mitsui in that year exported from the United States into Japan 3.5 billion dollars' worth of American manufactured goods by that company, and if they brought in their affiliates the figure...
would be close to 5 billion dollars' American exports via one Japanese company, Mitsui, into Japan, another very interesting figure.

Then, of course, my old friend Akio Morita is here. Funny how these things get around, but we know about what he has been able to accomplish in Alabama, in San Diego, in other states within the union, and he has been one of the real spokesmen of the Keidanren in Japan in Japan's relations with the American business community.

And then I see where Komatsu Limited is here, that the Chairman of Komatsu is also Chairman of the Japan-Turkey Economic Committee. If my memory is accurate, I believe that Japan is contributing a very sizable amount as a member of the consortium, which is rendering economic aid to Turkey, and has for the past four or five years.

Of course, when I think of Komatsu I think of the American Caterpillar. When the dollar was highly overvalued, Komatsu was riding very high and Caterpillar was just barely able to keep its head above the surface. But now with the difference in exchange rates being alleviated, Komatsu is still going strong but, fortunately, Caterpillar, the American concern which could be considered the American Komatsu, is doing quite well in the last quarter or so.

And in talking to Mr. Sugiura, the Chairman of the Long-Term Credit Bank this morning, I was reminded of the many groups from the western part of the United States, especially the Rocky
Mountain coal region, of which, incidentally Montana is a part with the biggest coal reserves in the union, that for a long time American coal interests were contacting the Long-Term Credit Bank to see how about financing long-term goals for the shipment of American coal via the West Coast to Japan.* But with the glut in the oil market it seems that interest in coal has depreciated and the Japanese, like the Americans, are becoming a little too self-satisfied and we're losing our interest in alternatives.

I see Mr. Ishikawa of the Kajima Corporation is here, one of the world's great corporations doing a tremendous job and having a tremendous history behind it.

Well, those are few observations about some of you who are participating in this conference and the companies which you represent.

In reference to Mr. Saito's remarks about his meeting with the Prime Minister, I would like to express a few feelings of my own about the election. I know that that's purely a Japanese affair, but now that the election is over I feel free to make a few comments. One, it was an extraordinary election insofar as the number of votes in the Diet in the House of Representatives and the House of Councillors insofar as the LDP was concerned. The Prime Minister is alleged to have said, when asked to comment on the victory, that he thought it was the will of God, that Providence played a part. And perhaps he's right, because I recall
that the day before, all the weather broadcasters in Japan—and I have great confidence in your weather broadcasting system—stated that election Sunday would be a very heavy rainy day throughout Japan. It turned out to be a pretty nice day, so maybe providence did have something to do with it.

But I think also the will of the people was expressed, and that's something which we ought to consider—especially in an organization like this, the most powerful economic organization in Japan, one, in my opinion, of the most powerful in the world, and it also had an interest in the political situation, and I would assume that it is quite happy with the outcome.

The cabinet announced yesterday is, in my opinion, an extraordinarily strong one. I would expect that much of the programs which were enunciated during the campaign will now be put into operation, and it appears to me that the cabinet is of such a caliber that we can expect much of it in the months and the years ahead.

The test will be when the new Diet convenes after this special session is adjourned, and it will be one which not only Japan but the whole world will be watching with interest. With interest because of Japan's predominant position as an economic power, the second greatest in the world; because of Japan's designation now as a great power, because with a super economic status goes great power status as well, and with those two appelations there goes added responsibility. I thought that Chairman Saito
expressed them well this morning in his opening remarks to this gathering.

Another thought I have is that from a purely national point of view, this July has been a great month for my country. It marked the 210th anniversary of our Declaration of Independence, rather, the birth of our nation 210 years ago, 21 decades ago. Ten score and ten years ago, we became a free nation, and we're very proud of it.

But 2,640 years ago Japan became a nation and it, too, has a proud history going back much, much further beyond ours, and just as glorious.

So I hope that when we consider our own birthday we also consider the birthdays of others, the glorious history which is attached to the nationhood of our friends and neighbors and allies, and especially in this gathering the history of Japan, all it has meant, and what it means today.

