

Speech by Ambassador Walter F. Mondale
"Economic Restructuring Forum"
Keidanren Keizai Koho Center
November 24, 1993
Tokyo

Thank you for this opportunity to discuss Japan's global trade imbalance and what actions might be taken to correct it. I appreciate your very kind and generous invitation to participate in this discussion about an issue which is of great concern not only to the United States, but to all of Japan's trading partners.

Exactly one week ago, I left Tokyo for Seattle. At the time, the political reform package had not yet passed the Lower House of the Diet; NAFTA had not yet been ratified by the U.S. House of Representatives; and the APEC ministerial meeting and the informal leaders meeting were yet to be held.

So, much good news has happened this past week. Each of these events offers hope for even more positive changes ahead.

- The landmark vote in favor of political reform promises to modernize Japan's political system -- making it more accountable to the public and possibly stimulating broader changes in Japanese society.

- The NAFTA vote -- reaffirming America's commitment to free trade and open markets -- will reduce trade barriers and produce new economic opportunities, not just in North America but worldwide.

- Likewise, the meetings in Seattle set the stage for increased economic cooperation among the nations of the Asia-Pacific region as a means to expand open global trade and commerce.

In addition to the ministerial meeting, there was a historic and successful gathering of leaders from the region -- resulting in an "economic vision statement" which expressed their commitment to APEC and, among other recommendations, called for creation of a Pacific Business Forum. Prime Minister Hosokawa and the

entire Japanese delegation were deeply engaged in last week's meetings -- and Japan's support and leadership will continue to be crucial to the success of APEC.

Your Prime Minister and President Clinton also had a very positive bilateral meeting in Seattle. These two energetic leaders have now established a solid bond with each other. This should be a reassuring reality -- not only to the American and Japanese people, but to the world.

Also of great significance, although on a different subject, last night the Congress finally adopted a long overdue measure to control the scandalous availability of guns in America.

Last week, President Clinton received the parents of Yoshi Hattori in the White House and heard their plea for gun control. Yesterday, the Hattoris -- in a widely covered event -- visited the grave of President John F. Kennedy, whose life was taken, as was their son's, in an act of gun violence.

Today, we can finally say that America is beginning to act on the abuse of gun ownership in our nation.

The Hattoris -- through their dignified effort to bring some meaning to their son's tragic death -- deserve the thanks of the American people for the decency and thoughtfulness of their message to my nation. Their son is gone. But the message of the senseless act which took his life helped spur our nation to enact this reform. For this, the American people wish to express our profound appreciation and admiration for the efforts of this remarkable couple.

As you know, another big event is coming up in less than a month. This is the deadline for the Uruguay Round of the GATT. The outcome of these negotiations will have a lot to say about the possibilities for future economic growth in the world, and we must strive for a successful conclusion to these talks.

In their "vision statement," the APEC leaders acknowledged that, in their words: "The foundation of our economic growth has been the open multilateral trading system. Therefore, we pledge our utmost efforts to bring the Uruguay Round to a successful conclusion by December 15. We are determined [that] the

Asia Pacific region will lead the way in taking concrete steps to produce the strongest possible outcome in Geneva."

The GATT is so critically important because it represents a concerted international effort to deregulate and open markets in order to expand trade worldwide. This is absolutely necessary to address the foremost problem in the global economy today -- which is inadequate growth.

Fortunately, the American economy now seems to be growing at a healthy rate. But the European economies are not. And, as you well know, most observers believe the prospects for the Japanese economy -- at least in the short term -- are not at all encouraging.

But if we are to have strong growth in the world economy, it must still be powered by the major industrial economies. Thus, the United States has a responsibility; Europe has a responsibility; and so does Japan.

At this point, what the world economy needs and what the Japanese economy needs are fundamentally the same. This is sustained domestic demand-led growth in the Japanese economy.

I realize that Japan takes seriously its responsibilities -- as agreed to in the G-7 communiqué from July -- to "ensure sustained non-inflationary growth led by strong domestic demand." This goal was reaffirmed in the bilateral Framework agreement. The government of Japan is now in the process of deciding what steps are needed.

It is not my place to tell this government what it should do. Nonetheless, I hope it will be able to pursue a course that is successful in getting the Japanese economy moving again on a sustained basis. Because yours is the second largest economy on earth, it is no exaggeration to say that the rest of the world will be affected by what Japan does.

