

Speech by Ambassador Walter F. Mondale  
Japan-America Society of Hawaii  
February 14, 1994

I am delighted to be back in Hawaii.

With your close cultural and economic ties to Japan and the other nations of the Pacific Rim, this state is truly America's bridge to Asia.

And today, no region is more important to the United States than Asia. Forty percent of our trade is in this region. Almost two and a half million American jobs are directly related to our exports in Asia. In the years ahead, this region will be the world's center of economic growth, trade, jobs and prosperity. Located in the heart of the Pacific, Hawaii is certain to share in the economic vitality of this region.

Until recently, it was primarily the people and businesses of Hawaii and the West Coast who were fully aware of Asia's importance to America's future. Now, the whole United States understands its growing stake here.

In November, President Clinton hosted the annual meeting of the Asia-Pacific Economic Cooperation forum (or APEC). APEC is the most promising vehicle for greater economic cooperation in the Pacific Rim. It is also consistent with President Clinton's vision of a "New Pacific Community" — based, as he says, on "shared strength, shared prosperity and a shared commitment to democratic values."

It was in Tokyo last July, that President Clinton laid out his vision of the New Pacific Community. That visit also set in motion the process leading to last week's summit in Washington with Prime Minister Hosokawa.

I have come here directly from that summit. In many ways, it was a good meeting. The President and the Prime Minister share a warm personal rapport, and they have much in common: Both are young and vigorous leaders; both are former governors; and both are trying to bring about major reforms in their economies. At the summit, these two leaders had productive talks on a number of issues. And

where they could not agree, they declined to paper over and hide their disagreement — thus reflecting a new maturity in the way our two governments do business.

As you all know, the focus of this disagreement was how to correct the trade imbalance between our two countries. Last July in Tokyo, President Clinton and then-Prime Minister Miyazawa agreed on a "Framework for a New Economic Partnership." It was subsequently reaffirmed by the government of Prime Minister Hosokawa.

At the heart of this agreement was 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 to work together "to promote global growth, open markets and a vital world trading system."

Specifically, the United States promised to reduce our deficit and to improve our international competitiveness.

For its part, Japan promised to stimulate its economy to bring about a "highly significant" decrease in its global current account surplus. Japan also agreed to open its markets to greater imports and foreign investment in five key sectors, or "baskets."

The United States has held up its side of the bargain. We had a tremendous struggle in Congress, but we succeeded in passing a major deficit-reduction package. In the 1995 budget announced last week, the deficit is now pegged to be 40 percent below earlier projections. This means it will shrink for the third year in a row — the first time since President Truman was in the White House. The deficit is still way too high, but at least we are now moving steadily in the right direction.

Partly as a result of these efforts, interest rates in the United States have now come down, inflation has practically disappeared, productivity has improved, and we are getting some very impressive growth in the American economy.

Meanwhile, the Japanese economy continues to experience the worst recession in four decades. (I know you feel the effects of it here.) With much difficulty, the Japanese government finally introduced a stimulus package last week.

But experts agree that its impact is not going to be strong or sustained enough to produce the level of growth which is needed.

In the Framework negotiations on market access, our hope was that at last week's summit the President and the Prime Minister would be able to sign off on agreements in the first three of the "baskets" — government procurement, insurance, and autos and auto parts.

However, a strange reversal took place in these negotiations: The United States, which has the most open markets in the world, was accused of trying to "manage" trade. Yet it is Japan that has been managing trade for decades — and, even within Japan, this is widely acknowledged to be the case. We are asking Japan to "unmanage" its trade by opening markets which remain closed in significant ways.

In the original Framework, both Japan and the United States agreed that, to measure "tangible progress" in opening these markets, we would use "objective criteria," including quantitative indicators. Since July, we have been seeking a decision from Japanese negotiators on what specific indicators to use. However, the Japanese side refused to accept any numerical indicators to measure progress and results — a position that we believe is inconsistent with the terms of the original Framework. The President determined that we could not accept an agreement that did not meet the standards of the Framework.

That is how we arrived at last week's impasse in Washington.

Of course, this outcome was disappointing. It was frustrating, too, because many people — Japanese and Americans alike — hoped that the Framework might end the years of haggling between our two nations and introduce a new era of economic partnership.