The same month marked the refurbishing of Lady Liberty in New York Harbor, a great statue which was presented to the people of the United States by the people of the Republic of France 100 years ago, and that is something which we are very proud of because it gave many of us opportunities to reach heights in a new country which we never could have reached in the old.

Speaking personally, my father and mother were Irish immigrants who came to the United States around the turn of the century,
so I owe my country a great deal for what my parents did in coming to the United States and giving me the opportunity, and the same can apply to some 800,000 Japanese who live in my country and who are the finest citizens that we have. We are proud of them. They have made a great contribution, and we depend upon them a great deal.

A couple of years ago you had three Americans of Japanese descent. We had three Americans of Japanese descent in the United States Senate, three out of 100 Senators, three out of just 750,000 Americans of Japanese descent living in the United States at that time. We have three in the House of Representatives; we have one governor, and we are proud of all of them because they have made tremendous records, and they have joined with the rest of us immigrants, because America is a nation of immigrants and helping to make our country what it is today.

Another interesting factor is between the 210th anniversary of our nationhood and the 100th anniversary of the presentation of Lady Liberty to the people of the United States, that a man by the name of Commodore Perry 133 years ago, 13 decades and three years ago, dropped anchor off Shimoda in this province, this prefecture in which we are meeting today. He came with a letter from President Millard Fillmore, and the primary purpose of that letter was not to open Japan except on a calling basis, although that was behind it, but the primary
purpose of that letter was to ask the Japanese governors to give our whalers better treatment when they encountered difficulties in their whaling activities off Japan, especially in the Japan Sea off Hakodate. Interesting what came out of that. It was a tremendous move on the part of our country, but we really had no ulterior purpose. When Japan opened its country, Japan did so on its own volition.

But in the Yokohama Archives of History there is a plaque permanently displayed, and it reads as follows. It is known as "Perry's Prophecy" and I quote:

"In the practical and mechanical arts, the Japanese show great dexterity, and when the rudeness of their tools and their imperfect knowledge of machinery are considered, the perfection of their manual skills appears marvelous. Their handicraftsmen are as expert as any in the world, and with a freer development of the inventive powers of the people, the Japanese would not remain long behind the most successful manufacturing nations. Their curiosity to learn the results of the material progress of other people and their readiness in adapting them to their own uses would soon, under a less exclusive policy of government"--remember this was during the Shogunate--"which insulates them from national communion, raise them to a level with the most favored countries.

"Once possessed of the acquisitions of the past and present of the civilized world, the Japanese would enter as powerful
competitors in the race for mechanical success in the future." The end of "Perry's Prophecy".

That was one prophet who turned out to be a prophet in his own time, and what he .... (NOTE: TECHNICAL FAULT. FEW WORDS NOT RECORDED) .... Japan has accomplished in the 133 years since his ships first dropped anchor off Shimoda in Shizuoka Province.

No one who understands the size of the U.S.-Japan economic relationship could fail to grasp its importance. We had 95 billion dollars in two-way trade last year. The U.S. is by far the largest market for Japan, taking over 38 percent of Japan's exports in 1985. Japan is the largest market for U.S. exports, except for Canada. Many jobs in both our countries depend upon exports to the other.

Our economies are interdependent not only in the area of merchandise trade. Japan had a net long-term capital outflow of 64.5 billion dollars in 1985. Of that, over half, or 33.2 billion, was invested in the United States. A large portion of the investment was in U.S. Treasury securities.

This supply of capital from abroad assisted the United States Government in financing its large budget deficit which, in turn, has helped ease pressure on U.S. interest rates.

Japan had a direct investment position in the United States of 14.8 billion dollars at the end of 1984 up from 11.3 billion dollars the year before and approximately 20 billion dollars at the end of 1985. That is in direct investment.
It is estimated that this growth will continue at a rate of 14.2 percent to the year 2000. That means, of course, a tremendous investment on your part in my country. This direct investment creates jobs and is most welcome. All signs are that it will continue to grow, as I have indicated.

