

MANAGING US-JAPAN RELATIONS INTO THE 21ST CENTURY

PREPARED FOR USE IN U.S. -- SEPTEMBER 1994

WHEN I ACCEPTED THE POSITION AS US AMBASSADOR TO JAPAN LAST YEAR, IT WAS WITH THE CONVICTION THAT OUR RELATIONS WITH THIS GREAT NATION WOULD SHAPE OUR FUTURE, THE FUTURE OF THE ASIA-PACIFIC REGION, AND THAT OF THE WORLD. I HAVE BEEN AMBASSADOR FOR A YEAR NOW. I AM MORE CONVINCED THAN EVER THAT THIS IS TRUE.

AT A TIME WHEN WORLD CONFLICTS AND CRISES SHOW NO SIGN OF ABATING, OUR RELATIONSHIP WITH JAPAN PROVIDES A FRAMEWORK FOR NAVIGATING SOME OF THE MOST VEXING UNCERTAINTIES OF THIS ERA. TOGETHER, OUR TWO NATIONS MUST FACE THE GREAT HOPES AND CHALLENGES OF OUR FOREIGN AFFAIRS AGENDA TODAY: THE CHALLENGE FOR AMERICAN LEADERSHIP, IN PARTNERSHIP WITH A TRUSTED ALLY, TO PROVIDE AN ANCHOR FOR REGIONAL STABILITY; TO PROVIDE OPPORTUNITIES FOR GREATER ECONOMIC GROWTH; AND TO FORGE A COMMON WILL TO TACKLE GLOBAL PROBLEMS, SOLUTIONS TO WHICH LIE BEYOND THE SCOPE OF ANY NATION ALONE.

IN MY FIRST YEAR AS AMBASSADOR, TWO THINGS HAVE STRUCK ME DEEPLY: THE GREAT PROMISE THIS RELATIONSHIP HOLDS FOR CONTRIBUTING TO A BETTER WORLD; AND THE HARD WORK WE BOTH FACE TO KEEP THIS RELATIONSHIP FRUITFUL, CAPABLE OF MATURING TO MEET THE NEEDS AND ASPIRATIONS OF FUTURE GENERATIONS. I AM DEEPLY CONSCIOUS OF THE DIFFICULT CHALLENGES WE FACE IN THE YEARS AHEAD. I INTEND TO DO WHAT I CAN TO HELP OUR TWO NATIONS LIVE UP TO THE GREAT PROMISE WE HOLD FOR EACH OTHER.

LOOKING BACK, THIS PAST YEAR HAS SEEN MAJOR ACCOMPLISHMENTS INVOLVING JAPAN: A SUCCESSFUL CONCLUSION OF THE GATT URUGUAY ROUND; A HISTORIC MEETING OF APEC; A STRENGTHENED COMMITMENT TO DEAL WITH GLOBAL PROBLEMS SUCH AS AIDS AND THE ENVIRONMENT; AND INTENSE COOPERATION TO DEFUSE A NUCLEAR CRISIS IN NORTH KOREA.

BEHIND THESE ACCOMPLISHMENTS, HOWEVER, IS ANOTHER STORY: THAT WITH THE FAULT LINES OF THE COLD WAR DISAPPEARING, DEFINING OUR NATIONAL INTERESTS, AND BUILDING THE INTERNATIONAL CONSENSUS TO HELP US PURSUE THEM HAS BECOMES HARDER TO MANAGE; AND BOTH OUR GLOBAL LEADERSHIP AND THE BILATERAL RELATIONSHIPS WHICH UNDERPIN IT CONSTANTLY RISK BEING UNDERMINED BY THE CENTRIFUGAL FORCES OF THE SHOCK WAVES STILL EMANATING FROM THE PASSING OF AN ERA. IN A WAY, OUR FAILURE TO MAKE SUFFICIENT PROGRESS WITH JAPAN ON BILATERAL ECONOMIC ISSUES IS A TESTAMENT TO THESE DIFFICULTIES.

WITH OLD LANDMARKS GONE, IT IS MORE IMPORTANT THAN EVER TO BUILD ON THE FOUNDATIONS WE SO CAREFULLY NURTURED OVER THE POST-WAR ERA, TO ANCHOR THE SECURITY AND PROSPERITY OF OUR NATIONS IN A SHARED FUTURE. MANAGING THE US-JAPAN RELATIONSHIP, ONE OF AMERICA'S GREAT POST-WAR SUCCESS STORIES, IS A KEY TO THAT FUTURE.

IT IS PERHAPS HUBRIS TO TALK OF "MANAGING" THE US-JAPAN RELATIONSHIP. IT IS A TRIBUTE TO THE DEPTH, BREADTH, AND STRENGTH OF THIS RELATIONSHIP, THAT SO MUCH OF WHAT BINDS US TOGETHER IS BEYOND THE REALM OF OUR TWO GOVERNMENTS.

EVERY DAY, IN AN ELECTRONIC ETHER, BILLIONS OF DOLLARS IN CURRENCY TRANSACTIONS CROSS OUR BORDERS, TO THE NERVE CENTERS OF OUR FINANCIAL MARKETS.

EVERY DAY, TENS OF THOUSANDS OF BUSINESS DECISIONS ON BOTH SIDES OF THE PACIFIC GENERATE A MASSIVE FLOW OF TRADED GOODS AND SERVICES, THE LIFEBLOOD OF MILLIONS OF JOBS IN BOTH COUNTRIES.

EVERY DAY, MILLIONS OF CITIZENS IN BOTH COUNTRIES BUY WALKMEN AND COMPUTERS, USE AIRLINES AND PHONE LINES, WATCH FILMS AND HEAR MUSIC FROM EACH OTHER'S COUNTRIES--COMMERCE AND CULTURE WHICH HAS BECOME PART OF THE VERY FABRIC OF OUR DAILY LIFE.

EVERY DAY THOUSANDS OF TOURISTS FROM EACH COUNTRY ARRIVE TO EXPERIENCE THE WONDER OF THE OTHER'S CULTURE.

EVERY YEAR, THOUSANDS OF STUDENTS CROSS THE PACIFIC, IN BOTH DIRECTIONS, IN PURSUIT OF NEW KNOWLEDGE, A NEW LANGUAGE, AND A NEW CULTURE. THE PERSONAL RELATIONSHIPS THEY DEVELOP WILL LAST A LIFETIME.

MOST OF THIS VIBRANT ACTIVITY IS BEYOND THE CONTROL OF BUREAUCRATS AND POLITICIANS--IT HAS BECOME PART OF THE ORGANIC LIFE OF OUR TWO SOCIETIES, WITH A LIFE AND DESTINY OF ITS OWN. WE CAN ONLY APPLAUD, AND LOOK WITH PRIDE AT HOW FAR WE HAVE COME: ENEMIES OF FIFTY YEARS AGO, NOW JOINED IN PEACE.

GOVERNMENTS CAN NEVER SUBSTITUTE FOR THE CONTENT OF THESE TIES. NEVERTHELESS, GOVERNMENTS DO HAVE THE RESPONSIBILITY TO PROVIDE THE GUIDEPOSTS WHICH MAKES THESE LIVING TIES POSSIBLE: THE SECURITY OF OUR NATIONS AND THE REGION; THE COMMITMENT TO ECONOMIC RULES AND PRACTICES WHICH ENSURE FREE TRADE AND INVESTMENT; THE ARTICULATION OF SHARED IDEALS AND THE EXERCISE OF LEADERSHIP WHICH HELPS THESE RELATIONS TO GROW AND FLOURISH. MANAGING THESE IS ONE OF THIS CENTURIES GREAT CHALLENGES, FOR BOTH OUR COUNTRIES.

ONE OF AMERICA AND JAPAN'S MOST ENDURING ACHIEVEMENTS, AND A TOUCHSTONE FOR OUR FUTURE GLOBAL PRESENCE, IS THE STRENGTH OF OUR SECURITY ALLIANCE.

OUR ALLIANCE IS FUNDAMENTALLY SOUND. IT IS READY TO MEET THE THREATS OF THE POST-COLD WAR WORLD. IT IS NOT, HOWEVER, WITHOUT ITS CHALLENGES, AND IT WOULD BE FOOLHARDY TO ASSUME IT WILL PERSIST THROUGH INERTIA.

