

Speech by Ambassador Walter F. Mondale
Kansai Economic Federation
Osaka, Japan
January 28, 1994

I am delighted to be in Osaka and the Kansai region — the commercial and cultural heartland of Japan.

As home to many of Japan's largest and most advanced corporations and financial institutions, this region is well prepared to help lead the way in building Japan's economic future and further strengthening your country's links with the global economy.

Along these lines, I join with all of you in looking forward to the opening later this year of the 24-hour-a-day Kansai International Airport. This new facility promises to add a major economic boost to this area, and it is well-positioned to serve as a crucial transportation hub for the entire Asia-Pacific region.

This morning I also visited the recently-opened Far East headquarters of Procter and Gamble — one of the largest investments of any American company in Japan. My hope is that you will continue to work with your American counterparts, and others, to foster an economic and regulatory environment that will encourage more investments like that of Procter and Gamble and help make the Kansai into the international financial and commercial capital of Northeast Asia in the 21st century.

Since arriving in Japan, I have been very impressed by the quality and talent of your business leadership — and I have learned that many of the best are to be found outside of Tokyo.

At the same time, I realize that many companies are now hurting as a result of the deep, protracted recession and the restructuring of the Japanese economy.

I sense a growing recognition in the business community that many of your country's traditional policies and business practices must be altered to reflect Japan's changing place in the world and its new international responsibilities. These

changes would also help to ease the serious economic tensions which have arisen between your country and mine.

Despite these tensions, it is still important to recall that our relationship is one of the most remarkable international success stories of the past half century. We are allies, partners and friends. We are working very well together in a number of areas.

In the security area, the partnership between the United States and Japan could not be better. Our alliance is the foundation of stability here and throughout the region, and the United States remains fully committed to our security arrangements with Japan.

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 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.

Fortunately, there have been some hopeful developments in recent months.

First, 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.

Second, November's historic APEC 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.

Third, the North American Free Trade Agreement ratified by Congress late last year will help reduce trade barriers and produce new economic opportunities not just in North America, but worldwide.

Finally, the government of Japan recently announced an excellent plan to open the nation's public-works construction market to foreign companies. The plan promises to help reform this troubled sector by making the bidding process more transparent and objective. It represents a historic step forward.

Each of these developments makes clear that we are experiencing an irresistible worldwide trend toward more open markets and freer trade. 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.

Yet, even as American markets continue to be the most open in the world, Japan's markets remain closed in many significant ways. Despite some improvements in recent years, Japan continues to have an over-regulated, managed economy that is not as open as it should be to imports and foreign investment. The result has been enormous trade and current account imbalances with the rest of the world. A highly-valued yen is the financial market's inevitable response to these realities.

These imbalances are simply not sustainable. Neither Japan nor the United States — nor the rest of the world — can afford the inertia of the status quo.

I am impressed by the many voices in your country, especially in the business community, that are now urging Japan to forthrightly address the challenge of economic change.

In his inaugural policy speech to the Diet last 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."

Last month, Keidanren released a report pointing out that "Japan's foremost economic priority must be to restructure and revitalize its economy."

"To achieve these goals," the report said, "it is of foremost importance for Japan to encourage imports and foreign direct investments through economic deregulation and the improvement of market access. . . . In other words, structural reform is synonymous with making the Japanese economy more open and transparent."

Likewise, a report by Keizai Doyukai in November concluded that Japan's economy is at a "crossroads." The group called for structural reforms to "discard and relax regulations" and "to transform the economy into one that is compatible with the rest of the world, is able to provide a better quality of life and [will] maintain the free trading system."

Finally, last month's report by the Economic Reform Research Council — led by Keidanren Chairman Hiraiwa — strongly reinforced other recommendations to make the Japanese economy more responsive to market forces, with the guiding principle that "the economy should be open in principle and closed only as an exception."

