

U.S.-JAPAN BUSINESS COUNCIL

JULY 9, 1996

THANKS FOR THOSE KIND WORDS.

MAY I RECOGNIZE TONY KOBAYASHI AND DON FITES, THE CO-CHAIRS OF THE BUSINESS COUNCIL. I KNOW WE ALL TRULY APPRECIATE THE FINE WORK THAT THEY DO. (Also recognized Henry Kaufmann and Dr. Toyoda, who were at the head table to give presentations.)

I ALSO WANT TO SAY A SPECIAL WORD ABOUT THE LOSS OF OUR FRIEND, JERRY JUNKINS, OF TEXAS INSTRUMENTS. NO ONE WORKED HARDER TO MAKE THIS COUNCIL'S EFFORTS EFFECTIVE OR TO STRENGTHEN COOPERATION BETWEEN THE BUSINESSES OF OUR TWO NATIONS THAN DID JERRY JUNKINS. HE WAS A GREAT HELP TO ALL OF US. I KNOW WE WERE ALL SHOCKED AND SADDENED BY HIS SUDDEN AND TRAGIC DEATH. I ALWAYS VALUED HIS IOWA COMMON SENSE.

IT IS A GREAT PLEASURE FOR ME TO ADDRESS THE COUNCIL AGAIN. YOU ARE THE CORE OF OUR ECONOMIC RELATIONSHIP. THIS BUSINESS COUNCIL IS ONE OF THE MOST IMPORTANT ORGANIZATIONS, PUBLIC OR PRIVATE, DEALING WITH US-JAPAN RELATIONS.

I WOULD LIKE TO MAKE A FEW OBSERVATIONS, AND THEN ENTERTAIN YOUR QUESTIONS.

AS YOU KNOW, IN APRIL PRESIDENT CLINTON CAME HERE AT THE INVITATION OF THEIR IMPERIAL MAJESTIES FOR A VERY IMPORTANT AND HIGHLY SUCCESSFUL STATE VISIT. IT WAS COMPREHENSIVE IN SCOPE, DEALING WITH SECURITY, ECONOMIC, DEVELOPMENTAL, CULTURAL AND POLITICAL MATTERS. THE AGREEMENTS WERE SUBSTANTIAL AND SOLID. THE PERSONAL RAPPORT BETWEEN THE PRESIDENT AND THE PRIME MINISTER WAS EXCELLENT. THE JOINT COMMUNIQUÉS DEMONSTRATED THE BREADTH AND DEPTH OF THIS REMARKABLE RELATIONSHIP.

BOTH NATIONS FELT IT WAS NECESSARY TO DEAL IN SOME DEPTH WITH OUR SECURITY RELATIONSHIP AND WE DID. AS YOU KNOW, THE TRAGIC RAPE IN OKINAWA LAST SEPTEMBER IGNITED CONCERNS ABOUT THE IMPACT OF OUR PRESENCE IN JAPAN.

OUR LEADERS SOLIDLY REAFFIRMED OUR COMMITMENT TO THE SECURITY TREATY RELATIONSHIP IN THE POST COLD WAR ERA. WE SIGNED A VERY IMPORTANT ACQUISITION AND CROSS SERVICING AGREEMENT AND WE AGREED TO UPDATE THE GUIDELINES TO ENHANCE

COOPERATION BETWEEN OUR FORCES IN THE CASE OF A CHALLENGE TO JAPAN'S SECURITY. EARLIER, JAPAN HAD EXTENDED THE CRUCIAL HOST NATION SUPPORT SYSTEM AND ADOPTED A NATIONAL DEFENSE POLICY STATEMENT SOLIDLY SUPPORTING THE PRESENCE OF AMERICAN FORCES BASED IN JAPAN AT ABOUT CURRENT LEVELS. WE ALSO AGREED TO TAKE VERY BASIC STEPS ON OKINAWA TO REDUCE IRRITANTS AND TO SHARPLY REDUCE THE EXTENT OF OUR LAND HOLDINGS. THESE ARE SUBSTANTIVE ADJUSTMENTS, NOT FLUFF. THE ALLIANCE IS SOLID.

