

Talking Points for Bergsten Group

4/7/94

--I will put the primary emphasis in these remarks on economic issues, given the interests of the group. However, I will start by making one thing perfectly clear. Our **disagreements about economic issues do not** amount to a **"trade war,"** nor do these disagreements threaten our broader relationship with Japan. **We have a strong security relationship and are moving forward with cooperation on global issues.**

--This administration has given a **high priority to lowering trade barriers** around the world. On a multilateral basis we have completed the **Uruguay round** and passed the **NAFTA** agreement. On a bilateral level, we created the **Framework** agreement last year to guide our efforts to bringing more open markets in Japan. By its actions, this administration has been **less protectionist** and more supportive of free trade **than the Reagan and Bush administrations.**

--We need to pursue the bilateral route because **Japan's market is less open than those of other major industrial nations.**

- It absorbs **fewer foreign manufactured products** relative to the size of its economy than any other industrial nation. The ratio of manufactured imports to GDP is less than 4 percent in Japan, close to 8 percent in the United States.
- It has a **lower level of intra-industry trade.**
- It has an extremely **low level of investment by foreign firms.** The United States is the location of 29 percent of the global stock of inward direct investment; Japan 0.7 percent.

Whatever the historical explanations may be for how this situation came about, it is economically and politically unacceptable.

--Our **bilateral approach benefits other nations** as well. We provided the primary pressure to open markets for **beef and rice**, to the direct benefit of **Australia, China, and Thailand.** Just before Admiral Perry's market opening trip to Japan in 1853, British Foreign Secretary Lord Malmesbury said, "Her Majesty's government would be glad to see the trade with

Japan open, but they think it better to leave to the Government of the United States to make the experiment; and if that experiment is successful, Her Majesty's Government can take advantage of its success." How little things change.

--The Framework talks failed to produce acceptable agreement by **February 11** on the first set of "baskets" being negotiated. At that point negotiations ceased and we waited for the Japanese government to come up with a package on its own. That **package** was announced on **March 29**, but in most instances, **it failed to move beyond the Japanese government position of February 11**. We had no choice but to decide that the package was insufficient to resume full negotiations under the Framework umbrella. The Japanese press, many individuals in the Japanese government, and the business community all agreed that the package was unimpressive.

--What happens next remains unclear. We do not want to start trade actions that lead toward retaliation against Japanese export to the United States, but **will have to pursue whatever route is most likely to accomplish our goals of more open markets in Japan**.

--As all you economists know, trade liberalization is not a zero-sum game. **More open markets, greater competition, and lower prices will directly benefit consumers and drive Japanese firms to greater efficiency.**

--There is much talk in Japan about deregulation and greater openness, and we are encouraged by it. However, **little meaningful deregulation is taking place. We cannot wait indefinitely for action.**

--At the macroeconomic level we also seek action. Japan's **large current-account surplus is politically and economically undesirable**, a conclusion shared by other G-7 countries. We recognize that some level of surplus is inevitable, but it should be lower than at present.

--Moves taken by the Japanese government to **stimulate the economy** and thereby bring about a highly significant reduction of the surplus have been

inadequate. The Japanese government needs to take further action. The world is waiting for further Japanese government action on this front.

--On both the macroeconomic and microeconomic side, **Japan has important international responsibilities.** A growing **world economy** depends on a **growing Japanese economy.** Maintenance of an **open world trading system** depends on **open markets in Japan** and other major industrial nations. We hope Japan will step up to these responsibilities.



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