Many Japanese leaders also agree that Japan needs to "restructure" its economy to achieve sustained domestic demand-led growth which will contribute to higher living standards for the people of Japan.

This nation's economic success over the past four decades was built on a strategy of export-led growth. The imperative was to increase domestic savings and investment to fuel export-oriented industries. Domestic consumer demand was suppressed, as were imports and inflows of foreign investment.

In both the G-7 communiqué and the U.S.-Japan Economic Framework, the government of Japan has acknowledged the need for greater openness in the economy. Prime Minister Hosokawa and many others have emphasized that it is time the Japanese people enjoyed the benefits of their hard work -- and the high yen -- in order to bring Japanese living standards more in line with your wealth as a nation.

Of course, as painful as the discipline of free competition can be to an economy in transition, it is becoming abundantly clear that the long-term prosperity of a society depends on its ability and willingness to meet the challenges of competition in an open market. Competition delivers rewards in the form of improved productivity, greater innovation and higher living standards.

No one knows this better than Japan's economic leaders.

To prepare for the future, Japan needs a healthy, growing economy which is more fully integrated into the international system of open trade and commerce. In turn, this will help reduce Japan's global trade imbalance.

Several areas offer promise:

First, there is the GATT. December 15 is the deadline now looming for conclusion of the Uruguay Round of negotiations. This is a firm deadline. The Uruguay Round will not succeed unless the members of the G-7 work together to ensure this outcome. We are encouraged by Japan's statements of support and announced intentions to bring this round to a successful conclusion.

It is in everyone's interests to strengthen the GATT, because every country stands to gain from a more open international trading system. According to a new report by the OECD, the net gain in world income could reach at least 270 billion

dollars per year by the year 2002 if we succeed in concluding the Uruguay Round next month. Japan will be one of the biggest winners.

Failure of these GATT negotiations, on the other hand, would produce terrible uncertainty in the economic and political relations among nations; it would discourage integration of developing countries and former communist economies into the world economy; and it would demoralize efforts to maintain and broaden our global trade and financial system.

Consistent with GATT, APEC -- the Asia Pacific Economic Cooperation forum -- is also vital to this effort to expand trade and stimulate global growth.

Last week's events in Seattle marked an important step in the development of this promising vehicle for greater economic cooperation in the Pacific Rim. The Trade and Investment Declaration that was adopted at last week's meeting will help liberalize regional trade and investment, strengthen the multilateral trading system and serve as a bulwark against the development of exclusionary and protectionist trading blocs.

Liberalization of trade has been the primary force for global economic expansion over the past four decades. With its export-led growth, Japan has been a major beneficiary of this system of open world commerce. If we can strengthen this system, there will be more gains yet to come -- for Japan and every nation.

A second important area where Japan can achieve progress on its trade imbalance is through the "Framework for a New Economic Partnership."

A product of the July summit, the Framework has three components:

- First, it aims to address macroeconomic imbalances. Japan has agreed to bring about a "highly significant" decrease in its current account surplus by pursuing "strong and sustainable domestic demand-led growth" and "increasing the market access of competitive foreign goods and services." In turn, the United States intends to reduce its budget deficit, promote savings and strengthen its international competitiveness.

- Second, we are negotiating agreements to address sectoral and structural barriers which limit imports and foreign investment in Japan. negotiations are taking place in five areas, or "baskets." In the Framework, our two governments agreed to evaluate the progress achieved in these baskets by using "objective criteria, either qualitative or quantitative or both as appropriate."

- Third, our two governments have agreed to cooperate on issues of global importance -- including environmental protection, population, aids, technology development and human resources.

The Framework reflects a commitment to allow market forces to determine trade patterns. The Framework does not try to manage trade. Its purpose is to unmanage trade. It also acknowledges the central role of the GATT in resolving trade disputes, making clear that all market opening must be on a non-discriminatory basis.

As you know, Japanese negotiators met earlier this month in Washington with their American counterparts to continue these Framework talks, and there will be additional meetings next month. Last week in Seattle, President Clinton and Prime Minister Hosokawa reaffirmed the importance of the Framework and its timetable for action.

We expect the first specific agreements to be ready by February 11, when the President and the Prime Minister will meet in Washington.