The U.S. direct investment position in Japan is also substantial, standing at 8.4 billion dollars at the end of 1984, and very close to 9 billion dollars at the end of 1985.

For the rest of East Asia, U.S. investment approximates 20 to 21 billion dollars. Roughly 30 billion dollars out of 233 billion dollars the U.S. has in direct investments worldwide is in East Asia, including Japan.

It is the trade imbalance, however, which gets the most attention in discussing our economic relationship. Japan’s large trade surplus with the United States, nearly 50 billion dollars last year, is simply too large to ignore. It is intolerable, and the first half figures indicate a possible 60 billion dollar deficit on our part, a 60 billion dollar surplus on your part in our two-way trade for this year. We hope, however, that the situation affecting the overvalued dollar and the undervalued yen, which was discussed and acted on at the G-5 Meeting in New York last September, we hope that some of the beneficial effects of that change will be felt in the second half of this year so that the deficit which we will have with Japan will not increase by the amount estimated
for the first half of this year.

Japan's global trade surplus, 61.6 billion dollars/JFY 1985, only 12 billion dollars above your 50 billion dollar surplus with the U.S. in the same year, is a burden on the world trade system, and if it continues to grow it threatens to break down that system. At the same time, the large global trade deficit of the United States, nearly 150 billion dollars last year, illustrates all too clearly that our trade problem in America is not just a bilateral problem with Japan, but is a global problem.

For example, nobody seems to mention our 22 billion dollar deficit with Canada, our 13 billion dollar deficit with Taiwan, our 6.2 billion dollar deficit with Hong Kong, our 19 billion dollar deficit with Latin America, our 26.4 billion dollar deficit with Western Europe. In 1981, we had a 20 billion dollar surplus with that area, and what those figures mean is that there has been a 46 billion dollar turnaround or increase in Europe's trade with us over that particular period. That is the big story, but that receives very little in the way of attention.

By comparison, in 1981, the year in which we had a 20 billion dollar surplus with Western Europe, we had a 13 billion dollar deficit with Japan, and in 1985 a 50 billion dollar deficit, a 37 billion dollar increase compared to a 46 billion dollar increase in our trade with Western Europe. That's why I say Western Europe is really the big story, but how often do you
in order to take its rightful place as a leading economic power.

In accepting the report of his private advisory body known as the Maekawa Commission, Prime Minister Nakasone committed Japan to the task of reducing its large trade and current account surpluses to levels consistent with international harmony. How to move to a more balanced trading relationship is, of course, the key question.

As I see it, three things must happen if we are to succeed: First, more open access to the Japanese market; second, a stable and strong yen over the long term; and third, structural adjustment in the Japanese economy to move away from dependence on exports to domestic-led growth.

Two of those factors were discussed by Mr. Saito and his group when they met with the Prime Minister last evening. The question of the yen, since last September 5 reduced from around 242 to the dollar to somewhere around 155. That's a pretty fast drop perhaps too fast but it is a fact of life and, hopefully, the markets and the governments working together will be able to bring about the necessary corrections whatever they may be.

You also discussed upping domestic demand, Mr. Chairman, in line with the Maekawa Commission's Report, and what we're discussing in effect was an effort to bring down prices and pay more attention to the consumers and bring about as a result less of a high-priced economy and more of a reasonably priced economy.
Your third subject for discussion, income and corporate taxes, is something which is entirely a matter for the Japanese to consider on their own initiative and their own responsibility.

Much progress has been made in opening Japan's markets to foreign competition, but much more remains to be done in many areas. There is no excuse for protecting any sector of Japan's market from outside competition when Japan runs a trade surplus of over 61 billion dollars, as it did in 1985.

Unfortunately, there are still too many exceptions to Japan's stated policy of "markets free in principle with import restrictions only as exceptions." To too many foreign businessmen it sometimes looked as if the exceptions were the rule.

Agriculture is perhaps the clearest example of protected markets in Japan. The Japanese consumer pays a high price for food so that farmers in non-competitive sectors—I understand, on the basis of recent study—that the subsidy paid to Japanese rice farmers is approximately nine times above the world price in non-competitive sectors can enjoy a standard of living well above that of average Japanese working people.

