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UNITED STATES TRADE REPRESENTATIVE
April 20, 1987 The Shimoda Conference Oiso,
Japan

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AMBASSADOR CLAYTON YEUTTER
UNITED STATES TRADE REPRESENTATIVE

April 20, 1987

The Shimoda Conference
Oiso, Japan

FOR IMMEDIATE RELEASE

I am grateful to the Shimoda Conference for inviting me to address the issue of U.S.-Japanese trade. This is an important event, coming at a time when trade between our two countries is playing a more significant role in our overall relations than ever before.

In some ways, individual trade issues are threatening to overshadow our long relationship as friends and allies. This must not be allowed to happen. Japan and the United States have too much at stake to let transitory problems come between us. We are the world's two largest free economies. We work together effectively to maintain peace and stability in Asia. The rest of the globe depends upon us to carry out our duties as world leaders in a responsible manner.

Trade tensions have been growing between the U.S. and Japan in recent months. Because this is a sensitive time I am going to speak plainly so there are no misunderstandings. I come from a part of the United States -- Nebraska -- where people mean exactly what they say. In Nebraska, it is not necessary to read between the lines; it is only necessary to read the lines. And if I am frank today, please understand that my remarks are delivered with warmth and friendship. I am committed to the construction of sound economic and political relationships between our two countries, not to their destruction.

The United States and Japan

By now it has become a cliché to marvel at Japan's accomplishments during the past 40 years. Through political stability, intelligence, hard work, skillful management and an economic environment that allowed private enterprise to flourish, Japan has raised its standard of living to a level barely dreamed of a generation ago. Japan's amazing success demonstrates to the rest of the world how a nation can use the benefits of freedom and the principles of capitalism to bring prosperity to its citizens.

Although Japan -- and only Japan -- deserves the credit for those accomplishments, American policies did help create the international conditions which gave Japan its opportunity to succeed.

Forty years ago the United States looked at the growing interdependence of national economies and realized that economic growth in other countries would not only enhance world peace but create additional opportunities for them and for us. Since then we have promoted global economic expansion by lending expertise, by investing in foreign industries and by supporting the international organizations that provide development assistance. Perhaps most important, we led the effort to create and sustain

the international trade system and kept our own markets open to imports.

Japan stands as proof that our policies were the right ones. The open world trading system and the ready availability of the U.S. market helped stimulate the growth of Japan's export-led economy. (We continue to be Japan's largest customer, taking 39 percent of Japan's exports in 1986.) We, in turn, benefitted from Japan's success. Not only has Japan's economic growth made it an important export market for U.S. products, but American consumers have benefitted from high-quality, attractively-priced Japanese imports.

Unfortunately, the growth of our two-way trade has not been balanced. In recent years, Japanese exports to the U.S. have surged, while U.S. exports to Japan have not grown appreciably. Our \$60 billion trade deficit with Japan has created enormous political pressures within the United States. That should surprise no one. Imagine the reaction in Japan if the situation were reversed and Japan had a trade deficit with the United States of 8.7 trillion yen.

We in the Reagan Administration hope to take the steps necessary to reduce our trade deficit without resorting to protectionism. We do not seek to close our markets to imports; we want to increase exports. We will be successful in this only if other markets -- particularly Japan's -- are fully opened to U.S. exports. Ultimately, our market will only be as open to other countries' products as their markets are to us.

Japan as a Leader

Japan is now a great economic power. But with greatness comes responsibility. The United States can no longer be the sole pillar of the international trade system. Because both Japan and the United States have benefited so greatly from this system, it is crucial that we work together to sustain it.

Together we must strive to cope with imbalances that threaten the basis of our trade relationship. Together we must alter old patterns of behavior that undermine our growing economic relationship. Together we must actively support the international free trading system, the linchpin of global economic growth and order.

Japan's most important contribution to the international trading system would be to commit itself as a nation to import with vigor, just as it has exported with vigor in recent decades. By opening its markets, and exposing its citizens fully to the attractions of foreign goods, Japan would provide an opportunity for other nations to follow the Japanese model of growth through trade.