AMERICA'S CHALLENGE IS TO REMAIN ENGAGED IN ASIA--WITH A FORWARD-DEPLOYED MILITARY PRESENCE, AND COMMITTED TO PLAYING OUR ACCEPTED ROLE AS A REGIONAL POWER. FOR OUR PART, WE MUST CONTINUE TO DEFINE OUR NATIONAL INTERESTS ON A GLOBAL SCALE, AND RESIST THE TEMPTATION TO RETREAT INTO

ISOLATIONISM. MAINTAINING THIS COMMITMENT, WHEN OUR NATIONAL FOCUS IS ON DOMESTIC ISSUES, AND WHEN ALL BUDGETS ARE SHRINKING, WILL NOT BE EASY.

JAPAN'S CHALLENGE IS TO MAINTAIN DOMESTIC SUPPORT FOR AN ALLIANCE BASED ON U.S TROOPS STATIONED IN JAPAN --AN ALLIANCE WHICH MUST JUSTIFY ITSELF IN THE FACE OF A RADICALLY DIFFERENT WORLD, TO A SOCIETY MORE PRONE TO QUESTION THE DOMESTIC COSTS, BOTH FINANCIAL AND SOCIAL, OF HOSTING AMERICAN TROOPS AND EQUIPMENT ON ITS SOIL.

THE MESSAGE WE MUST BOTH GIVE OUR PEOPLE IS CLEAR. IN THIS CENTURY THE UNITED STATES HAS BEEN DRAWN INTO THREE CONFLICTS IN ASIA AND SACRIFICED TENS OF THOUSANDS OF AMERICAN LIVES TO RESTORE AND MAINTAIN THIS STABILITY. THANKS LARGELY TO THIS AMERICAN SACRIFICE, AND TO OUR CONTINUING MILITARY PRESENCE AND POLITICAL INVOLVEMENT, ASIA TODAY IS FREE OF MAJOR MILITARY CONFLICTS. THIS IN TURN HAS PERMITTED DEMOCRACY IS SPREAD, AND STANDARDS OF LIVING TO RISE DRAMATICALLY.

THERE ARE SOME IN THE U.S. WHO ARGUE THAT THIS VERY SUCCESS MEANS THAT OUR WORK IS DONE. THEY SAY THAT WITH THE END OF THE COLD WAR, WE NEED TO DEVOTE OUR ATTENTION TO AMERICA'S DOMESTIC AGENDA. THEY POINT TO THE PROSPERITY OF KEY COUNTRIES IN THE REGION AND SUGGEST THE TIME HAS COME FOR US TO TURN OVER THE RESPONSIBILITY FOR REGIONAL SECURITY TO OTHERS. THIS SENTIMENT IS UNDERSTANDABLE, BUT I BELIEVE IT IGNORES THE REALITIES OF THE REGION AND THE LESSONS OF HISTORY.

THE FACT IS THAT ONLY A CONTINUING AMERICAN MILITARY PRESENCE, CENTERED ON THE U.S-JAPAN SECURITY TREATY AND SUPPLEMENTED BY OUR OTHER BILATERAL ALLIANCES, CAN MAINTAIN REGIONAL STABILITY FOR THE FORESEEABLE FUTURE. THE UNITED STATES IS ACCEPTED AS AN HONEST BROKER AND OUR MILITARY PRESENCE IS WELCOMED BY ALL THE MEMBERS OF THE ASIA-PACIFIC COMMUNITY, WITH THE POSSIBLE EXCEPTION OF NORTH KOREA. BECAUSE OF LINGERING SUSPICIONS BASED ON HISTORICAL ANIMOSITIES, NO OTHER COUNTRY CAN PLAY THIS ROLE.

WE MUST REMEMBER THAT EVEN WITH THE END OF THE COLD WAR AND WITH ALL THE PROGRESS THAT HAS BEEN MADE IN RESOLVING REGIONAL DISPUTES SUCH AS CAMBODIA, THERE ARE STILL THREATS TO STABILITY IN EAST ASIA. THE MOST VISIBLE REMINDER OF THIS IS NORTH KOREA'S EFFORTS TO ACQUIRE NUCLEAR WEAPONS. ONCE AGAIN IT HAS BEEN THE UNITED STATES WHICH HAS TAKEN THE LEAD IN WORKING WITH THE UNITED NATIONS, JAPAN, THE ROK, AND OTHER KEY COUNTRIES IN ADDRESSING THIS THREAT. THERE ARE ALSO COMPETING TERRITORIAL CLAIMS IN THE SOUTH CHINA SEA AND OTHER FRICTION POINTS THAT CANNOT BE IGNORED.

THE UNITED STATES MUST CONTINUE TO LEAD IN ENSURING REGIONAL STABILITY. TO DO SO, IT NEEDS JAPAN'S ACTIVE SUPPORT. THE HEART OF OUR MILITARY PRESENCE IN EAST ASIA IS OUR BASES IN JAPAN AND THE 47, 000 AMERICAN SERVICEMEN AND WOMEN STATIONED THERE. WITHOUT THESE BASES, WE COULD NOT MAINTAIN THE FORWARD-DEPLOYED CARRIER BATTLE GROUP AND THE AIR FORCE, MARINE, AND ARMY UNITS NECESSARY TO MEET OUR COMMITMENTS.

JAPAN'S CONTRIBUTION TO MAINTAINING OUR FORCES IN THE REGION IS INDISPENSABLE. UNDER AN AGREEMENT CONCLUDED FOUR YEARS AGO, THE GOVERNMENT OF JAPAN IS ASSUMING MORE THAN HALF OF THE COST - SOME \$4 BILLION OR 10% OF JAPAN'S DEFENSE BUDGET - ASSOCIATED WITH OUR BASES. DEDUCTING AMERICAN SALARIES, THIS IS MOST OF THE COST OF STATIONING OUR FORCES HERE. THE REMAINING COST TO THE AMERICAN TAX PAYER - AGAIN ABOUT \$4 BILLION - REPRESENTS LESS THAN 2% OF THE TOTAL U.S. DEFENSE BUDGET.

IN MY JUDGMENT, THIS IS A TREMENDOUS BARGAIN FOR THE AMERICAN TAX PAYER IN WHAT IT CONTRIBUTES TO OUR SECURITY, INFLUENCE, AND PROSPERITY. IT IS ALSO A TREMENDOUS BARGAIN FOR JAPAN. IN SUM THIS ARRANGEMENT SERVES THE INTERESTS OF THE UNITED STATES, JAPAN, THE REGION AND THE WORLD.

RECENTLY, WE PASSED A HISTORICAL WATERSHED IN JAPAN--A SOCIALIST PRIME MINISTER AND HIS PARTY ENDORSED THE U.S.-JAPAN SECURITY TREATY, AND THE U.S. MILITARY PRESENCE IN JAPAN. THIS REMARKABLE CHANGE UNDERSCORES BOTH THE REALITIES OF THE POST-COLD WAR WORLD, WHERE THE U.S IS NO LONGER

REGARDED AS AN IDEOLOGICAL FOE, AND THE PERSISTENT NEED FOR OUR PRESENCE AS A SOURCE OF REGIONAL STABILITY.

AT THE SAME TIME, THE CURRENT JAPANESE GOVERNMENT IS COMMITTING ITSELF THIS YEAR TO ONE OF THE SMALLEST INCREASES EVER IN ITS NATIONAL DEFENSE BUDGET. THIS IS MAINLY A REFLECTION OF JAPAN'S TIGHT BUDGETS, BROUGHT ABOUT BY ITS LONGEST POST-WAR RECESSION. IT IS ALSO, HOWEVER, A SIGN OF THE TIMES: DEFENSE, AND THUS THE U.S.-JAPAN ALLIANCE, WILL NOT AUTOMATICALLY BE ACCORDED PRIVILEGED STATUS, AND WILL HAVE TO COMPETE WITH OTHER DOMESTIC INTERESTS. MANAGING OUR SECURITY RELATIONSHIP IN THIS ENVIRONMENT WILL CLEARLY BECOME MORE COMPLICATED -- FINANCIAL SUPPORT FOR OUR PRESENCE WILL BECOME PART OF A WIDER DEBATE OVER NATIONAL PRIORITIES.

IN CONTRAST WITH THE OVERALL SUCCESS OF OUR SECURITY RELATIONSHIP, OUR ECONOMIC RELATIONS WITH JAPAN REPRESENT FOR US SOME OF THE MOST INTRACTABLE PROBLEMS--BUT ALSO THE RICHEST POTENTIAL GAIN--ON OUR BILATERAL AGENDA. MANAGING THIS PART OF OUR AGENDA HAS TAKEN ME, AND THE REST OF THE GOVERNMENT, AN ENORMOUS AMOUNT OF TIME AND ENERGY. SUCCESS WILL REQUIRE GREAT PERSISTENCE, AND GREAT PATIENCE, NEITHER OF WHICH COME EASY.

