

The US and Japan in the  
21st Century  
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Mr. Hasegawa, Henry Wendt, and distinguished ladies and gentlemen. I have been a student of trade issues for most of my Congressional career. This, of course, has included considerable focus on the unique U.S.-Japanese relationship. It is my conclusion that, although our nations have been advancing in the same direction, we are not on the same road. I fear we have now reached a point where our differences threaten to drive us apart and destroy the common ground that has united us.

Even so, not all the events that have brought us to this point are negative.

Japan has become an important member of an economically strong and militarily cohesive Western alliance. Its commitment to shared democratic values and institutions is highly valued.

Likewise, the growth of Japan's economic strength has been dramatic and impressive. As an American, I take satisfaction in that success and the role the United States has played in it.

Historically, most Americans welcomed Japan's unsurpassed prosperity. But in the last decade many have come to believe that Japan's success is achieved at the expense of others.

Of course, the United States, has never viewed Japan as the source of all our problems. We have taken many steps to improve our competitiveness and now we have a stronger America to show for it. The depreciation of the dollar -- some 50 percent against the yen at its peak -- has made our products competitive throughout the world. Dramatic gains in manufacturing productivity -- averaging 4.3 percent per year each year since 1982 -- should insure that our products stay competitive.

While the progress we have made is not enough, we have cut the U.S. budget deficit in half, from 6.3 to 3.2 percent of GNP. Inflation remains low and contained. We have enjoyed 80 straight months of economic expansion. And international confidence in this country and its institutions is apparent from the strong performance of the dollar this year.

This progress is apparent in our trade relations. In 1988, our trade deficit with the European Community shrank nearly 50 percent and is running at a surplus this year. Our deficit with the LDCs, despite their debt problems, dropped nearly 20 percent last year and is down another 8 percent so far this year.

That's the good news. The bad news is that our deficit with Japan declined only 7 percent in 1988 and is currently running about even with last year. Most projections suggest it will increase over the year despite the yen appreciation. Last year, Japan accounted for only 14 percent of our trade but over 40 percent of our trade deficit. There is no doubt in the American mind that these numbers demonstrate an unbalanced relationship that resists even very large macroeconomic policy changes.

Japan has a similar problem with other Asian countries. Their imports from Newly Industrializing Countries may be up, but it is from a very small base and their trade surpluses with the Asian tigers remain very substantial. Despite its proximity, Japan still imports less than one-third as much from these countries as the U.S.

## The American Reaction

What is the reaction to these events in America?

Americans have concluded that Japan plays a different game, a game whose rules close Japanese markets and encourage predatory practices in virtually every kind of sector. For example:

-- "Agriculture:• It took years of intense negotiations to persuade Japan to phase out beef and orange quotas. It took a formal GATT complaint and two years of hard work to achieve a similar result on 11 other products. We may never make any progress on rice.

-- "Semiconductors:• Finally, on the threshold of sanctions because of persistent dumping, Japan entered into a settlement with the United States. But now Japan remains in violation of the agreement, and our sanctions remain in place.

-- "Supercomputers:• Although Japan purchased two U.S. supercomputers as part of its import promotion program, it has yet to buy any under the agreement we negotiated in 1987.

-- "Auto Parts:• Despite extensive MOSS discussions and even after some recent progress, the U.S. currently supplies less than one percent of Japan's \$55 billion market.

-- "Construction• -- In spite of the Kansai Airport uproar and an announced package of so-called reforms, construction is still a closed shop.

In fact, these kinds of problems caused Japan to be listed as a priority country in 3 sectors under the Super 301 provision of the new trade law -- more than any other country. That listing, I might add, was in response to strong pressure from Congress, which pointed out that the provision was specifically written with Japan in mind.

But market access is not the only kind of problem.

Japanese television manufacturers' illegal dumping on a scale rarely seen in international trade virtually destroyed this important industry in the United States and has severely damaged our ability to develop an HDTV production capability. This story is well known, as are the more recent machine tool and semiconductor cases. But they are hardly the only examples of market rigging. Reports in the United States suggest that the gap between prices in Japan and prices abroad for the same Japanese products is so large it has become profitable for Japanese to reimport such items as cordless phones.

This large and growing penetration of our market in sector after sector, and our inability to do the same in their market, forces Americans to conclude that our two nations have very different views about the free market system and the usefulness of international rules.

## Developing a New Policy -- the United States

Only one word can describe the Congressional mood in the face of these experiences: frustration. And it is fair to say that we have failed to fully appreciate the uniqueness of Japan's world view and the historical experience from which it is derived.

That history, embodied in Japanese customs, social structure, business practices and governmental forms, emphasizes preserving what is Japanese from outside influences.

