

Speech by Ambassador Walter F. Mondale  
Keidanren Committee on U.S. Affairs  
Tokyo  
December 16, 1993

Thank you for inviting me to speak here this morning. I wish to thank Mr. Makihara for his kind introduction -- and for his very able leadership of this important committee.

I also wish to express my sympathy and best wishes for one of Japan's foremost business leaders, Akio Morita. He is a friend of mine, and I know that I join with many others in wishing him a speedy recovery. He is a much-needed source of wisdom during this critical period in Japan's economic transition.

Since arriving, I have been very impressed by the quality and talent of Japan's business leadership. At the same time, I realize that many companies are now hurting as a result of the lingering recession and the restructuring that is taking place in the Japanese economy.

I sense a growing recognition in the business community that many of Japan's traditional economic policies and business practices must be altered to reflect Japan's changing place in the world and its new international responsibilities. I also find that business leaders here remain very positive about the need for strong ties between Japan and the United States.

As members of this committee, of course, you have a special interest and concern for the success of the U.S.-Japan relationship in all its dimensions.

This relationship is certainly one of the most remarkable international success stories of the past half century. We are allies, partners and friends. Our destinies are now inseparable. We are working together in a number of areas.

In the security area, the partnership between the United States and Japan could not be any better. Our alliance is the foundation of stability here and

throughout the region. We remain fully committed to our security arrangements here; every country in the region -- except North Korea -- has told us that they want us to be here. While we are reducing our force levels elsewhere in the world, we have made it clear that our presence in Japan will remain strong. As a result, we will soon have as many forces in Asia as in Europe -- a dramatic shift from only a few years ago.

On the political front, our two countries are working very well together in the United Nations and other multilateral institutions -- including the G-7, World Bank and OECD. We are also cooperating on a full range of what are called "global issues" -- environmental protection, health, AIDS, population control, science and aid to developing countries.

The United States and Japan are effective partners at the regional level. We worked together to make last month's historic APEC meeting a success. The combined leadership of the United States and Japan will be crucial to ensure the continued prosperity and stability of the Asia-Pacific region.

Likewise, last month's Congressional vote on the North American Free Trade Agreement (NAFTA) -- which reaffirmed America's commitment to free trade and open markets -- will help reduce trade barriers and produce new economic opportunities, not just in North America but worldwide. We appreciated Japan's support in this effort.

The difficulties in our relationship come, of course, in the area of trade and economics. Because we are the world's two largest economies and because of our deep interdependence, some tensions are inevitable between us. But we cannot be complacent about them.

Japan's huge external surpluses are one of the principal asymmetries in the world economy today. The collapse of your "bubble economy" and the protracted recession have worsened your trade imbalances -- not just with the United States, but with almost every one of your trading partners. These imbalances reflect a number of complex factors, but they also show that your economic structure is not as open to imports and foreign investment as the other major economies of the world.

At last July's G-7 summit, Japan pledged to "implement fiscal and monetary measures as necessary, to ensure sustained non-inflationary growth led by strong domestic demand." This reflected a consensus among the G-7 nations that robust growth in the world economy depends on a sustained expansion of domestic consumer demand in Japan. Without this, Japan's huge external surpluses will continue to accumulate -- draining demand from an already weak world economy and fueling protectionist pressures.

We also face a number of serious sectoral and structural issues. We have begun to address these problems, and I believe a note of hope is in order.

First of all, we have finally brought the Uruguay Round of the GATT to a successful conclusion. This is very good news, and it would not have happened without the cooperation and leadership of both Japan and the United States. The stakes were as high as they get, and the world is grateful to Japan for taking this historic step to open its rice market. By conservative estimates, the success of the Uruguay Round will mean a net gain in annual world income of at least 200 billion dollars by the end of the decade. Japan will be one of the biggest winners.

A second positive step in the economic area is the joint "Framework for a New Economic Partnership" which was signed last July by President Clinton and then-Prime Minister Miyazawa. Prime Minister Hosokawa's government has reaffirmed its commitment to this Framework agreement.