COMPETING WITH JAPAN IN THE GLOBAL MARKETPLACE HAS POSED THREE IMPORTANT CHALLENGES TO THE US ECONOMY-- TO IMPROVE OUR MACROECONOMIC PERFORMANCE; TO STIMULATE OUR EXPORT OF COMPETITIVE GOODS AND SERVICES; AND TO DISPLAY THE WILL TO COMPETE IN ONE OF THE WORLD'S MOST EXACTING MARKETS. WE ARE MEETING ALL THESE CHALLENGES.

U.S. PRODUCTIVITY IS UP. THE FEDERAL DEFICIT, A DRAG ON INVESTMENT, AND HENCE OUR FUTURE, IS FINALLY UNDER CONTROL. THE QUALITY OF OUR GOODS AND SERVICES HAS IMPROVED DRAMATICALLY, AND U.S. FIRMS ARE ENJOYING SOLID WORLD-WIDE GROWTH IN EXPORTS. U.S. FIRMS DOMINATE THE LEADING EDGE OF THE HIGH TECH FRONTIER, AND U.S. BUSINESS CONFIDENCE IN ITS ABILITY TO COMPETE IS STRONGER THAN IT HAS BEEN FOR A DECADE. U.S. FIRMS ARE THE MAJOR FOREIGN PRESENCE IN JAPAN, AND THAT PRESENCE GROWS STRONGER BY THE YEAR.



MANY AMERICAN COMPANIES DO VERY WELL IN THIS MARKET. MOST COULD DO MUCH BETTER. MANY MORE WOULD LIKE TO GET IN, BUT FEEL THE DECK IS STACKED AGAINST THEM. AS A GOVERNMENT, OUR JOB IS TO PROVIDE AS MUCH SUPPORT AS POSSIBLE FOR THE US ECONOMIC PRESENCE HERE-- BECAUSE IT REPRESENTS A STRATEGIC INVESTMENT IN AMERICA'S ECONOMIC HEALTH, AND IN AMERICAN JOBS.

I HAVE TALKED TO HUNDREDS OF U.S. EXECUTIVES DURING MY YEAR IN JAPAN--THOSE PASSING THROUGH JAPAN, AND THOSE THAT REPRESENT THEIR COMPANIES ON THE GROUND. NO ONE CAN TELL US OUR FIRMS ARE NOT TRYING HARD ENOUGH, OR THAT WE ARE NOT WILLING TO MAKE LONG-TERM COMMITMENTS TO THIS MARKET--WE ARE. WE HAVE NO CHOICE.

U.S. COMPANIES MUST BE IN JAPAN, NOT ONLY BECAUSE OF THE SIZE OF THE MARKET, AND THE POTENTIAL PROFITS TO BE MADE--BUT FOR STRATEGIC REASONS AS WELL. ACROSS A WIDE RANGE OF INDUSTRIES, THE MAJOR COMPETITORS OF OUR LEADING FIRMS ARE JAPANESE. IF U.S. FIRMS ARE TO COMPETE WORLD WIDE, THEY MUST COMPETE IN JAPAN, HEAD TO HEAD WITH THEIR MAJOR RIVALS. OUR ECONOMIC DESTINY LIES WITH THE ABILITY AND WILLINGNESS OF U.S. FIRMS TO PROVE THEIR EXCELLENCE IN THIS DEMANDING MARKET.

ALTHOUGH U.S. FIRMS RECOGNIZE THE STRATEGIC NEED TO BE IN JAPAN, AND ARE MAKING THE EFFORTS TO SUCCEED IN THIS MARKET, BOTH OUR GOVERNMENTS HAVE A RESPONSIBILITY TO IMPROVE ACCESS TO THIS MARKET.

THE RELATIVE CLOSED NATURE OF THE JAPANESE ECONOMY IS WELL DOCUMENTED. TARIFFS ARE LOW ON AVERAGE, BUT A COMBINATION OF EXCESSIVE REGULATIONS AND INFORMAL BUSINESS PRACTICES IMPEDE IMPORTS AND INVESTMENT. AS A RESULT, JAPAN ABSORBS FAR FEWER MANUFACTURED IMPORTS RELATIVE TO THE SIZE OF ITS ECONOMY THAN ANY OTHER INDUSTRIAL NATION, AND EVEN LESS FOREIGN INVESTMENT.

IN 1991, FOR EXAMPLE, THE STOCK OF FOREIGN DIRECT INVESTMENT IN JAPAN WAS ONLY TWELVE BILLION DOLLARS, AS COMPARED TO 414 BILLION

DOLLARS IN OUR COUNTRY AND 714 BILLION DOLLARS IN THE EUROPEAN COMMUNITY. JAPAN'S RECEPTIVITY TO FOREIGN INVESTMENT IS EVEN LOWER THAN THAT OF MANY DEVELOPING COUNTRIES. WITHOUT A PHYSICAL PRESENCE IN THE JAPANESE MARKET, EXPORTS SIMPLY WILL NOT FLOW HERE TO THE DEGREE THEY COULD.

TO ADDRESS THESE ISSUES, FIFTEEN MONTHS AGO, THE UNITED STATES AND JAPAN AGREED ON A "FRAMEWORK FOR A NEW ECONOMIC PARTNERSHIP." IN THIS "FRAMEWORK," WE PROMISED TO REDUCE OUR FISCAL DEFICIT AND IMPROVE OUR INTERNATIONAL COMPETITIVENESS--AND WE HAVE ALREADY MADE PROGRESS ON BOTH. FOR ITS PART, THE JAPANESE GOVERNMENT PROMISED TO IMPROVE MARKET ACCESS FOR COMBATIVE GOODS AND SERVICES AND TO REDUCE ITS CHRONIC CURRENT-ACCOUNT SURPLUSES THROUGH DOMESTIC DEMAND-LED ECONOMIC GROWTH. JAPAN HAS YET TO MAKE SUBSTANTIAL PROGRESS IN ACHIEVING EITHER OF THESE GOALS.

AS WE FACE DEADLINES UNDER OUR TRADE LAWS AT THE END OF THIS MONTH, WE STILL HAVE HOPE THAT WE WILL MAKE PROGRESS ON THESE ISSUES.

WHILE MANY OF THE TRADE DISPUTES WE HAVE WITH JAPAN MAY SEEM NARROW, THERE IS A BROADER REASON WHY PROGRESS ON THIS FRONT IS SO IMPORTANT: WITH ASIA POISED TO BECOME THE ECONOMIC ENGINE OF THE WORLD, WE CANNOT AFFORD TO HAVE ITS MOST ADVANCED ECONOMY BE ANYTHING BUT A MODEL OF OPENNESS, A FIRM PILLAR OF THE FREE MARKET SYSTEM. JAPANESE LEADERSHIP BY EXAMPLE, IN SUPPORTING FREE AND OPEN MARKETS, IS VITAL TO THE FUTURE OF THE FREE TRADE SYSTEM, AND OUR PRESENCE IN THE REGION. IF JAPAN DOES NOT PURSUE OPENNESS, OTHERS WILL BE TEMPTED TO FOLLOW SUIT--AND PRESSURE IN THE US TO CLOSE OUR OWN MARKETS MAY BECOME IRRESISTIBLE.

THE CHALLENGE NOW FACING JAPAN IS TO RESPOND TO OUR CALLS FOR GREATER OPENNESS, DEREGULATION, AND DOMESTIC STIMULATION WITH FIRM LEADERSHIP--LEADERSHIP ASPIRING NOT TO THE DEFENSE OF ENTRENCHED INTERESTS OF THE STATUS QUO, BUT TO THE NEEDS OF THE FUTURE--A RE-STRUCTURED ECONOMY, WHERE COMPETITION, CONSUMER WELFARE, AND DOMESTIC DEMAND ARE THE DRIVING



FORCES. THIS IS, OF COURSE IN OUR INTERESTS; IRONICALLY, DESPITE THE RESISTANCE THIS FACES JAPAN, THIS IS IN JAPAN'S LONG-TERM ECONOMIC INTEREST AS WELL.

THE CHALLENGE FOR THE US IS TO REMAIN FIRM, FAIR, AND CREDIBLE IN OUR PURSUIT OF ECONOMIC INTERESTS. AT THE SAME TIME, WE MUST DO OUR BEST TO KEEP THE DECIBEL LEVEL OF THIS DEBATE TO A CIVILIZED LEVEL, TO PREVENT IT FROM ERODING THE RESERVOIR OF GOODWILL WE STILL COMMAND IN JAPAN. THIS GOODWILL IS ONE OF OUR GREATEST ASSETS, AND THE FOUNDATION ON WHICH WE PURSUE OUR OTHER INTERESTS. SQUANDERING IT WILL HURT US BOTH, AND ALL INTERESTS, INCLUDING ECONOMIC, WILL SUFFER.