But, while all the attention last week was focused on these economic disagreements, we must not lose sight of the fundamental reality that the United States and Japan have diplomatic, security and political relations that are alive and perfectly healthy — and that our overall relationship is sound. Moreover, the

profound economic interdependence between our two countries remains a basic fact of life.

It is important to recall that the relationship between Japan and the United States is one of the most remarkable international success stories of the past half century. We are allies, partners and friends.

In the security area, this partnership could not be any better. Our alliance with Japan is the foundation of stability throughout the Asia-Pacific region. The Cold War is over, but there are still plenty of threats to security in the Pacific. North Korea is only the latest reminder.

Perhaps better than anyone, the people of Hawaii understand how important it is to have stability in this region. Our Pacific Command is headquartered here under the superb leadership of Admiral Charles Larson. Earlier today, I visited "CINCPAC" and heard excellent briefings on our security posture and capabilities in the region.

The bottom line is that we remain fully committed to our security arrangements in the Asia-Pacific region; every country here — with the exception of North Korea — has told us that they want us to stay. And so, while we are reducing our force levels elsewhere in the world, we have made it clear that our presence in Japan, South Korea, Hawaii and elsewhere in this region will remain strong. As a result, we will soon have as many forces in the Asia-Pacific region as we do in Europe — a dramatic shift from only a few years ago. Thus, there should be no doubts about our security alliance with Japan.

On the political front, too, the United States and Japan are working very well together in the United Nations and other multilateral institutions — including the G-7, World Bank and OECD.

The United States and Japan 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. In fact, the one area in the Framework where we did achieve clear success was on a "common agenda" for global cooperation.

We need to keep in mind these broader security, political and global relationships with Japan — and we must prevent our economic differences from spilling over into these other areas. It is really not that hard to do. Over the years, we have had fractious trade disputes with Canada, Europe, South Korea and many other nations. Yet, in no instance have these disputes ruptured our broader relationship with these countries. There is no reason why it should be any different with Japan.

Nonetheless, we cannot be complacent about the large, persistent economic imbalances between Japan and the United States — and between Japan and the rest of the world. Nor can we accept Japan's unwillingness, or inability, to work with us in correcting these imbalances by opening its markets.

Now let's be clear: Some sectors of the Japanese economy are wide open, and many American businesses are doing very well in Japan.

But there are many sectors of the Japanese economy which American and other foreign businesses — and, in fact, many smaller Japanese companies — find it almost impossible to enter. This is due to a whole range of formal regulations, informal "administrative guidance," and keiretsu-style business practices which effectively lock out any new competitors in the market.

Our economic relations should not be seen as a zero-sum game, where Japan must lose if the United States wins. It is a fundamental principle of modern economics — proven time and time again — that both sides win when markets are open.

By boosting domestic demand and opening markets, Japan would be able to strengthen its economy and create new opportunities for both Japanese and foreign companies. These actions would also create new opportunities for Japanese consumers and help improve the constricted living standards of the Japanese people, bringing them more in line with Japan's great wealth as a nation.

During my first five months in Japan, I have already discovered a growing awareness — especially in the business community — that many of the traditional

economic policies and business practices must be altered to reflect Japan's changing place in the world and its new international responsibilities.

In his inaugural policy speech to the parliament 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."

So far, the Prime Minister has found it very difficult to deliver on his pledge. But I believe this is the direction in which Japan must move. The status quo is simply unsustainable.

This is why many people in Japan now talk about the need for their country to undertake a "third opening" to the world — a continuation of the Meiji Restoration and the post-war reconstruction. The inescapable truth is that there is so much strength and vitality to be gained from greater openness to the world. Historically, this has been America's greatest strength; it has been Hawaii's strength, too.

The world is now looking to Japan for more openness. And the world is looking to Japan to take on greater responsibilities for international leadership. Right now, we especially need Japan's economic leadership. A growing world economy depends on a growing Japanese economy. And an open and vital world trading system depends on a Japan whose markets are open.

I believe that Japan is capable of meeting these challenges. And despite our disappointment to date with the Framework negotiations, the United States remains committed to resolving our economic differences with Japan as we further strengthen our security, political and global partnership.



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