Without the protectionist quotas, tariffs and import cartels on agricultural products, foreign competition could bring down the cost of food considerably.

By the way, the United States in May of this year, for the first time on record, imported more farm goods than it exported.
I think in all candor we ought to point out that year in and year out, despite tariffs and quotas on agricultural products, that Japan has been far and away our best agricultural customer. In 1984, you bought 6.6 billion dollars worth of agricultural produce from us. No other country came even close. It amounted to about 20 percent of all our agricultural exports abroad, and if you tie in Taiwan, Hong Kong and the Republic of Korea, this part of the world was responsible for the purchase of about 33 percent, or one-third of all our exports.

Last year, however, our agricultural exports to Japan decreased from 6.6 to 5.5 billion dollars due to lower prices, oversupply and the penetration of the People's Republic of China into your corn market. They had a better type of corn at a better price. We lost about 20 percent of our corn sales in the process. This year these figures look like they will be reduced still further. We hope not because we value this market. We would like to increase it, and perhaps a way to bring about an agreement covering tariffs and quotas both industrially and agriculturally would be for Japan and the United States—and this is purely a personal opinion—to consider a free trade treaty which would abolish tariffs and quotas on a reciprocal basis. We have a Free Trade Treaty in operation with Israel. We are negotiating one now with Canada. We have urged the ASEAN states to consider such a possibility. But that might be one way, both industrially
and agriculturally, by means of which we could do away with some of our separate issues which I don't think is the best procedure in the world, and face up to the problem as a whole. I make this statement on a personal basis, despite my recognition of the fact that among all the industrialized nations of the world Japan has the lowest, on the average, tariff rates even lower than in my own country.

There are other areas where free competition is not presently allowed. A diverse range of goods\text{\textregistered} from soda ash and tobacco to wine and chocolate\text{\textregistered} still suffers from high import duties and distribution restrictions which effectively limit competition and keep prices high, your prices high, prices which your consumers have to pay because it is the consumer who suffers and pays the price.

So those are some things that we ought to consider in the field of trade. We ought to remember that the big issue is TRADE, the only issue, really, between our two countries. That the big figure is 50 BILLION DOLLARS in deficit last year, and that the big word is ACCESS, ACCESS, ACCESS, so that we may have the same opportunities in your market that we give you in our market.

Turning to the field of defense, I would say that the relationship between our two countries is excellent. Many of you in this room are old enough to remember the difficulties which Japan had to face following the war to bring about a reinvigoration
of its economy and to restore its old-time standing. Out of that relationship has come the creation/Self Defense Forces/land, sea and air despite the fact that the Japanese Government, your government, in order to achieve that goal, had to overcome many obstacles/Article 9 of the Peace Constitution under which Japan renounced war and the creation of any kind of armed forces.

MacArthur said he wanted to create a "Switzerland of the Pacific," but what MacArthur knew must have known but did not state was that Switzerland is Switzerland because its neighbors know that it's armed well enough to protect itself against any or all of them, at least for a period of time.

But that is embedded in the Constitution. The Japanese people like it. If I were a Japanese I'd like it. But it was an obstacle for the governments to overcome. The Japanese governments had to keep in mind the reactions on the part of their Asian neighbors, all of whom they occupied wholly or in part during the Pacific War. Memories are still alive, though gradually diminishing. They had to keep in mind the fact that the Japanese people are basically anti-military and blame the military for getting them involved in the Pacific War. They had to keep in mind the fact that what they did legislatively would meet with the approval of the majority of the Japanese people, a consensus, and they had to operate for the past five to six years under a deficit in their budget which came pretty close to averaging out
to 25 percent of the budget a year—a 25 percent deficit in the budget.

So that they have been able to do what they have is remarkable. And while the Japanese people didn't seem to like the idea of Self Defense Forces, I note the polls indicate their majority approval of them, and that approval has been consistent. Evidently they were against the Mutual Security Treaty when it was passed in 1960, because at that time there were violent demonstrations in the streets and hundreds of thousands of demonstrators throughout Japan, but since that time that treaty has been accepted by a very strong majority of the Japanese people.