ONE OF THE MOST IMPORTANT WAYS IN WHICH OUR GOVERNMENTS CAN STRENGTHEN THIS FOUNDATION OF GOODWILL IS TO INCREASE OUR SUPPORT FOR EDUCATIONAL AND SCIENTIFIC EXCHANGE--TO BUILD THE HUMAN CONNECTIONS WHICH PROVIDE THE REPOSITORIES OF TRUST AND KNOWLEDGE TO ENABLE US TO WORK TOGETHER MORE EFFECTIVELY.

SINCE THE END OF THE WAR, BEGINNING WITH THE GARIOA PROGRAM, AND CONTINUING WITH THE FULBRIGHT PROGRAM, WE HAVE PROVIDED EXTRAORDINARY OPPORTUNITIES TO JAPANESE WANTING TO STUDY IN THE U.S. THESE PROGRAMS HAVE PROVED TO BE ONE OF OUR SMARTEST INVESTMENTS--THE GRADUATES OF THESE PROGRAMS HAVE GONE ON TO BECOME LEADERS IN JAPANESE SOCIETY, AND HAVE FORMED A CORE OF SOLID SUPPORT FOR OUR OVERALL RELATIONSHIP. WHETHER WITH POLITICIANS, BUSINESSMEN OR OFFICIALS, OUR UNPARALLELED ACCESS AND INFLUENCE IN JAPAN IS DUE IN PART TO THE FACT THAT THE JAPANESE, THROUGH SUCH TIES, ARE COMFORTABLE WITH US AS A PEOPLE, AND DEEPLY ADMIRING OF OUR SOCIETY.

JAPAN HAS ALSO SEEN THE WISDOM OF ENCOURAGING AMERICANS AND OTHERS TO STUDY AND LEARN FROM THEIR COUNTRY. JAPAN PARTICIPATES IN THE FULBRIGHT PROGRAM, AND FUNDS MANY OTHER PROGRAMS AS WELL TO HELP AMERICANS AND OTHERS STUDY AND WORK IN JAPAN. WE NEED TO DO MORE, HOWEVER, AND I HOPE THIS IS ONE AREA WHERE I CAN PERSONALLY MAKE A DIFFERENCE.

THE BALANCE OF OUR STUDENT EXCHANGES HEAVILY FAVORS JAPAN. WHILE 40,000 JAPANESE ARE STUDYING IN US COLLEGES IN ANY GIVEN YEAR, ONLY 1,300 AMERICANS ARE DOING THE SAME IN JAPAN. THERE ARE MANY REASONS FOR THIS, NOT THE LEAST OF WHICH IS THE DIFFICULTY OF LEARNING JAPANESE. BUT I AM CONVINCED WE CAN DO MUCH BETTER.

EDUCATIONAL EXCHANGE IS AT THE HEART OF ACCESS TO EACH OTHERS' TECHNOLOGICAL AND SCIENTIFIC COMMUNITY. JAPAN HAS SUPERB ACCESS TO WHAT WE OFFER--AND THIS ACCESS HAS BEEN KEY TO ITS ASCENDANCY TO AN ECONOMIC SUPERPOWER.

JAPAN NOW HAS A GREAT DEAL TO OFFER US IN THIS REGARD AS WELL. ACCESS TO THESE RESOURCES WILL BE VITAL IF OUR SCIENTISTS ARE TO COOPERATE MORE EFFECTIVELY ON JOINT RESEARCH, AND OUR FIRMS ARE TO KEEP UP WITH THE LATEST JAPANESE TECHNOLOGY. GONE ARE THE DAYS WHEN JAPAN CAN BE DISMISSED AS A SCIENTIFIC AND TECHNOLOGICAL HINTERLAND. HERE AGAIN, HAVE NO CHOICE--TO KEEP UP WITH THE CUTTING EDGE OF MANY FIELDS, WE MUST HAVE A PRESENCE IN JAPAN, AND ACCESS TO THESE RESOURCES.

WE ARE WORKING WITH THE GOVERNMENT OF JAPAN TO MAKE IT EASIER FOR OUR STUDENTS TO STUDY HERE. U.S UNIVERSITIES, AND THE JAPANESE GOVERNMENT HAVE ALSO STARTED VERY PROMISING PROGRAMS FOR BRINGING AMERICAN ENGINEERS HERE TO WORK FOR SHORT PERIODS AT JAPANESE COMPANIES. THESE ARE SMALL STEPS, BUT I BELIEVE THEY CAN HAVE A REAL, LONG-TERM IMPACT ON BOLSTERING OUR COMPETITIVENESS AND HELPING US WORK TOGETHER MORE EFFECTIVELY.

THE ONE AREA WHERE OUR COOPERATION WITH JAPAN HAS BEEN SUPERB HAS BEEN ON GLOBAL ISSUES--ON THE FIGHT AGAINST AIDS, ENVIRONMENTAL PROTECTION FOR EASTERN EUROPE, AND A HOST OF OTHER ISSUES WHICH CUT ACROSS BOUNDARIES. JAPAN HAS CONTRIBUTED BILLIONS OF DOLLARS UNDER THE COMMON AGENDA TO ADDRESS THESE PROBLEMS, AND TOGETHER WE HAVE BEEN ABLE TO LEVERAGE OUR FUNDING AND OUR RESEARCH TO MAKE A REAL DIFFERENCE IN IMPROVING THE GLOBAL QUALITY OF LIFE.

THE CHALLENGE BOTH OUR COUNTRIES FACE IN THIS AREA IS SIMPLY KEEPING THIS SUCCESS STORY ALIVE. THIS ACHIEVEMENT DEMONSTRATES THE BEST OF WHAT TWO COUNTRIES, WITH COMMON IDEALS AND STRONG INTERNATIONAL LEADERSHIP CAN DO. WHAT WE WILL NEED FROM NOW ON IS THE POLITICAL WILL TO CONTINUE GIVING THESE PROGRAMS THE ATTENTION THEY DESERVE. SINCE BOTH AMERICANS AND JAPANESE ARE CONSCIOUS OF HOW DIRECTLY THEIR INDIVIDUAL LIVES ARE AFFECTED BY THESE PROBLEMS, THIS IS ONE AREA WHERE I HAVE GREAT OPTIMISM. OF COURSE, HERE TOO, SHRINKING BUDGETS MAY TAKE THEIR TOLL, BUT WE CAN CREDIBLY ARGUE THAT THESE PROGRAMS REPRESENT AN INVESTMENT IN OUR FUTURE.

IT IS MY HOPE THAT BOTH OUR COUNTRIES FIND THE WISDOM AND STRENGTH TO MANAGE THESE GREAT ASSETS WE SHARE - OUR SECURITY ALLIANCE, OUR ECONOMIC INTERACTION AND OUR GLOBAL COOPERATION- WITH A LONG-TERM VIEW OF THE GREAT BENEFITS THEY HOLD. AS RESPONSIBLE GOVERNMENTS, OUR CHOICES ON HOW WE MANAGE OUR SHARED FUTURE WILL AFFECT EVERY CITIZEN IN SOME WAY. A MORE COMPLEX, MORE UNSTABLE WORLD, MAKES THESE CHOICES MORE DIFFICULT, AND THE STAKES HIGHER, BUT I AM CONFIDENT WE CAN MEET THE CHALLENGES.

THANK YOU.

November 14, 1996 11 53

Text prepared for use in U.S., September, 1994

MANAGING US-JAPAN RELATIONS INTO THE 21ST CENTURY

I ACCEPTED THE POSITION AS US AMBASSADOR TO JAPAN LAST YEAR BECAUSE OF MY CONVICTION THAT OUR RELATIONS WITH THIS GREAT NATION WOULD SHAPE OUR FUTURE, THE FUTURE OF THE ASIA-PACIFIC REGION, AND THAT OF THE WORLD. I HAVE BEEN AMBASSADOR FOR A YEAR NOW. I AM MORE CONVINCED THAN EVER THAT THIS IS TRUE.