As you know, on February 11 the President and the Prime Minister will meet in Washington to review progress on the negotiations. It will be the first meeting called for under the Framework agreement. Both of our governments understand that it must be a productive and successful meeting.

At the heart of the Framework is a bargain.

The United States has agreed to "reduce its fiscal deficit, to promote domestic saving and to strengthen its international competitiveness" -- and we have promised to keep American markets open. For its part, Japan has agreed to pursue policies in the medium term that would lead to a "highly significant" reduction in

its global current account surplus and to a "significant" increase in its global imports of goods and services. The United States and Japan have also pledged to work together "to promote global growth, open markets and a vital world trading system."

On sectoral issues, we have agreed that "tangible progress" must be achieved on the objectives laid out in the Framework. We are conducting negotiations in five areas (or "baskets"). We have agreed to assess the progress achieved in each of these baskets by using "objective criteria, either quantitative or qualitative or both as appropriate."

The Framework does not call for single-number "targets" for market share, nor is the United States asking for them. The Framework also does not seek to "manage" trade; instead, it seeks to "un-manage" and expand trade by removing market barriers.

The Framework agreement is best understood in the broader context of U.S.-Japan relations and the global economy. As the two largest economies in the world, the United States and Japan must have a shared vision of our economic objectives -- and with this shared vision come shared responsibilities.

The rationale behind the Framework is an understanding that the world's major industrial economies -- the United States, Europe and Japan -- should be equivalent in terms of their overall openness to imports and investment. It does not mean that we will be identical in every respect. But it does mean that our fundamental economic patterns should be similar.

By helping to open markets and boost domestic demand, successful implementation of the Framework will strengthen Japan's economy and create new opportunities for both Japanese and foreign companies. But, even more, it will create new opportunities for Japanese consumers and help bring the living standards of the Japanese people more in line with Japan's wealth as a nation.

In his inaugural policy speech to the Diet, Prime Minister Hosokawa stated his intention "to work vigorously for expanded domestic demand and improved market access and for such consumer-oriented policies as rectifying the disparity

between domestic and international prices and promoting deregulation, and to strive to reduce our current account surplus, not just to maintain good economic relations, but also to improve the quality of Japanese life."

I am impressed by the many voices -- especially in the business community -- who join with the Prime Minister in calling for Japan to deregulate, open its markets, increase consumer choice, stimulate domestic demand and reduce the current account surplus.

As you may recall, each of these goals was also among the key recommendations of the two Maekawa reports. Likewise, many people have been looking forward to the Economic Reform Research Council's final report on deregulation, which is being released today.

Japan, of course, must make its own decisions about what economic policies it wants. But these choices will inevitably have international implications.

With its decision to accept rice liberalization under the GATT, for example, Japan has earned the respect and gratitude of the world -- and I believe Japanese consumers will ultimately enjoy the benefits.

With the Framework agreement, Japan has signaled that it wants to move toward the kind of broad economic openness that characterizes the other major industrial nations.

I did not come to your country to tell your government, your people or your businesses what to do. That is not my role, and I will not cross that line.

We do have a special relationship, however. As friends, we have a responsibility to be straightforward and candid with each other. While friends do not try to run each other's affairs, they also do not keep silent when useful advice can be offered in the spirit of friendship.

During the 1980s, at every G-7 meeting, Japan and the other members told the United States -- pleaded with us -- that we had to get our budget deficits under control. At that time, these deficits were the major asymmetry in the world

economy. They were getting worse every year, and we weren't doing anything to about it. Our friends in Japan and elsewhere told us that this could not be sustained and that we needed to shape up -- for our own good and for the good of the world economy.

Your were right. Now the United States is finally attacking these deficits. It was very difficult -- and there will be more difficult decisions down the road. But at least now we are headed in the right direction. It was important that Japan and the other G-7 members kept reminding us of the urgency of correcting our deficit.