It is a good treaty. Under that treaty you have given my country the right as your guest, and the guest of your government, to maintain certain bases in Japan. We pay no rent on these bases. The Japanese Government has contributed sizable sums in excess of one billion dollars a year over the past several years for the upkeep of approximately 55,000 U.S. military personnel in your country, and we appreciate it. It amounts to about one-third of the total cost of maintaining our military personnel here.

Under that treaty we have agreed to come to the defense of Japan if it's attacked, and we will. But we're out here not just for that purpose, but in our own defense as well. If we didn't maintain these bases as the guest of the government and
the people of Japan and the bases in the Philippines, we would have to ask ourselves a number of questions: How far back would we have to withdraw? How much in the tens of billions of dollars would it cost us? How effective would the new line be?

We're out here in our own defense and in the defense of the area, and we appreciate what the Japanese have done year in and year out, because over the past 16 years that Japan has increased its defense expenditures at a rate of somewhere between 6.5 and 7 percent a year—in real dollars probably about 5.3 or 5.4 percent. Steady, consistent, in its self defense. PERIOD.

We don't want Japan to become a regional power. Japan doesn't want to become a regional military power, and its neighbors do not want Japan to become a regional military power. And if we suggest, because after all it's Japan's responsibility that it do more in its own defense, it's not that we're to shove them. That's your decision, but it's only to allow us a little more flexibility to use our own forces in the protection of the area which we think is part of our responsibility.

We are fully aware of the Soviet buildup—49 divisions on the Sino-Soviet border, four north of Vladivostok, 30 percent of the Soviet ground forces all first rate, modern and up to date. In the same regions, 31 percent of the Soviet air forces, again first rate, modern and up to date. Operating out of Vladivostok, the biggest and the best of the four Soviet fleets, and getting bigger and better all the time.
In the Northern Territories off Hokkaido, illegally occupied by the Soviet Union since five days after the end of the Pacific War, they have increased their strength five to sixfold, from 2,000 to somewhere between 10,000 to 12,000. They have at least one air wing on one of the islands, maybe more. They have been able to penetrate down into Southeast Asia, and now they have a toehold in Vietnam. How long it will last no one knows, but for the first time in history they have direct access to both the Indian and the Pacific Oceans.

As far as we are concerned, what we have out here is the Seventh Fleet, a good fleet, not big enough, not strong enough, but because of that it needs the help of its friends and allies so that some of the burden of responsibility can be taken off. Its area of responsibility extends from the Arctic to the Pacific and Indian Oceans to the Antarctic, 70 percent of the water surface of the globe, 50 percent of the combined land and water surface of the globe.

So we have a developing situation out here. This is the most strategic area and the most important relationship that we have not just in this part of the world, but the most important bilateral relationship we have in the world is that between Japan and the United States. In my opinion, the next century, without question, will be the CENTURY OF THE PACIFIC. When you look at that basin and when you look at Japan and the
United States in relation to it, you will begin to glimpse what the future holds for both of us.

In 1975, ten years ago, our two-way trade with all of East Asia, including Japan, amounted to 42 billion dollars. Last year, as I have indicated, our two-way trade with Japan alone amounted to 95 billion dollars, and our trade with East Asia, including Japan, was just under 200 billion dollars. For the sixth year in a row, our trade with East Asia has increased over our trade with Western Europe which used to be our primary trading partner, and it's going to continue in the years ahead.

When you look at the other side of the Pacific Basin and note that a state like California has a two-way trade amounting to 58 billion dollars with all of East Asia, Oregon about 4.5 billion, Washington State 10 billion dollars plus; when you look at the demographic trends in my country and note the shifts in population to the south, to the southwest and the west; when you add up all these trends and patterns and facts and figures, when you recognize that four continents impinge on the basin, four South American states front it, all of Central and North America, Australia, New Zealand, all of East Asia and the islands in between, you begin to get an idea of what is developing there. You're looking at an area where 58 percent of the peoples of the world live, an area of great tremendous natural resources, mostly on the Western Hemisphere side, an area with great potential
markets, on the whole friendly peoples and governments. In short, in the Pacific Basin you're looking at where it all is, what it's all about, and where our joint futures lie. And the development of that basin will depend upon the strength and the reliability and the durability of the Japanese-American relationship— the most important bilateral relationship in the world, bar none.