AT A TIME OF FUNDAMENTAL CHANGE IN THE WORLD, OUR ALLIANCE WITH JAPAN IS CRUCIAL IN HELPING US NAVIGATE THE UNCERTAINTIES OF THIS NEW ERA. TOGETHER, OUR TWO NATIONS MUST PROVIDE AN ANCHOR FOR REGIONAL STABILITY; PROVIDE OPPORTUNITIES FOR GREATER WORLD ECONOMIC GROWTH; AND TAKE THE LEAD IN FORGING INTERNATIONAL COOPERATION ON GLOBAL PROBLEMS.

LOOKING BACK, THIS PAST YEAR HAS SEEN MAJOR ACCOMPLISHMENTS INVOLVING COOPERATION BETWEEN THE UNITED STATES AND JAPAN: A SUCCESSFUL CONCLUSION OF THE GATT URUGUAY ROUND; A HISTORIC MEETING OF APEC LEADERS; MAJOR NEW BILATERAL INITIATIVES TO DEAL WITH GLOBAL PROBLEMS SUCH AS AIDS, POPULATION, AND THE ENVIRONMENT; AND EFFECTIVE COOPERATION ON A RANGE OF FOREIGN POLICY ISSUES, INCLUDING THE NUCLEAR CRISIS IN NORTH KOREA.

TO ME IT IS SELF EVIDENT THAT THE WORLD'S TWO LARGEST ECONOMIES AND MOST DYNAMIC SOCIETIES HAVE A NATURAL INTEREST IN WORKING TOGETHER TO HELP SHAPE A MORE PROSPEROUS AND PEACEFUL WORLD. HOWEVER, IN MY FIRST YEAR AS AMBASSADOR, I HAVE BEEN STRUCK BY THE CONFLICT BETWEEN THIS IMPERATIVE FOR GREATER COOPERATION AS WE MOVE INTO THE 21ST CENTURY AND THE TENSIONS IN OUR RELATIONSHIP OVER ECONOMIC ISSUES THAT THREATEN THIS COOPERATION.

BOTH AMERICAN AND JAPANESE LEADERS EMPHASIZE THAT WE DO NOT INTEND TO ALLOW THESE ECONOMIC DISPUTES TO HAVE A NEGATIVE EFFECT ON OUR BROADER

STRATEGIC, POLITICAL AND GLOBAL COOPERATION. BUT I AM CONCERNED THAT PROTRACTED AND SOMETIMES ACRIMONIOUS NEGOTIATIONS ON TRADE ISSUES COULD, OVER TIME, SOUR PUBLIC AND EVEN LEADERSHIP ATTITUDES IN EACH COUNTRY TOWARD THE OTHER.

MORE BROADLY, WITH THE FAULT LINES OF THE COLD WAR DISAPPEARING, THE U.S. - JAPAN ALLIANCE AND GLOBAL PARTNERSHIP IS MORE EASILY BUFFETED BY THE COMPETITIVE ELEMENTS IN OUR RELATIONSHIP. AS WE MOVE INTO THE FIFTIETH ANNIVERSARY OF THE END OF THE SECOND WORLD WAR, BOTH SOCIETIES ARE QUESTIONING SOME OF THE FUNDAMENTAL TENETS THAT HAVE GOVERNED OUR RELATIONSHIP OVER THE LAST HALF CENTURY. WITH OLD LANDMARKS ERODING, IT IS MORE IMPORTANT THAN EVER TO BUILD ON THE FOUNDATIONS WE SO CAREFULLY NURTURED TO ANCHOR THE SECURITY AND PROSPERITY OF OUR NATIONS IN A SHARED FUTURE. LEADERS IN BOTH COUNTRIES NEED TO MANAGE THE US-JAPAN RELATIONSHIP TO CONTAIN CENTRIFUGAL FORCES, IDENTIFY AND BUILD ON AREAS OF COOPERATION, AND ENSURE THAT A NEW GENERATION OF AMERICANS AND JAPANESE UNDERSTAND AND APPRECIATE THE TREMENDOUS BENEFITS BOTH SOCIETIES RECEIVE FROM THIS RELATIONSHIP AND THE EVEN GREATER PROMISE FOR THE FUTURE.

#### THE ROLE OF GOVERNMENTS

IN THIS ERA OF GROWING INTERDEPENDENCE, EXPANDING TRADE AND TRAVEL, AND INCREASING DEREGULATION OF ECONOMIC ACTIVITY, IT IS PERHAPS PRESUMPTUOUS TO TALK OF "MANAGING" THE US-JAPAN RELATIONSHIP. MOST OF THE INTERACTIONS BETWEEN OUR TWO COUNTRIES ARE BEYOND THE DIRECT CONTROL OF THE TWO GOVERNMENTS.

- EVERY DAY, BILLIONS OF DOLLARS IN CURRENCY TRANSACTIONS CROSS OUR BORDERS AND TENS OF THOUSANDS OF BUSINESS DECISIONS ON BOTH SIDES OF THE PACIFIC GENERATE A MASSIVE FLOW OF TRADED GOODS AND SERVICES, THE LIFEBLOOD OF MILLIONS OF JOBS IN BOTH COUNTRIES.

- EVERY DAY, HUNDREDS OF THOUSANDS OF CITIZENS IN BOTH COUNTRIES BUY WALKMEN AND COMPUTERS, USE AIRLINES AND PHONE LINES, WATCH FILMS AND HEAR

MUSIC FROM EACH OTHER'S COUNTRIES--COMMERCE AND CULTURE WHICH HAS BECOME PART OF THE VERY FABRIC OF OUR DAILY LIFE.

- EVERY DAY THOUSANDS OF TOURISTS FROM EACH COUNTRY ARRIVE TO EXPERIENCE THE OTHER'S CULTURE.

- EVERY YEAR, THOUSANDS OF STUDENTS CROSS THE PACIFIC, IN BOTH DIRECTIONS, IN PURSUIT OF NEW KNOWLEDGE, A NEW LANGUAGE, AND A NEW ADVENTURE.

THIS VIBRANT ACTIVITY IS NOT ORCHESTRATED BY BUREAUCRATS AND POLITICIANS--IT IS PART OF THE ORGANIC LIFE OF OUR TWO FREE SOCIETIES.

WE CAN TAKE GREAT PRIDE AND SATISFACTION IN THESE EXTENSIVE PRIVATE CONNECTIONS BETWEEN THE TWO COUNTRIES. BUT GOVERNMENTS HAVE NOT BECOME IRRELEVANT TO THE CONDUCT OF OUR RELATIONS.

- ONLY GOVERNMENTS CAN PROVIDE THE SECURITY FRAMEWORK IN WHICH THESE PRIVATE INTERACTIONS CAN FLOURISH;

- ONLY GOVERNMENTS CAN ENSURE THE ESTABLISHMENT AND MAINTENANCE OF ECONOMIC RULES AND PRACTICES WHICH PROVIDE FOR EQUITABLE AND SUSTAINABLE FREE TRADE AND INVESTMENT;

- ONLY GOVERNMENTS CAN FORGE COOPERATIVE EFFORTS TO ADDRESS THE REGIONAL AND GLOBAL CHALLENGES WE ALL FACE ON THE ENVIRONMENT, POPULATION, POVERTY, NUCLEAR NON-PROLIFERATION, AND HEALTH.

- AND THROUGH THE PUBLIC STATEMENTS, GESTURES, AND ACTIONS OF THEIR LEADERS, GOVERNMENTS HAVE AN IMPORTANT INFLUENCE ON THE VIEWS OF THEIR CITIZENS ABOUT THE WORLD AND TOWARD SPECIFIC COUNTRIES.

IN ADDITION, GOVERNMENTS MUST COORDINATE A WIDE RANGE OF SOMETIMES COMPETING FOREIGN POLICY OBJECTIVES TO ENSURE A COHERENT APPROACH TO



INTERNATIONAL RELATIONS. FOR THE U.S. AND JAPAN, TRYING TO STEER OUR INCREASINGLY COMPLEX AND INTENSE INTERACTION IS ONE OF THE GREAT CHALLENGES FACED BY THE LEADERSHIPS OF BOTH OUR COUNTRIES.

MANAGING OUR SECURITY RELATIONSHIP

LET ME TALK FIRST ABOUT THE U.S.-JAPAN SECURITY RELATIONSHIP. THE SECURITY TREATY IS THE FOUNDATION OF OUR ALLIANCE AND THE BASIS FOR PEACE AND STABILITY IN EAST ASIA. THIS ALLIANCE WILL REMAIN THE CORNERSTONE OF OUR FUTURE COOPERATION.