It is hard for Westerners, Americans in particular, to understand this way of thinking. Our European roots were forged by a succession of invaders, adventurers, and travelers bringing outside

influences -- including Macedonians, Romans, Goths, Crusaders -- and by often deep internal divisions over social structure, religion, and economics that have made our culture and politics an amalgam of all that has gone before.

America especially is a product of the melting pot -- of both people and ideas. We draw our vitality from our diversity; our economic growth and ability to innovate from the successive waves of immigrants that have landed on our shores. The price they demand for their ambition, their creativity, and their skill is freedom, equality of opportunity, and openness.

Our experience is so different from Japan's that we cannot understand its closed society any more than they can understand our open one.

In the west our failure of understanding is particularly acute in economics. Chalmers Johnson, one of our noted Asian scholars, has described Japan a "capitalist developmental" state; one in which the government becomes an active player in the market,

"...not by displacing the market, as under socialism, but by becoming a player in the market -- creating incentives, supplying capital and information, lowering risks for approved activities, providing protection from foreign competitors, encouraging competition in strategic industries, and facilitating changes of industrial structure that the state deems desirable."

Demonstrating our fundamental ignorance of each other, much American time and energy over the past 15 years has been spent in trying to end Japanese uniqueness. When we say "play according to the rules," we mean, be like us. Play by our rules.

This is what the famous "level playing field" means -- equality of competition under a common set of rules.

Now, however, I have come to the conclusion that the United States is wrong to seek a level playing field.

Wrong not because an open system would penalize Japan. To the contrary, it would benefit both its economy and its consumers.

Wrong not because our request is unreasonable. It is not. It is a fact that no other nation contributes so little to the open trading system in proportion to what it gains.

Rather it is wrong because there can be no level playing field when the teams are not playing the same game. As I pointed out in Japan during my visit there in April, it is as if we are playing baseball and they are playing basketball on the same field -- against each other.

Yet after more than fifteen years, it should be clear that neither of us is likely to play the other's game.

Therefore, I propose we accept Japanese uniqueness and develop unique policies to deal with it. Otherwise, we face only the unsatisfactory choices of leaving the field entirely or attempting to penalize them every time they break our rules.

"Leaving the field" would mean a surrender of our technological and industrial lead. In other words, a decision that we will not compete in the modern world. That is not going to happen.

"Penalizing Japan" is a retaliatory response that would reserve the American market for American producers.

happening in the Bush Administration. Super 301. "Structural" impediments." Supercomputers. Telecommunications. The number of sectors where the Japanese market is closed and our market is at risk is growing, as is the Administration's determination to seize the initiative.

Today I want to suggest that there is a better course than this mindless sparring, a course which is becoming known as "managed trade," or "results-oriented trade."

Some, like former Secretaries of State Henry Kissinger and Cyrus Vance, have used the term to mean agreement on an overall trade balance, leaving the exact combination of export reductions and import increases to Japan. This would be a start but it is not enough.

I believe that we have to look at more than aggregate figures. There are areas that represent the core of our national sovereignty, just as Japan regards removal of import quotas on rice. Our money center and regional financial institutions, our computer and supercomputer industries, our aerospace and other defense-related sectors, our non-renewable resource production industries are some of the sectors that allow us to control our own economic and geo-political destiny. Any results-oriented trade policy must address these economic and national security issues as well as the question of the overall trade balance.

It is worth noting that we have applied a managed trade approach in the past with respect to some sectors, such as steel, textiles, and machine tools.

In those sectors we focused on results rather than process. Instead of negotiating in agonizing detail how to construct an open bidding process or a transparent procurement system, or discussing "expectations" and "goals," we have settled on hard numbers.

That is an honest alternative to open trade where openness is illusory. Our most serious problems with Japan usually lie in the high technology and capital equipment sectors where sales are to manufacturers rather than directly to consumers. There, longstanding supplier-customer relationships and ownership interlocks between Japanese prevail regardless of the attractiveness of new entrants.

This is where a results-oriented trade policy can enter the picture. We may never fully understand each other, but we can certainly bargain with each other.

If our national security needs demand preserving an industry, then let us negotiate U.S. content requirements or a limit on imports or whatever is appropriate. If we have a competitive product that we cannot sell in Japan, by all means let us negotiate on market access, but let us focus first and foremost on the bottom line -- the results -- rather than the process. If we are concerned about Japanese acquisitions, then let us negotiate parameters for permitting them.