Thank you very much.

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QUEST!ON: (in Japanese)

AMBASSADOR: You have raised a most important question. In reply, I would point out that a trade relationship should not be attached too closely to the returns from one country but should be considered in the picture as a whole and not in bits and pieces. I don't think it's good policy to blame a country or a region for difficulties which have been, in large part, of our own making, we're responsible for. I think we have spent too much time on rhetoric, pointing fingers at other people, and not taking the time to look in the mirror and note the motes in our own eyes.
I am delighted that something is being done about the yen-dollar exchange rate. Perhaps it's falling too fast. Certainly 40 percent in 10 months is a very steep decline all at once.

Interest rates are coming down, thanks to action by the Federal Reserve, and followed by action on the part of the banks which reduced the prime rate to 8 percent much better than the almost 21 percent in 1981, but still too high.

It seems that Gramm-Rudman is becoming a household word even in Japan. I don't know much about Gramm-Rudman except what I have read in the newspapers. It may be, as Senator Rudman, one of its authors, said, a bad idea whose time has come. But if it does nothing but force the Congress to face up to the deficit, it will have accomplished a worthwhile objective. We just can't go on as we have been going.

In 1984, we used a lot of the money sent in by Japan, Europe, Latin America and from elsewhere just to pay off the interest on our debts which amounted to 111 billion dollars, just the interest. We didn't touch the principal. Last year we had to use the same money for the same purpose to pay off the interest on our debt, 133 billion dollars, approximately 14 percent of our total budget. You can't keep on going like that. We're the world's biggest debtor nation. You're the world's biggest creditor nation. So things are changing, and what we've got to do at home is to face up to that deficit. What you've got to do in Japan is to face up
to that yen because, remember, for four or five years there was a highly overvalued dollar which played right into your hands. Now the situation is being changed.

We've got to practice the system as it's supposed to be. We've got to become more productive. We've got to become more quality conscious. We've got to become more competitive price conscious.

I notice that since the G-5 meeting in New York last September that Japanese autos shipped to the United States have increased in price somewhere around 11-12-13 percent, and what has GM and Ford done? Kept their prices down so that they could get back part of that market? Not at all. They followed right in line behind the Japanese, so the Japanese are maintaining their share of the market, and what we should be getting back through keeping our prices lower because of the strong dollar, we're not doing it.

So there are a lot of things we have to do and, last but not least, we've got to develop a better relationship between labor and industry,—it's all too often adversarial—industry and government—all too often adversarial—and recognize that in my country we are facing an entirely different world; that many of the countries which we helped through Marshall aid and foreign aid programs are now strong competitors. We alone shouldn't worry about them because you should worry about them, too.
You're looking over your shoulders at Korea and Taiwan and Hong Kong, until recently Singapore now in a slump, because they were creeping up on you fast just as you crept up on us.

So what we are facing is a different set of circumstances. Geopolitically, strategically, economically it calls for different thinking, calls for sacrifices on both our sides. We have a farm lobby just as you have one here, and we have to cope with that politically. So do you. But we ought to get away from the rhetoric. We ought to sit down.

I was very much impressed at the U.S.-Japan Businessmen's Council a couple of weeks ago because they both talked like grown-ups. It wasn't a case of accusing each other. It was a case of trying to find ways and means so that together we could work ourselves out of the difficulty which confronts us.

So, hopefully, if we both look in the mirror and do the things which we have to do, while it will entail sacrifices in the interim it will bring benefits in the long run. The system will be maintained which has been good to both of us, and the type of free enterprise which we all believe in will continue to expand and to grow and to flourish.

(END OF MEETING)