IN THIS CENTURY THE UNITED STATES HAS BEEN DRAWN INTO THREE CONFLICTS IN ASIA AND SACRIFICED TENS OF THOUSANDS OF AMERICAN LIVES TO RESTORE AND MAINTAIN THIS STABILITY. THANKS LARGELY TO THIS AMERICAN COMMITMENT AND TO OUR CONTINUING MILITARY PRESENCE AND POLITICAL INVOLVEMENT, EAST ASIA TODAY IS FREE OF MAJOR MILITARY CONFLICTS. THIS IN TURN HAS PERMITTED DEMOCRACY TO SPREAD, TRADE TO FLOURISH, AND STANDARDS OF LIVING TO RISE DRAMATICALLY.

OUR SECURITY RELATIONSHIP WITH JAPAN IS FUNDAMENTALLY SOUND. I BELIEVE THERE IS BROAD RECOGNITION IN BOTH COUNTRIES THAT EVEN WITH THE END OF THE COLD WAR AND WITH ALL THE PROGRESS THAT HAS BEEN MADE IN RESOLVING REGIONAL DISPUTES SUCH AS CAMBODIA, THERE ARE STILL THREATS TO STABILITY IN EAST ASIA. THE MOST VISIBLE REMINDER OF THIS IS NORTH KOREA'S EFFORTS TO ACQUIRE NUCLEAR WEAPONS. ONCE AGAIN IT HAS BEEN THE UNITED STATES WHICH IS TAKING THE LEAD IN WORKING WITH JAPAN, THE ROK, AND OTHER KEY COUNTRIES IN ADDRESSING THIS THREAT. THERE ARE ALSO COMPETING TERRITORIAL CLAIMS IN THE SOUTH CHINA SEA AND OTHER FRICTION POINTS THAT CANNOT BE IGNORED.

BUT WE FACE NEW CHALLENGES IN MAINTAINING THE HEALTH OF OUR SECURITY ARRANGEMENTS.

IN JAPAN, WE RECENTLY PASSED AN IMPORTANT AND VERY WELCOME WATERSHED -- UNDER THE LEADERSHIP OF PRIME MINISTER MURAYAMA, THE JAPAN

SOCIALIST PARTY ENDORSED THE U.S.-JAPAN SECURITY TREATY AND THE U.S. MILITARY PRESENCE IN JAPAN. THIS SIGNIFICANT SHIFT BY THE POLITICAL PARTY THAT HAS TRADITIONALLY OPPOSED THE US-JAPAN ALLIANCE MEANS THAT WITH THE END OF THE COLD WAR, THERE IS A CONSENSUS ACROSS THE POLITICAL SPECTRUM THAT THE U.S.-JAPAN SECURITY TREATY SERVES JAPAN'S INTERESTS AND IS A SOURCE OF REGIONAL STABILITY. AT THE SAME TIME, THERE IS GREATER PRESSURE ON BASE ISSUES, PARTICULARLY IN OKINAWA WHERE OUR MILITARY IS CONCENTRATED. UNDERSTANDABLY, THE NOISE AND OTHER INTERFERENCES IN DAILY LIFE HAVE BECOME LESS TOLERABLE TO THE CITIZENS AFFECTED AS THE THREAT HAS BECOME LESS APPARENT.

WE ARE WORKING WITH THE GOVERNMENT OF JAPAN TO ADDRESS BASE ISSUES AND TO REDUCE IRRITANTS. BUT BOTH GOVERNMENTS UNDERSTAND THAT TO ENSURE REGIONAL STABILITY THE UNITED STATES MUST CONTINUE TO MAINTAIN A FORWARD DEPLOYED MILITARY PRESENCE IN EAST ASIA. THE HEART OF THIS PRESENCE IS OUR BASES IN JAPAN AND THE 47, 000 AMERICAN SERVICEMEN AND WOMEN STATIONED THERE.

JAPAN'S CONTRIBUTION TO MAINTAINING THESE FORCES IS VITAL. UNDER AN AGREEMENT CONCLUDED FOUR YEARS AGO, THE GOVERNMENT OF JAPAN IS ASSUMING MORE THAN HALF THE COST - SOME \$4 BILLION OR 10% OF JAPAN'S DEFENSE BUDGET - ASSOCIATED WITH OUR BASES. DEDUCTING AMERICAN SALARIES, THIS IS MOST OF THE COST OF OUR FORCES IN JAPAN. THE REMAINING COST TO THE AMERICAN TAX PAYER - AGAIN ABOUT \$4 BILLION - REPRESENTS LESS THAN 2% OF THE TOTAL U.S. DEFENSE BUDGET.

BY ANY STANDARDS, THIS IS A TREMENDOUS BARGAIN FOR THE AMERICAN TAX PAYER. IT IS ALSO A TREMENDOUS BARGAIN FOR JAPAN. IN SUM THIS ARRANGEMENT SERVES THE INTERESTS OF THE UNITED STATES, JAPAN, THE REGION AND THE WORLD, AND IT WILL CONTINUE TO DO SO FOR YEARS TO COME.

#### MANAGING THE ECONOMIC AGENDA

SINCE MY ARRIVAL IN TOKYO LAST FALL, I HAVE SPENT MOST OF MY TIME TRYING TO ADVANCE OUR ECONOMIC AGENDA WITH JAPAN. THIS IS NOT WHAT I HAD IN MIND WHEN I WENT TO TOKYO, BUT THESE PROBLEMS CANNOT BE IGNORED. FULL ACCESS TO THE JAPANESE MARKET IS IMPORTANT TO THE WELFARE OF AMERICAN COMPANIES AND WORKERS AND TO OUR ECONOMIC FUTURE. MOREOVER, CONSTANT BICKERING OVER TRADE ISSUES WEAKENS POLITICAL AND PUBLIC SUPPORT IN BOTH COUNTRIES FOR OUR OVERALL RELATIONSHIP.

WE NEED TO REMEMBER THAT AMERICA RECEIVES TREMENDOUS BENEFITS FROM OUR ECONOMIC INTERACTION. JAPAN IS SECOND ONLY TO CANADA AS A MARKET FOR AMERICAN EXPORTS. LAST YEAR WE SOLD MORE THAN \$60 BILLION THERE. IT IS OUR LARGEST AGRICULTURAL MARKET, AND THIS MONTH ANOTHER IMPORTANT BARRIER TO AMERICAN AGRICULTURAL PRODUCTS - JAPAN'S BAN ON OUR APPLES - IS ABOUT TO BE REMOVED. AND JAPANESE INVESTMENTS IN THE U.S. ARE RESPONSIBLE FOR HUNDREDS OF THOUSANDS OF AMERICAN JOBS AND HAVE BROUGHT NEW TECHNOLOGIES AND MANAGEMENT TECHNIQUES TO U.S. INDUSTRIES.

NEVERTHELESS THERE REMAINS A DEGREE OF IMBALANCE IN THE BENEFITS AND RESPONSIBILITIES IN OUR ECONOMIC RELATIONSHIP. JAPAN'S MARKETS IN KEY SECTORS ARE SUBSTANTIALLY LESS OPEN THAN THOSE OF OTHER INDUSTRIALIZED COUNTRIES, HINDERING THE ABILITY OF OUR COMPETITIVE FIRMS TO GAIN FAIR ACCESS TO THE WORLD'S SECOND LARGEST ECONOMY. ON THE MACROECONOMIC LEVEL, JAPAN IS RUNNING A MASSIVE CURRENT ACCOUNT SURPLUS WITH THE WORLD - MORE THAN \$130 BILLION - WHICH DENIES OTHER COUNTRIES, INCLUDING THE U.S., EXPORT AND GROWTH OPPORTUNITIES.

THE RELATIVELY CLOSED NATURE OF THE JAPANESE ECONOMY IS WELL DOCUMENTED. TARIFFS ARE LOW ON AVERAGE, BUT A COMBINATION OF EXCESSIVE REGULATIONS AND INFORMAL BUSINESS PRACTICES IMPEDE IMPORTS AND INVESTMENT. AS A RESULT, JAPAN ABSORBS FAR FEWER MANUFACTURED IMPORTS RELATIVE TO THE SIZE OF ITS ECONOMY THAN ANY OTHER INDUSTRIAL NATION, AND EVEN LESS FOREIGN INVESTMENT. WITHOUT A PHYSICAL PRESENCE IN THE JAPANESE MARKET THROUGH DIRECT INVESTMENT, EXPORTS SIMPLY WILL NOT FLOW THERE TO THE DEGREE THEY COULD.