In order to have a more balanced relationship with its trading partners, Japan should particularly increase its two-way trade of manufactured goods. Relative to income, Japan imports fewer manufactured goods than any other industrialized country. Manufactured imports accounted for only slightly more than two percent of Japanese GNP in 1985, compared to six percent of GNP in the United States and 10-15% of GNP in countries of Western Europe.

The comparison is even more striking in our economic relationships with the less developed countries (LDCs). The U.S. now imports 63% of the developing world's manufactured products while Japan (with an economy half the size) imports only seven percent. By increasing imports from developing countries, Japan would stimulate their economies, allowing them to earn hard currency necessary to pay their debts and to become better long-term customers for Japanese export industries.

Japan also needs to import more from the United States--particularly manufactured goods. The primary reason for the U.S.-Japan trade imbalance is that Japan has been able to export manufactured products to the U.S. (\$80.4 billion worth in 1986) while the U.S. has been unable to penetrate the Japanese market for manufactured goods (only \$12.4 billion worth in 1986.) A correction of this disequilibrium is imperative and in the interest of both our nations. Economists have long ago discarded the mercantilist notion that each nation should attempt to enrich itself by maintaining permanent trade surpluses. Import constraints, whether tangible or intangible, have hidden costs to consumers, denying them a full range of quality, low-cost products.

For example, America's farmers are incredibly productive and could provide food to the Japanese consumer at much lower prices than presently prevailing in Japanese food stores. Your consumers spend much more on food than they need to because of government quotas, tariffs and other restrictions.

Agriculture is not the only sector in which Japanese consumers pay the price for import barriers. Even prices of Japanese products are often lower overseas (where they face stiff price competition) than they are in Japan. A recent price survey of cameras and video cassette recorders found that these products cost 10 to 76 percent more in Fukuoka than in New York. Japanese tourists have discovered this phenomenon and have begun to purchase Japanese products while visiting the United States.

Changing Attitudes

Japan's relatively low level of imports is due to a variety of customs, legal barriers and cultural traditions that, while not always expressly designed to restrict imports, have the effect

of hindering exporters who attempt to sell their products in Japan. Many Japanese still seem to consider themselves as residents of a small island nation, devoid of natural resources, on the periphery of major world events. They are fearful of being overwhelmed by foreign businesses. But the reality is that today Japan now has the free world's second largest GNP, persistent trade and current account surpluses, and globally competitive industries and services. Japan can afford to import more manufactured goods. Indeed, it can't afford to keep them out.

Another Japanese view often expressed is that high prices, low quality, poor marketing or an inability to understand the Japanese culture explain the low level of U.S. exports to Japan. This argument would be more compelling if the United States were the only country with massive trade deficits with Japan. But Japan has large trade surpluses with many trading partners, including those in Europe and Asia. These countries have successfully penetrated the U.S. and European markets, often beating out Japanese competitors, but they too have difficulty exporting to Japan.

One also hears that the United States has "nothing to sell" to Japan, that Japan already produces many of the products that American firms would like to export. Foreign-made products seem not to sell well in Japan when a similar Japanese-made product is available. Unfortunately, as the Kansai airport project demonstrates, procurement practices in Japan often reflect this bias too.

Structural Adjustment

An even more difficult challenge arises from the structural imbalances that presently confront both the U.S. and Japan. Our two countries must soon adopt adjustment measures which may be economically painful and politically unpopular in the short run, but hopefully beneficial to future generations.

In the United States we must increase our competitiveness. President Reagan understands that our trade problems go beyond the unfair practices of our trading partners. He has proposed an initiative to improve the education of our children, expand worker retraining, reduce government interference in the economy, improve productivity, and increase research and development.

We also recognize that our federal budget deficit diminishes our competitiveness and contributes to our trade problem. We are struggling to solve this problem in a way that does not slow our economic growth or reduce our ability to help maintain security in the Western world.

It has become increasingly obvious that Japan must reduce

its reliance on export-led economic growth and restructure its economy towards domestic-demand led growth. Keidanren recently stated that the transition to a totally free trade system must become a Japanese national goal. It advocated the removal of all Japanese import restrictions, abolition of all tariffs on manufactured goods, and thorough deregulation of its economy by opening up administrative systems and operations.