PRESIDENT CLINTON AND PRIME MINISTER HASHIMOTO ALSO REAFFIRMED OUR COOPERATIVE EFFORTS ACROSS A BROAD RANGE OF POLITICAL ISSUES, INCLUDING THE KEDO EFFORT TO DISCOURAGE NUCLEAR WEAPONS ON THE KOREAN PENINSULA, EFFORTS TO SEEK PEACE IN THE MIDDLE EAST AND ELSEWHERE, SUPPORT FOR JAPAN'S MEMBERSHIP ON THE U.N. SECURITY COUNCIL, AND EFFORTS TO MODERNIZE THE UNITED NATIONS.

IN ADDITION, WE CONTINUED TO MOVE FORWARD ON THE HIGHLY SUCCESSFUL "COMMON AGENDA," INVOLVING OUR MUTUAL EFFORTS WORKING WITH THIRD COUNTRIES ON HEALTH (INCLUDING AIDS), ENVIRONMENT, EDUCATION, AND OTHER ISSUES. AT THE SUMMIT WE ADDED THE GROWING PROBLEM OF INFECTIOUS DISEASES AND THE GROWING CHALLENGE OF TERRORISM TO THE LIST.

WE ALSO MADE GOOD PROGRESS IN AN AREA OF GREAT INTEREST TO ME: INCREASING THE NUMBER OF AMERICAN STUDENTS STUDYING IN JAPAN. JAPAN AGREED TO INCREASE THE NUMBER OF OUR HIGH SCHOOL AND COLLEGE STUDENTS STUDYING HERE AND THEY WILL INVITE 1,000 AMERICAN TEACHERS TO VISIT ANNUALLY, TOGETHER WITH MORE VISITS BY SCHOOL ADMINISTRATORS, ARTISTS, AND SCIENTISTS. THIS IS A GENEROUS INITIATIVE AND I AM VERY GRATEFUL.

ON TRADE ISSUES, THE PRESIDENT RAISED OUR CONCERNS ABOUT THE NEED TO REACH AN AGREEMENT ON SEMICONDUCTORS AND ON THE IMPLEMENTATION OF THE INSURANCE AGREEMENT. HE ALSO RAISED OUR CONCERNS ABOUT CIVIL AVIATION MATTERS AND ABOUT THE COLOR FILM CASE THAT WE HAVE SINCE TAKEN TO THE WTO. OUR LEADERS REAFFIRMED THEIR COMMITMENT TO THE FRAMEWORK AGREEMENT CALLING FOR INCREASED ACCESS AND SALES OF AMERICAN AND OTHER FOREIGN PRODUCTS IN THIS MARKET.

AS YOU KNOW, THE LEADERS JUST MET IN LYONS, FRANCE WHERE THEY MADE A COMMITMENT TO RESOLVE THE SEMICONDUCTOR AND INSURANCE ISSUES BY THE END OF THIS MONTH.

SO WHERE DOES OUR ECONOMIC RELATIONSHIP STAND NOW?

ON THE POSITIVE SIDE, I BELIEVE SIGNIFICANT PROGRESS HAS BEEN MADE IN RECENT YEARS:

-- THREE YEARS AGO JAPAN'S GLOBAL AND BILATERAL TRADE SURPLUS WAS HIGH AND RISING. NOW IT IS FALLING RAPIDLY.

-- OVER THE PAST THREE YEARS WE HAVE SIGNED 21 TRADE AGREEMENTS COVERING A WIDE RANGE OF TROUBLESOME MARKET ACCESS PROBLEMS IN JAPAN. U.S. EXPORTS TO JAPAN HAVE BEEN RISING RAPIDLY, AND THIS IS ESPECIALLY THE CASE IN MANY OF THOSE AREAS IN WHICH WE HAVE HAD REACHED AGREEMENTS.

-- THE FINANCIAL SERVICES SECTOR IS OPENING UP WITH PUBLIC AND PRIVATE PENSION FUNDS BECOMING INCREASINGLY OPEN TO FOREIGN INVESTMENT ADVISORY SERVICES.

-- THE CELLULAR PHONE AGREEMENT HAS BEEN A SPECTACULAR SUCCESS.

-- THE SEMICONDUCTOR AGREEMENT HAS BEEN VERY SUCCESSFUL.

-- THE AMERICAN AUTO AND AUTO REPAIR INDUSTRIES REPORTS THAT THEY ARE FINDING NEW OPPORTUNITIES IN THIS MARKET, ALTHOUGH THE AVAILABILITY OF NEW DEALERSHIPS IS STILL DISAPPOINTING.