SOME IN JAPAN HAVE QUESTIONED THE COMMITMENT OF AMERICAN FIRMS TO COMPETING IN THE JAPANESE MARKET. "YOU DON'T TRY HARD ENOUGH" IS A CHARGE WE HEAR QUITE OFTEN. THERE MAY HAVE BEEN A TIME WHEN THIS WAS A CREDIBLE ALLEGATION, BUT IT IS NO LONGER TRUE. I HAVE TALKED TO HUNDREDS OF U.S. EXECUTIVES DURING MY YEAR IN JAPAN--THOSE PASSING THROUGH JAPAN, AND THOSE REPRESENTING THEIR COMPANIES ON THE GROUND. NO ONE CAN TELL US OUR FIRMS ARE NOT TRYING HARD ENOUGH, OR THAT WE ARE NOT WILLING TO MAKE LONG-TERM COMMITMENTS TO THIS MARKET--THEY ARE. AMERICAN COMPANIES ARE RAPIDLY INCREASING THEIR SHARE OF THE HOME COMPUTER MARKET IN JAPAN; THEY ARE REVOLUTIONIZING THE TOY MARKET; THEY ARE BRING NEW COMPETITION TO THE CELLULAR PHONE MARKET. THESE COMPANIES ARE DEMONSTRATING THAT AMERICA PRODUCES HIGH QUALITY PRODUCTS AT COMPETITIVE PRICES AND CAN SUCCEED IN JAPAN WHEN MARKET BARRIERS ARE LOWERED.

MOST AMERICAN BUSINESS LEADERS RECOGNIZE THAT U.S. COMPANIES MUST BE IN JAPAN, NOT ONLY BECAUSE OF THE SIZE OF THE MARKET, AND THE POTENTIAL PROFITS TO BE MADE--BUT FOR STRATEGIC REASONS AS WELL. ACROSS A WIDE RANGE OF INDUSTRIES, THE MAJOR COMPETITORS OF OUR LEADING FIRMS ARE JAPANESE. IF U.S. FIRMS ARE TO COMPETE WORLD WIDE, THEY MUST COMPETE IN JAPAN, HEAD TO HEAD WITH THEIR MAJOR RIVALS. OUR ECONOMIC DESTINY DEPENDS ON THE ABILITY AND WILLINGNESS OF U.S. FIRMS TO PROVE THEIR EXCELLENCE IN THIS DEMANDING MARKET.

TO ADDRESS THE PROBLEMS IN OUR ECONOMIC RELATIONSHIP, FIFTEEN MONTHS AGO, THE UNITED STATES AND JAPAN AGREED ON A "FRAMEWORK FOR A NEW ECONOMIC PARTNERSHIP." IN THIS "FRAMEWORK," WE PROMISED TO REDUCE OUR FISCAL DEFICIT AND IMPROVE OUR INTERNATIONAL COMPETITIVENESS--AND WE HAVE ALREADY MADE PROGRESS ON BOTH. THE FEDERAL DEFICIT, A DRAG ON PRIVATE INVESTMENT, AND HENCE OUR FUTURE, IS FINALLY UNDER CONTROL. U.S. PRODUCTIVITY IS UP. THE COMPETITIVENESS OF OUR GOODS AND SERVICES HAS IMPROVED DRAMATICALLY, AND U.S. FIRMS ARE ENJOYING SOLID WORLD-WIDE GROWTH IN EXPORTS. U.S. FIRMS DOMINATE THE LEADING EDGE OF THE HIGH TECH FRONTIER, AND THE CONFIDENCE OF U.S.

BUSINESS IN ITS ABILITY TO COMPETE IS STRONGER THAN IT HAS BEEN FOR A DECADE.

FOR ITS PART, THE JAPANESE GOVERNMENT PROMISED TO IMPROVE MARKET ACCESS FOR COMPETITIVE GOODS AND SERVICES AND TO REDUCE ITS CHRONIC CURRENT-ACCOUNT SURPLUSES THROUGH DOMESTIC DEMAND-LED ECONOMIC GROWTH. WHILE WE HAVE REACHED A NUMBER OF IMPORTANT AGREEMENTS ON CONSTRUCTION, MOBILE PHONES, AND INTELLECTUAL PROPERTY RIGHTS; WE HAVE YET TO CONCLUDE AGREEMENTS IN THE PRIORITY AREAS OF THE FRAMEWORK: GOVERNMENT PROCUREMENT, INSURANCE, AND AUTO AND AUTO PARTS. AT THE SAME TIME, JAPAN'S GLOBAL CURRENT ACCOUNT SURPLUS HAS REMAINED AT A VERY HIGH LEVEL AS DOMESTIC ECONOMIC STIMULUS EFFORTS HAVE LAGGED. ACHIEVING PROGRESS ON THE PRIORITY BASKETS AND MACROECONOMIC IMBALANCES HAS PROVEN TO BE MORE DIFFICULT THAT WE ENVISIONED A YEAR AGO.

AS WE FACE DEADLINES UNDER OUR TRADE LAWS AT THE END OF THIS MONTH, WE NEED TO MAKE REAL PROGRESS ON THE ECONOMIC AGENDA. THESE ISSUES ARE NOT SIMPLY A U.S.-JAPAN PROBLEM. THEY ARE A CHALLENGE TO THE WORLD TRADE SYSTEM. WITH THE SUCCESS OF THE URUGUAY ROUND AND THE INCREASING ECONOMIC INTEGRATION OF THE ECONOMIES OF THE ASIA-PACIFIC REGION UNDER APEC, THE INTERNATIONAL COMMUNITY IS MAKING GREAT PROGRESS TOWARD ELIMINATING BARRIERS TO TRADE. BUT THIS PROGRESS IS FRAGILE. WE CANNOT AFFORD TO HAVE THE WORLD'S SECOND LARGEST ECONOMY BE ANYTHING BUT A MODEL OF OPENNESS, A FIRM PILLAR OF THE FREE MARKET SYSTEM.

WE HAVE BEEN URGING JAPAN TO STEP UP TO ITS INTERNATIONAL RESPONSIBILITY TO OPEN FULLY ITS MARKETS, REDUCE ITS EXCESSIVE GLOBAL SURPLUS, AND DEREGULATE IT ECONOMY. THIS WILL BENEFIT THE WORLD, IT WILL BENEFIT THE U.S., AND MOST OF ALL IT WILL BENEFIT THE JAPANESE PEOPLE WHO, BECAUSE OF THE EXTENSIVE MARKET BARRIERS, NOW PAY ON AVERAGE 40% MORE FOR TRADABLE GOODS AND SERVICES THAN DO THE CITIZENS OF OTHER INDUSTRIALIZED COUNTRIES.

BUILDING GLOBAL COOPERATION

ECONOMIC FRICTION WITH JAPAN GETS ALL THE HEADLINES, BUT NO AREA IS MORE IMPORTANT FOR THE FUTURE OF OUR PLANET THAN THE COOPERATION BETWEEN OUR COUNTRIES ON REGIONAL AND GLOBAL ISSUES. OUR RECORD HERE IS IMPRESSIVE BUT HAS GOTTEN VIRTUALLY NO ATTENTION BECAUSE IT IS "GOOD NEWS."

I HAVE ALREADY MENTIONED OUR COOPERATION ON THE NORTH KOREAN NUCLEAR ISSUE. THE U.S. AND JAPAN HAVE ALSO WORKED WITH ASEAN AND OTHER KEY COUNTRIES TO LAUNCH APEC, AN ORGANIZATION THAT IS UNDERTAKING A WIDE VARIETY OF INITIATIVES TO FURTHER ECONOMIC GROWTH AND INTEGRATION OF THE ASIA-PACIFIC REGION. BEYOND ASIA, OUR TWO COUNTRIES, THE LARGEST FINANCIAL CONTRIBUTORS TO THE UNITED NATIONS, COOPERATE CLOSELY IN REFORMING AND STRENGTHENING INTERNATIONAL ORGANIZATIONS, TO INCLUDE SECURITY COUNCIL EXPANSION.

BUT THE REAL UNTOLD STORY IS THE BILATERAL COOPERATION BETWEEN THE U.S. AND JAPAN ON SO-CALLED "GLOBAL ISSUES." AT THE SAME TIME WE AGREED ON THE ECONOMIC FRAMEWORK, WE ALSO LAUNCHED A COMMON AGENDA FOR GLOBAL COOPERATION. IN THE FIFTEEN MONTHS SINCE, WE HAVE PUT IN PLACE MAJOR AGREEMENTS ON THE FIGHT AGAINST AIDS, ON THE POPULATION PROBLEM, ON THE ENVIRONMENT, AND ON COOPERATION IN RESEARCH ON PRE-COMPETITIVE TECHNOLOGIES. JAPAN HAS COMMITTED BILLIONS OF DOLLARS UNDER THE COMMON AGENDA TO ADDRESS THESE PROBLEMS, AND TOGETHER WE HAVE BEEN ABLE TO LEVERAGE OUR FUNDING, AND OUR RESEARCH TO MAKE A REAL DIFFERENCE IN IMPROVING THE GLOBAL QUALITY OF LIFE. THESE ACHIEVEMENTS ARE ONLY THE TIP OF THE ICEBERG OF THE COLLABORATIVE EFFORTS WE HAVE UNDERWAY IN MEDICINE, SCIENCE, OCEANS RESEARCH, NUCLEAR ENERGY, SPACE AND MANY OTHER FIELDS.