The Maekawa report also recommends that Japan reverse its global trade imbalance by restructuring its economy. There is no question that weaning Japan's economy away from its dependence on export-led growth will be a difficult challenge. As recently as 1985, one-third of Japan's growth could be traced to a widening trade surplus. There is no alternative, however, since today's massive trade imbalances -- viewed both globally and bilaterally -- are unsustainable, politically and economically. The rest of the world will not and cannot buy more and more Japanese products unless their own exports to Japan grow too.

The recent strengthening of the yen vis-a-vis the dollar will unquestionably improve the price-competitiveness of U.S. exports to Japan. Some Americans are, therefore, puzzled by the modest increase in Japanese purchases of U.S. products that has occurred over the past couple of years. Many American goods are now the most competitively-priced products in Japan and Japanese willingness to take advantage of these bargains will be an important test of Japan's commitment to open markets.

Unfortunately, some government measures, supposedly designed to facilitate structural adjustment, may have the opposite effect if they are not administered properly. When industries in Japan become depressed, the government often moves to help them by providing tax benefits and loan guarantees; it also sometimes protects them by organizing cartels and curbing lower-priced imports. If and when structural adjustment programs are put in place, it is vital that they actually facilitate adjustment.

Structural adjustment is never easy, but it is part of the price of operating a dynamic, progressive economy. It was not easy for us to watch American steel workers or auto workers lose their jobs when U.S. companies closed plants or changed locations to increase their productivity in the face of foreign competition. American workers feel the pain of unemployment just as acutely as Japanese workers, and the political pressures they create are just as intense in the United States as they are in Japan. But leadership requires hard choices. I believe Japan will ultimately be stronger if it opens its markets and permits its companies to face foreign competition.

Fair Trade

Restructuring Japan is a long-term undertaking. In the

short term, we must settle a number of bilateral trade problems that have become major irritants. Doing so would have only a modest impact on our massive trade imbalance but it will be worth the effort in terms of our calming our relationship.

Our dispute over semiconductors, for example, has created considerable frustration and consternation in both countries. Some in Japan were shocked when the United States announced its intent to impose sanctions.

When we sign agreements we expect them to be fully implemented. With a \$170 billion trade deficit we will aggressively pursue solutions in other disputes too, among them agriculture, the Kansai airport, supercomputers, telecommunications and auto parts. We will, of course, do the same with our other trading partners -- witness our similar stance with the European Community on an agricultural dispute in January.

The United States and Japan are major trading partners. We exchange over \$100 billion in goods. There are bound to be disputes. We must deal with each dispute as it comes along -- in good faith and in a spirit of friendship and respect.

Conclusion

It is hard for any nation to alter or discard practices or policies that have served it well in the past. But circumstances have changed. Japan is on the brink of a new era in its industrial development. All nations must shape their societies to fit the global realities of the present and the future.

What is needed is a consented effort to adjust -- an achievable goal indeed for the people who coined the term "consensus". Government, business and consumer leaders all have major roles to play in this endeavor. Japanese opinion leaders must explain to the Japanese public why traditional methods of doing business may no longer be appropriate in today's interdependent, global economy. Business leaders must make a concerted effort to import more, particularly manufactured goods. Consumer groups should insist on government policies, particularly in housing and agriculture, that serve their broader interests. The government should provide the correct macroeconomic policy mix to facilitate adjustment while being compassionate to those who are dislocated.

The alternative is bleak. If Japan does not expand imports it will soon find it difficult to expand exports. This could lead the Japanese economy into recession, a development that would harm both Japan and its trading partners.

We in the Reagan Administration will do our best to work with Japan to resolve our outstanding issues. We remain committed to finding market-opening solutions to our trade problems, to bringing our budget deficit under control, and to restoring American competitiveness. We believe that free and fair trade are in the best interest of both our countries. The United States has played a critical role in promoting an open trading system and we will continue to do so. We hope Japan will follow our lead and set an even better example than we have. By doing so, it can create opportunities for development and growth and become a major force for good in the world. If Japan does assume such a mantle of world economic leadership, I am confident that the next four decades will be as exciting and dynamic as the past four decades have been for both our countries.

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