I do not want to mislead anyone. I do not believe this alternative will be easier than the others. It demands continued, sustained negotiations. It will require the United States to identify its critical priorities and make very clear that we are prepared to use access to our market as leverage to obtain results. Historically, we have not been very good at doing that, but Super 301 is really the first step in this process. Admittedly, it opens the door to political pressures in Washington on behalf of various specific interests; pressures we need to withstand. But I believe we are prepared for that.

I have already made clear that this policy is not America's first choice. It is not a policy developed from great principles like open markets and "free" trade. It is a solution conceived from a lack of viable alternatives and borne of necessity. The policy I suggest has one major advantage over current practice: it is realistic about recognizing the enduring nature of Japanese customs and culture, and therefore it can actually work.

This alternative is becoming attractive to more and more Americans. In a recent poll by a national news service, 63 percent of Americans polled believed that Japan was an unfair trader, compared to only 22 percent who thought Japan was fair. 53 percent think we should increase tariffs on Japanese goods, and only 21 percent think we should leave them as they are.

Our continuing friction with Japan can only heat public opinion to the political ignition and blast-off point where the U.S. also adopts broad-based new GATT complaints, new restrictions on foreign investment and added controls on the transfer of our technology, as Congress attempted with the FSX. The resulting tension is a danger for both countries.

#### Developing a New Policy -- Japan

Just as we have choices, so does Japan. Conventional wisdom suggests Japan faces two futures -- a choice between market opening or business-as-usual -- a participatory future or a defensive one.

A participatory future means Japan's thorough integration into the Western market system:

- open entry to Japanese markets and national treatment;
- ending infant industry protections;
- free access to Japanese financial markets and use of the yen as a true international currency;
- two-way trade in technology;
- an end to predatory marketing practices.

This would be the most desirable outcome. It would be good for the world economy, and it would reduce the U.S. trade deficit. It would also provide the greatest benefit to the Japanese consumer. I am also persuaded it is unachievable. It would require treating foreigners as if they were Japanese. And not just any Japanese, but as members of the Japanese insiders club. It would require a sea change in centuries of custom, and Japan will not pay that price.

The alternative, however, is a hostile world where Japan is increasingly isolated and country after country closes its doors and applies Japanese tactics to protect its industries.

-- The European Community has already begun that process and is quite open about the purpose of EC-92 -- to keep Japan out of their market. By means of content requirements, inspection and testing rules, reciprocity rules, and other devices Europe will either keep Japan out or force it to buy its way in with technology transfers and direct investment at very high prices.

-- American public opinion, as I indicated, could very well move the United States in the same direction. The Europeans are not the only ones with so-called screwdriver factories, and they are not the only ones capable of turning the screws to deal with them.

#### A Results-oriented Trade Policy

These are not happy choices for either of our countries and our trade relations reflect it.

For some years we have been trapped in a deteriorating spiral of complaint and response. We complain and Japan responds with a reform program -- at least nine in the last seven years. We wait for results. We are disappointed; we complain again, and the cycle repeats itself. Each time it grows worse as self-interest turns into arrogance, pride to contempt, frustration to retaliation -- on both sides. Congress grew impatient with this cycle some time ago. There is growing evidence that the same thing is

Finally, let me close with a word about responsibility. Japan's wealth and economic power give it the ability to be an influential participant in world affairs. Already, great power pressures are arriving. People are asking:

- What is Japan's policy toward South Africa?
- In the Middle East?
- On LDC debt?
- Or on environmental issues like whales, Ivory or tropical deforestation?

If Japan were small and weak, these questions would not be asked. Now they are asked, and the answers matter. Many wonder if Japan is ready to answer. They wonder whether Japan is willing to assume the responsibilities of its new position of influence in a multi-polar world. Its cautious effort to play a greater role in LDC debt resolution is an important positive sign.

Responsibility, however, is a term that applies to business and industry as well as government. The 1987 episode involving Toshiba Machine Corporation's sales of sensitive milling machinery to the Soviet Union and current allegations regarding Japanese corporate activity in the Libyan chemical weapons case are perhaps examples of the Japanese saying, "Seikei bundi" -- separate business and politics.

Japan's global position makes that tradition impossible. Great powers provide moral and political leadership as well as economic, and all of a country's citizens -- both corporate and individual -- share the responsibility. Americans for years have had to live with the image of the world's economic giant, and our companies have had to assume responsibility for their actions in the farthest corners of the world, sometimes at great cost, but the responsibility must be shared. Japan will discover the same thing -- I hope without the same painful experience.

Bridging the gaps in our mutual understanding will take patience. My message today is that process will be aided if the United States learns to accept the differences and adopt policies that are results-oriented rather than ideology-oriented. And it will be aided if Japan understands and accepts the share of responsibility that comes to it along with its great economic power.

Thank you very much.