This is an example of the proper advice that friends owe to each other.

I hope that my own comments this morning -- and in the future -- will be accepted in this same spirit. The relationship between the United States and Japan must always be based on dignity and respect. We cannot allow our economic problems to produce the frustration and mistrust that would poison this most important relationship. We have too much at stake to permit this to happen.

We should instead be focused on working together as partners to find common ground, resolve our problems and enhance our cooperation. I know this is a time of difficult decisions for your country. As experienced business leaders, you have the knowledge, judgment and leadership to help guide Japan into the future.

If the United States and Japan can work through our economic differences -- and we must -- then our two great nations will be able to concentrate on using our enormous power and influence to make a difference in addressing the many other problems in the world today.

The recent elections in Russia remind us of how precious our own partnership is. There, we see how an outrageous demagogue, Vladimir Zhirinovsky, can prey on the vulnerability, suffering and desperation of the Russian people. He is a merchant of hate, but his party got the votes. When we see what has happened in Russia, we realize that the United States and Japan have so much going for us. We are prosperous economies; we are stable democratic societies; and we are committed to working together.

It is in this spirit that I hope we will approach our economic challenges in the coming months. I look forward to working with all of you toward this end.



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December 16, 1993

Thank you for inviting me to speak here this morning. I wish to thank Mr. Makihara for his kind introduction -- and for his very able leadership of this important committee.

I wish to acknowledge Mr. Hiraiwa's superb leadership of Keidanren, including his efforts with the Economic Reform Research Council.

I also wish to express my sympathy and best wishes for one of Japan's foremost business leaders, Akio Morita. His leadership in the U.S.-Japan Business Council, in Keidanren and in other forums has been invaluable. I know that I join with many others in wishing him a speedy recovery. He is a much-needed source of wisdom during this critical period in Japan's economic transition.

During my first three months here, I have been very impressed by the quality and talent of Japan's business leadership. At the same time, I realize that many companies are now hurting as a result of the lingering recession and the restructuring that is taking place in the Japanese economy.

In this context, there is a growing recognition in the business community that many of Japan's traditional economic policies and business practices must be altered to reflect Japan's changing place in the world and its new international responsibilities. I also find that business leaders here remain very positive about the need for strong ties between Japan and the United States.

As members of this committee, of course, you have a special interest and concern for the U.S.-Japan relationship in all its dimensions.

This relationship is certainly one of the most remarkable international success stories of the past half century. We are allies, partners and friends. Our destinies are now inseparable.



In the security area, the partnership between the United States and Japan could not be any better. Our alliance is the foundation of stability in this historically unstable region. The United States remains fully committed to our security arrangements here; every country in the region -- with the exception of North Korea -- has told us that they want us to stay. While we are reducing our force levels elsewhere in the world, we have made it clear that our presence in Japan will remain strong. As a result, we will soon have as many forces in Asia as in Europe -- a dramatic shift from only a few years ago.

On the political front, our two countries are working very well together in the United Nations and other multilateral institutions -- including the G-7, World Bank and OECD. We are cooperating on a full range of global issues -- environmental protection, health, population, science and aid to developing countries. Tim Wirth, the State Department's new counselor for global affairs (and a former colleague of mine in the U.S. Senate), was here last week to consult with Japanese leaders. He came away very pleased and impressed by the many efforts our two countries are already making, and he is excited about new opportunities for cooperation.

The United States and Japan are also effective partners at the regional level. We worked together to make last month's historic APEC meeting a success. Both of our nations look to APEC not as a trading bloc, but as a building block for a more open regional and global economy. America's involvement in APEC reflects President Clinton's broader vision of a "New Pacific Community" based on shared strength, shared prosperity and shared commitment to freedom and democracy. The combined leadership of the United States and Japan will be crucial to ensure the continued prosperity and stability of the Asia-Pacific region.