-- WE ARE SEEING PROGRESS IN THE OPENING OF THE BUILDING MATERIALS MARKET, SO MUCH SO THAT WE ARE HOLDING A BUILDING MATERIALS CONFERENCE IN SEATTLE IN EARLY SEPTEMBER TO ENCOURAGE GREATER PARTICIPATION BY AMERICAN BUSINESSES IN JAPAN.

-- THERE HAS BEEN SOME DEREGULATION IN TELECOMMUNICATIONS SERVICES, AS WELL AS SOME MARKET ACCESS LIBERALIZATION IN PARTS OF THE MARKET, ALTHOUGH THERE IS A LONG WAY TO GO.

-- AGRICULTURAL SALES ARE SOARING.

-- AMERICAN BUSINESSES WITH ACCESS TO THE CONSUMER ARE DOING MUCH BETTER. AMERICAN RETAILERS SUCH AS TOYS R US, THE GAP, TOWER RECORDS, AND CATALOGUE SALES

ARE DOING VERY WELL HERE. SO TOO ARE THE RETAIL SALES OPERATIONS OF ENTERTAINMENT GIANTS INCLUDING DISNEY AND WARNER BROTHERS; AND MANUFACTURERS OF SOPHISTICATED CONSUMER PRODUCTS SUCH AS PC'S HAVE GAINED MARKET SHARE IN RECENT YEARS.

OVERALL, IMPORTS INTO JAPAN ARE RISING FASTER THAN EXPORTS. WHILE SOME OF THIS IS DUE TO THE STRONG YEN, THERE HAVE BEEN IMPORTANT CHANGES IN MARKET ACCESS, SUCH AS THOSE JUST LISTED, WHICH HAVE PERMITTED MARKET FORCES GREATER SCOPE TO OPERATE AS THEY SHOULD.

WITH RISING IMPORTS, JAPAN IS MOVING TOWARD A BETTER MACROECONOMIC BALANCE. THE CURRENT-ACCOUNT SURPLUS PEAKED IN 1993 AT \$130 BILLION, AND ANALYSTS PREDICT IT WILL BE IN THE \$80 BILLION RANGE THIS YEAR. THE BILATERAL TRADE SURPLUS IS ALSO FALLING, FROM A HIGH OF \$67 BILLION IN 1993 ACCORDING TO U.S. DATA, TO WELL UNDER \$60 BILLION THIS YEAR.

THIS IS PROGRESS FROM THE EXPLOSIVE GROWTH IN JAPAN'S SURPLUSES THAT WAS EVIDENT IN 1992 AND 1993. BUT JAPAN IS NOT BACK IN EQUILIBRIUM YET AND THE SURPLUSES ARE STILL TOO HIGH.

FURTHERMORE, WE CONTINUE TO FACE A VARIETY OF MARKET BARRIERS HERE WHICH ARE VERY TROUBLING REGARDLESS OF THE SHRINKING OVERALL TRADE SURPLUSES. A NUMBER OF FACTORS -- FROM HIGH COSTS TO RED TAPE AND IMPEDIMENTS TO OPENING LARGER RETAIL SALES OUTLETS -- CONTINUE TO DISCOURAGE FOREIGN DIRECT INVESTMENT INTO JAPAN. SINCE TRADE FOLLOWS INVESTMENT THIS CONTINUES TO BE VERY TROUBLESOME.

AT THE GOVERNMENT LEVEL, DESPITE THE PROGRESS MADE AND AGREEMENTS SIGNED, WE CONTINUE TO WRESTLE WITH A NUMBER OF CONTENTIOUS ISSUES. AS YOU KNOW, SEMICONDUCTORS, COLOR FILM, CIVIL AVIATION, AND INSURANCE HAVE BEEN AT THE FOREFRONT OF THE NEGOTIATING AGENDA FOR THE PAST NINE MONTHS. AS YET, I CANNOT REPORT THAT WE ARE NEAR TO AGREEMENT ON ANY OF THEM. I HOPE WE CAN MAKE BREAKTHROUGHS ON SOME OF THEM THIS MONTH.

DESPITE THE PROGRESS THAT HAS BEEN MADE, I MUST CANDIDLY SAY THAT THERE HAVE BEEN SOME FRUSTRATIONS:

-- WHEN WE SOUGHT CONSULTATIONS ON COLOR FILM WE WERE UNABLE TO START BILATERAL DISCUSSIONS.