All of these are very positive statements, and I know that many of you have been advocating the same actions. Certainly, deregulation and decentralization would help liberate the entrepreneurial vigor and creativity which is one of the greatest strengths of the business community here in the Kansai.

These proposals for economic reform are also consistent with the goals of the joint "Framework for a New Economic Partnership" signed last July by President Clinton and then-Prime Minister Miyazawa — and reaffirmed by the government of Prime Minister Hosokawa.

At the heart of the Framework is an understanding of the international responsibilities which our two countries share. As the two largest economies in the world, both Japan and the United States pledged in the Framework to work together "to promote global growth, open markets and a vital world trading system."

Specifically, the United States 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 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 imports of goods and services.

The United States is already taking significant steps to reduce our deficit and improve our competitiveness. In his State of the Union address the other night, President Clinton made clear his determination to enact additional domestic reforms.

The American economy has now started to grow again at a healthy rate — and, in fact, we are right now the "engine of growth" in the world. But one big engine is no longer sufficient to power the global economy. That is why the world looks to Japan to stimulate its own economy.

As you know all too well, the Japanese economy is experiencing the worst recession in four decades. The most recent projections are not optimistic. Thus, the need is now even greater to carry out a major and sustained fiscal stimulus — which, in turn, will help to reduce your current account surplus.

The Framework agreement also seeks to address sectoral and structural barriers to market access in Japan. We are conducting negotiations in five "baskets." Both of our governments agreed that "tangible progress" must be achieved in improving market access, and we agreed to assess progress by using the "objective criteria, quantitative or qualitative or both as appropriate."

This commitment to use objective indicators is what makes the Framework a breakthrough. In past trade agreements between our two countries, well-meaning but vague language about what results were expected left everyone frustrated. This time, both of our governments decided that we did not want this pattern to be repeated yet again. The indicators we are seeking in the Framework are intended to measure the reality, not just the appearance, of improved market access.

The Framework reflects a commitment on our part to allow market forces to determine trade patterns. We want to move these trade issues from the political and bureaucratic arenas into the marketplace — where they can be settled by consumer choice in an environment of free and fair competition.

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

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

The Framework represents a solemn agreement between the President of the United States and the Prime Minister of Japan. When the top leaders of the world's two major democracies make international commitments to negotiate in good faith, then we should expect that each government will follow through on these commitments. It is essential that our relationship always be based on mutual respect and dignity.

On February 11, the President and the Prime Minister will meet in Washington to review the first agreements that are scheduled to be completed under the Framework. President Clinton wants this summit meeting to be successful — an event that can help move us toward a new era of true economic partnership between our two nations.

Throughout his first year in office, the President has demonstrated that global economic issues are at the very top of his agenda. His personal leadership was instrumental in passage of a major deficit-reduction package, in ratification of the North American Free Trade Agreement, in the success of the historic APEC meetings in Seattle and in the long-awaited conclusion of the Uruguay Round of GATT.

This focus is now turning to Japan. The Framework is the centerpiece of our approach. Our hope is that the United States and Japan can achieve a breakthrough in working together to correct our economic imbalances and pursue growth-oriented, market-opening policies.

We understand that it is a difficult time in Japan, both economically and politically. We have been patient and sensitive to your domestic situation.

But we have seen little evidence so far that government negotiators in Tokyo are really serious about doing what needs to be done to open markets. Nor have we seen much concern for the consequences of a failure to follow through on the promises made in the Framework agreement last July.

It would be a serious misjudgment to assume that the President, the Congress and the American people will accept a bad agreement that does not produce sustained, tangible results.

I appeal to you as experienced and thoughtful business leaders. You understand how much is at stake in the economic relationship between our two countries — how much we have to gain by working together and how much we could lose if this relationship were to be poisoned by mistrust. As the two largest economies in the world, we must step forward and accept our responsibilities to lead the way for a more open and prosperous world economy.

It is in this spirit that I hope we will approach our economic challenges 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