Likewise, last month's Congressional vote on the North American Free Trade Agreement (NAFTA) -- which reaffirmed America's commitment to free trade and open markets -- will help reduce trade barriers and produce new economic opportunities, not just in North America but worldwide. We appreciated Japan's support in this effort.

The difficulties in the U.S.-Japan relationship come, of course, in the area of trade and economics. Because we are the world's two largest economies and because

of our deep interdependence, some tensions are inevitable between us. But that does not mean we can be complacent.

With respect to macroeconomic issues, Japan's huge external surpluses are the principal asymmetry in the world economy today. The collapse of the bubble economy and the protracted recession have exacerbated Japan's trade imbalances -- not just with the United States, but with almost every one of its trading partners. These imbalances reflect a number of complex macro- and microeconomic factors, but they also show that Japan's economic structure is not as open to imports and foreign investment as the other major economies of the world.

At last July's G-7 summit, Japan pledged to "implement fiscal and monetary measures as necessary, to ensure sustained non-inflationary growth led by strong domestic demand." The G-7 declaration reflected a consensus that robust growth in the world economy depends on a sustained expansion of domestic consumer demand in Japan. Without this, Japan's huge external surpluses will continue to accumulate -- draining demand from an already weak world economy and fueling protectionist pressures.

At the microeconomic level, we face a number of serious sectoral and structural issues. The United States and Japan have begun to address these problems, and I believe a note of hope is not out of order.

First of all, we have finally brought the Uruguay Round of the GATT to a successful conclusion. This is very good news, and it would not have happened without the cooperation and leadership of both Japan and the United States. The stakes were as high as they get, and the world is grateful to Japan for taking this historic step to open its rice market. Prime Minister Hosokawa and his government deserve a lot of credit for their courage in moving forward. According to conservative estimates, the net gain in annual world income could reach at least 270 billion dollars by the year 2002 because of a successful Uruguay Round.

A second positive step in the economic area is the joint "Framework for a New Economic Partnership" which was signed last July by President Clinton and then-Prime Minister Miyazawa. Prime Minister Hosokawa has reaffirmed his government's solid commitment to follow through on this Framework agreement.

The Framework provides a structure for ongoing economic consultations between our two governments, including twice-a-year meetings between the American President and the Japanese Prime Minister. On February 11, President Clinton and Prime Minister Hosokawa will meet in Washington to review progress on the negotiations. It will be the first meeting called for under the Framework agreement, and that means the time for heavy lifting is drawing near. Both of our governments understand that it must be a productive and successful meeting.

At the heart of the Framework is a bargain between Japan and the United States.

At the macroeconomic level, the United States has agreed to "reduce its fiscal deficit, to promote domestic saving and to strengthen its international competitiveness" -- and we promised to keep American markets open. For its part, Japan has agreed to pursue policies in the medium term that would lead to a "highly significant" reduction in its global current account surplus and to a "significant" increase in its global imports of goods and services. The United States and Japan have also pledged to work together "to promote global growth, open markets and a vital world trading system."

On sectoral and structural issues, both of our governments have agreed that "tangible progress" must be achieved on the objectives laid out in the Framework. We are conducting negotiations in five areas (or "baskets") to address Japan's sectoral and structural impediments to open trade and investment. We have agreed to assess the progress achieved in each of these baskets by using "objective criteria, either quantitative or qualitative or both as appropriate."

The Framework does not call for "targets," nor is the United States asking for them. The Framework also does not seek to "manage" trade; instead, it seeks to "un-manage" and expand trade by removing market barriers. To determine how well we are doing in removing these barriers and letting market forces operate, we need indicators -- quantitative and qualitative. Japan and the United States have already agreed in the Framework on the need for these indicators. The question is what these specific indicators will be for each "basket." This is what American and Japanese negotiators are now trying to work out.