The Framework is consistent with the government of Japan's own stated goals of restructuring the economy to expand domestic demand and improve market access to provide greater benefits to consumers. The Framework is also an essential step to bring better balance to our relationship and eliminate a source of continuing friction between our two nations.

Economic deregulation is a third area where Japan can make a difference in revitalizing its economy. Here, the Economic Reform Research Council headed by Mr. Hiraiwa is of notable importance.

As you know, from the very start, Prime Minister Hosokawa has emphasized the importance of deregulation to open the economy to benefit Japanese consumers and strengthen the nation for the economic challenges ahead.

Building on the Maekawa Report of 1986, the Economic Reform Research Council was established to lay out specific steps for making the Japanese economy more responsive to market forces. Its deliberations are based on the guiding principle that "the economy should be open in principle, and closed only as an exception."

Now, I cannot claim that the government of the United States is entirely innocent when it comes to regulations. In some areas, we regulate too much; in others, not enough. But we make a point of regularly reviewing our government's regulations to judge their merits.

In recent years, we have carried out systematic deregulation in various industries, including banking and finance, telecommunications and transportation. By virtually every measure, deregulation has delivered tremendous benefits to American consumers, fostered innovation and enhanced the competitive strength of our industries. It has been a success.

In addition, President Clinton and Vice President Gore are now leading a campaign to "reinvent government" -- that is, to deregulate and streamline our own bureaucracies to make them more responsive to the public.

While Japan must, of course, make its own decisions, the interest and support for deregulation here is obviously growing.

The Economic Reform Research Council's interim report, released two weeks ago, calls for a wholesale review of Japan's regulatory structure. This is an important first step in the right direction, and we look forward to more details in the final report.

I am impressed by the clarity, courage and leadership shown by the Council. I know that I join many others in looking forward to the Council's final

recommendations -- and it will be important to ensure their successful implementation.

The GATT (and APEC), the Framework and the deregulation proposals of the Economic Reform Research Council -- all of these will take some time to show results. Nonetheless, each is an essential element in a comprehensive strategy to revitalize Japan's economy and correct its global trade imbalance.

This will be hard work. It is difficult -- and frustrating -- for any nation to restructure its economy.

My own nation has experienced similar economic changes. Beginning in the 1970s, America went through its own wrenching process of economic transformation. At the time, new words like "bicoastal economy" and "deindustrialization" entered the American vocabulary. There were heavy costs -- people lost their jobs, businesses were closed, families and communities suffered. Our government did not always handle these changes very well, and we allowed our budget deficits to get out of control -- which is, in a sense, the opposite of Japan's problem today.

Despite the pain and heartbreak, however, America is today a much stronger and more productive nation -- and we currently have the highest growth rate of any member of the G-7. Moreover, our government is now taking steps to further strengthen the American economy:

- we are making serious efforts to substantially reduce our budget deficit;
 - we are making investments in the productivity of our workers;
 - we have passed NAFTA after a very difficult and sometimes bitter debate;
- and
- we have a comprehensive health care reform proposal which, if passed, will bolster American competitiveness.

These are actions that many of America's friends, including Japan, have been urging us to take for years.

The stakes are equally high for Japan's own efforts at economic reform. Let there be no doubt: Japan's economic fundamentals are strong. Nonetheless, there is a growing recognition in this country that changes are needed if Japan is to fulfill its responsibilities -- and gain the continued benefits -- of its participation in the global economy.

I am encouraged by the efforts that are already underway to address this challenge.

If Japan pursues a strategy of domestic demand-led growth . . . if Japan deregulates and opens its markets to promote competition . . . if Japan participates more fully in the world economy, then everyone will benefit -- most of all the people of Japan, who will be able to enjoy an improved quality of life.

This, after all, should be the bottom line of economic reform.

I am impressed by the thoughtfulness of the discussions about economic reform now taking place in this country. I look forward to hearing your views -- not only this afternoon, but in the weeks and months ahead.



MINNESOTA HISTORICAL SOCIETY

Copyright in the Walter F. Mondale Papers belongs to the Minnesota Historical Society and its content may not be copied without the copyright holder's express written permission. Users may print, download, link to, or email content, however, for individual use.

To request permission for commercial or educational use, please contact the Minnesota Historical Society.



www.mnhs.org