IT IS IMPORTANT THAT WE CONTINUE TO EXPAND OUR ACCESS TO JAPANESE SCIENCE AND TECHNOLOGY. JAPAN HAS SUPERB ACCESS TO UNIVERSITY AND GOVERNMENT SPONSORED RESEARCH IN THE U.S. - AND THIS ACCESS HAS BEEN KEY TO ITS ASCENDANCY TO AN ECONOMIC SUPERPOWER. JAPAN NOW IS AT THE FOREFRONT IN MANY OF THESE AREAS, AND AMERICAN SCIENTISTS NEED GREATER ACCESS TO THE RESEARCH UNDER WAY IN JAPAN TO STAY AT THE CUTTING EDGE IN MANY FIELDS. THE



JAPANESE GOVERNMENT HAS ALREADY TAKEN STEPS TO OPEN UP ITS GOVERNMENT RESEARCH TO AMERICANS. WE AND THE JAPANESE HAVE STARTED A VERY PROMISING PROGRAM FOR BRINGING AMERICAN ENGINEERS HERE TO WORK FOR SHORT PERIODS AT JAPANESE COMPANIES. THESE ARE FIRST STEPS, BUT I BELIEVE THEY CAN HAVE A REAL, LONG-TERM IMPACT ON OUR COMPETITIVENESS AND HELP US WORK TOGETHER MORE EFFECTIVELY.

THE U.S. AND JAPAN, THE WORLD'S TWO LARGEST ECONOMIES, THE WORLD'S TWO BIGGEST AID DONORS, AND THE WORLD'S TWO MOST ADVANCED TECHNOLOGICAL SOCIETIES, HAVE A UNIQUE OPPORTUNITY AND INDEED OBLIGATION TO WORK CLOSELY TOGETHER TO CONTRIBUTE TO THE SOLUTION OF THE GLOBE'S MOST PRESSING PROBLEMS.

#### BUILDING HUMAN CONNECTIONS

ONE OF THE MOST IMPORTANT WAYS IN WHICH OUR GOVERNMENTS CAN STRENGTHEN THE FOUNDATION OF THE RELATIONSHIP IS TO INCREASE OUR SUPPORT FOR EDUCATIONAL AND OTHER PERSONNEL EXCHANGES--TO BUILD THE HUMAN CONNECTIONS WHICH PROVIDE THE REPOSITORIES OF TRUST AND KNOWLEDGE TO ENABLE US TO WORK TOGETHER MORE EFFECTIVELY.

SINCE THE END OF THE WAR, UNDER THE FULBRIGHT AND OTHER PROGRAMS, THE U.S. GOVERNMENT HAS HELPED THOUSANDS OF JAPANESE TO STUDY IN THE U.S. THESE PROGRAMS HAVE PROVED TO BE ONE OF OUR SMARTEST INVESTMENTS--THE GRADUATES HAVE GONE ON TO BECOME LEADERS IN JAPANESE SOCIETY AND HAVE FORMED A CORE OF SOLID SUPPORT FOR OUR OVERALL RELATIONSHIP. THERE ARE NOW MORE THAN 40,000 JAPANESE STUDYING AT AMERICAN INSTITUTIONS OF HIGHER LEARNING, BUILDING CONNECTIONS BETWEEN A NEW GENERATION OF JAPANESE AND AMERICANS.

DRAWING ON THE LESSONS OF THE FULBRIGHT PROGRAM, JAPAN NOW FUNDS MANY PROGRAMS TO HELP AMERICANS AND OTHERS TO STUDY AND WORK IN JAPAN. UNDER THE JET PROGRAM, JAPAN BRINGS OVER MORE THAN 2000 AMERICAN COLLEGE GRADUATES EACH YEAR TO TEACH IN JAPANESE SCHOOLS AND WORK IN LOCAL

GOVERNMENT OFFICES. BUT ONLY 1,300 AMERICANS ARE ENROLLED IN JAPANESE UNIVERSITIES. THERE ARE MANY REASONS FOR THIS, NOT THE LEAST OF WHICH IS THE DIFFICULTY OF LEARNING JAPANESE. BUT I AM CONVINCED WE CAN DO MUCH BETTER. IT IS ONE OF MY PERSONAL PRIORITIES DURING MY TENURE IN TOKYO TO FIND WAYS TO GET MORE AMERICANS INTO JAPANESE INSTITUTIONS OF HIGHER LEARNING.

AS WE SEEK TO STRENGTHEN THE HUMAN CONNECTIONS BETWEEN OUR SOCIETIES, WE NEED TO KEEP IN MIND THE AMERICAN AGENDA. WE NEED TO DO A BETTER JOB OF DEVELOPING JAPANESE LANGUAGE SKILLS AND STRENGTHENING THE STUDY OF JAPANESE SOCIETY IN AMERICAN SCHOOLS AND COLLEGES. WE ALSO NEED TO ADDRESS EFFECTIVELY OUR OWN SOCIAL AND ECONOMIC PROBLEMS SO THAT WE RETAIN THE MORAL AUTHORITY AND ECONOMIC POWER NECESSARY TO LEAD AND TO REMAIN AN ATTRACTIVE PARTNER FOR JAPAN AND OTHERS. I AM PARTICULARLY CONCERNED BY THE INCREASING CRIME AND VIOLENCE IN AMERICA THAT NOT ONLY IS A PRESSING DOMESTIC PROBLEM BUT ALSO HAS A GREAT IMPACT ON THE IMAGE OF AMERICAN SOCIETY IN JAPAN AND AROUND THE WORLD. PUTTING OUR OWN HOUSE IN ORDER IS AN ESSENTIAL ELEMENT IN MAINTAINING OUR GLOBAL LEADERSHIP.

#### CONCLUSION

MY MESSAGE IS SIMPLE: WE AND JAPAN CANNOT BUILD THE KIND OF WORLD WE WANT FOR OUR GRANDCHILDREN UNLESS OUR TWO COUNTRIES COOPERATE ACROSS THE FULL RANGE OF BILATERAL, REGIONAL AND GLOBAL ISSUES WE FACE. THE FOUNDATION OF THIS COOPERATION HAS BEEN CAREFULLY BUILT UP OVER THE LAST FIFTY YEARS AND REMAINS SOLID, WITH THE LEADERSHIP IN BOTH COUNTRIES COMMITTED TO ENHANCING OUR TIES. BUT WITH THE END OF THE COLD WAR AND THE PERSISTENCE OF IMBALANCES IN OUR ECONOMIC RELATIONSHIP, THERE ARE NEW STRAINS THAT CAN, OVER TIME, WEAKEN PUBLIC SUPPORT FOR THE RELATIONSHIP. WE CANNOT ALLOW THIS TO HAPPEN.

IT IS INCUMBENT UPON AMERICAN AND JAPANESE LEADERS TO MAINTAIN AND STRENGTHEN OUR SECURITY TIES THAT REMAIN THE KEY TO STABILITY IN EAST ASIA; TO ENHANCE OUR REGIONAL AND GLOBAL COOPERATION; TO RESOLVE OUTSTANDING TRADE ISSUES FOR OUR MUTUAL ECONOMIC BENEFIT AND TO REMOVE A MAJOR SOURCE OF

TENSION IN OUR RELATIONS; AND TO CONTINUE TO BUILD THE HUMAN CONNECTIONS BETWEEN OUR SOCIETIES THAT ARE SO NECESSARY FOR THE FUTURE. NATIONAL GOVERNMENTS HAVE AN ESSENTIAL ROLE TO PLAY IN MANAGING THIS CRITICAL RELATIONSHIP, BUT AMERICAN AND JAPANESE LEADERS IN BUSINESS, THE MEDIA, ACADEMIA, AND AT THE GRASS ROOTS SHARE THIS RESPONSIBILITY. I KNOW I CAN COUNT ON ALL OF YOU TO JOIN ME IN THIS NOBLE ENTERPRISE.



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