The Framework agreement is best understood in the broader context of U.S.-Japan relations and the global economy. As the two largest economies in the world, the United States and Japan must have a shared vision of our economic objectives -- and with this shared vision come shared responsibilities. The Framework sets in place a systematic, mutual process to realize this shared vision and to help move Japan's economy in a direction more appropriate to its present economic stature.

The rationale behind the Framework is an understanding that the world's major industrial economies -- the United States, Europe and Japan -- should be equivalent in terms of their overall openness to imports and investment. It does not mean that we will be identical in every respect; in fact, we will obviously continue to be very different societies. But it does mean that our fundamental economic patterns should be similar and not subject to a double standard.

By helping to open markets and boost domestic demand, successful implementation of the Framework will strengthen Japan's economy and create new opportunities for both Japanese and foreign companies. But, even more, it will create new opportunities for Japanese consumers and help bring the living standards of the Japanese people more in line with Japan's wealth as a nation.

In his inaugural policy speech to the Diet in August, Prime Minister Hosokawa stated his intention "to work vigorously for expanded domestic demand and improved market access and for such consumer-oriented policies as rectifying the disparity between domestic and international prices and promoting deregulation, and to strive to reduce our current account surplus, not just to maintain good economic relations, but also to improve the quality of Japanese life."

I am impressed by the many voices -- especially in the business community -- who join with the Prime Minister in calling for Japan to deregulate and open its markets, increase consumer choice, stimulate domestic demand and reduce the current account surplus.

As you may recall, each of these goals was also among the key recommendations of the two Maekawa reports in 1986 and 1987. Likewise, many people have been looking forward to the Economic Reform Research Council's final

report on deregulation, which is being released today. Clearly, there is still plenty of room for progress on these issues.

Japan, of course, must make its own decisions about what economic policies it wants. But these choices will inevitably have international implications.

With its decision to accept rice liberalization under the GATT, for example, Japan has earned the respect and gratitude of the world -- and Japanese consumers will ultimately enjoy the benefits of access to the world rice market.

With the Framework agreement, Japan has signaled that it wants to move toward the kind of broad economic openness that characterizes the other major industrial nations. The details are yet to be worked out, however, and these will show the real seriousness of Japan's commitment to achieving this goal.

I did not come to your country to tell the government of Japan, or Japanese business, what to do. That is not my role, and I will not cross that line.

The United States and Japan do have a special relationship, however. As friends, we have a responsibility to be straightforward and candid with each other. While friends do not try to run each other's affairs, they also do not keep silent when useful advice can be offered in the spirit of friendship.

During the 1980s, at every G-7 meeting, Japan and the other members told the United States that we had to get our budget deficits under control. At that time, these deficits were the major asymmetry in the world economy. These deficits were getting bigger and bigger every year. Even worse, we weren't doing anything to stop this trend -- much less reverse it. Our friends in Japan and elsewhere told us that this could not be sustained and that we needed to shape up -- for our own good and for the good of the world economy.

They were right, and now the United States is finally attacking these deficits. It was very difficult, but the new President has shown his leadership and Congress has stepped in line. There will be more difficult decisions down the road, but at least now we are headed in the right direction. It was important that Japan and the other G-7 members kept reminding us of the urgency of correcting our deficit.

This is an example of the proper advice that friends owe to each other.

My own comments this morning are offered in the same spirit. The relationship between the United States and Japan must always be based on dignity and mutual respect. We cannot allow our economic problems to produce the frustration and mistrust that would poison our very special relationship. We have too much at stake to permit this to happen.

We should instead be focused on working together as partners to find common ground, resolve our problems and enhance our cooperation. I know this is a time of difficult decisions for your country. As experienced business leaders, you have the knowledge, judgment and leadership to help guide Japan into the future.

If the United States and Japan can work through our economic differences -- and we must -- then our two great nations will be able to concentrate on using our enormous power and influence to make a difference in addressing the many other problems in the world today. It is in this spirit that I hope we will approach our economic challenges in the coming months. I look forward to working with all of you toward this end.

Thank you.



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