-- IT TOOK US SEVERAL MONTHS TO BEGIN BILATERAL DISCUSSION ON THE SEMICONDUCTOR QUESTION.

-- ON INSURANCE, I MUST CONFESS PARTICULAR FRUSTRATION, BECAUSE WE ARE DEALING HERE WITH THE IMPLEMENTATION OF AN EXISTING AGREEMENT NOW ALMOST TWO YEARS OLD.

-- ALTHOUGH WE HAVE A CIVIL AVIATION AGREEMENT, AND ALTHOUGH WE HAD REACHED A GENEROUS RESOLUTION OF THE CARGO ISSUES, WE STILL CONFRONT OPPOSITION TO THE GRANTING OF ROUTES AUTHORIZED BY THE AGREEMENT.

-- DOWN THE ROAD WE HAVE OTHER ISSUES TO GRAPPLE WITH, INCLUDING A SEPTEMBER BILATERAL REVIEW OF THE GOVERNMENT AND NTT TELECOMMUNICATIONS PROCUREMENT AGREEMENTS, AREAS WHERE PROGRESS HAS BEEN DISAPPOINTING. AND WE DO NOT SEE ANY PROGRESS WHATEVER IN THE CONSTRUCTION AREA DESPITE A WTO AGREEMENT AND OUR BILATERAL AGREEMENT.

FOR ALL OF THE PROGRESS WE HAVE MADE, JAPAN REMAINS TOO CLOSED AND TOO OVER REGULATED. PERVASIVE KEIRETSU RELATIONSHIPS REMAIN FAR TOO RESISTANT TO MARKET FORCES.

IN PRACTICALLY EVERY CASE, I BELIEVE THE BIG LOSERS ARE THE JAPANESE:

-- CONSUMERS AND BUSINESSES WOULD GREATLY BENEFIT FROM GREATER COMPETITION AND FROM STRONGER RELATIONSHIPS WITH THE MANY LEADING AMERICAN AND OTHER COMPANIES THAT OFFER WORLD-CLASS PRODUCTS AND TECHNOLOGY. JUST THE OTHER DAY THE JAPANESE GOVERNMENT REPORTED THAT THE COST OF LIVING IN TOKYO IS 46 PERCENT HIGHER THAN IN NEW YORK -- AND I BELIEVE THAT IS A CONSERVATIVE ESTIMATE. OTHER DATA SHOW THAT WHILE THE JAPANESE WORK 40 PERCENT LONGER THAN AMERICAN WORKERS, THEIR PRODUCTIVITY OVERALL IS ONLY 55 PERCENT OF THE AMERICAN LEVEL.

-- A MORE OPEN FINANCIAL SYSTEM WOULD GREATLY IMPROVE INEFFICIENT CAPITAL MARKETS THAT COST JAPAN SO MUCH. A RECENT REPORT CONCLUDED THAT CAPITAL INVESTMENT IN JAPAN PRODUCES ONLY 63 PERCENT AS MUCH OUTPUT AS A SIMILAR AMOUNT

OF INVESTMENT IN THE UNITED STATES. THE RESULT OF MORE PRODUCTIVE CAPITAL RETURNS AND HIGH LABOR PRODUCTIVITY IS THAT AMERICAN CONSUMERS CAN SPEND MORE OF THEIR INCOME WHILE SUSTAINING A MUCH HIGHER STANDARD OF LIVING THAN IN JAPAN. THE GAP IS EXPLAINED BY THE WIDE RANGE OF PROTECTED BUSINESSES IN JAPAN.

-- ENHANCED OPPORTUNITY FOR DIRECT INVESTMENT IN JAPAN WOULD BRING NEW INVESTMENTS WITH THE JOBS AND THE ADVANTAGES OF GREATER COMPETITION, REDUCING SOME OF THE INEFFICIENCIES I JUST MENTIONED.

THE CHOICE FOR JAPAN IS CLEAR. THERE ARE MANY AREAS WHERE JAPAN SIMPLY MUST MAKE ITS MARKETS MORE OPEN TO INTERNATIONAL COMPETITION AND FREE THEM FROM BURDENSOME GOVERNMENT REGULATION IF IT IS TO PERFORM WELL IN THE FUTURE. THIS IS PERHAPS MOST OBVIOUS IN THE TELECOMMUNICATIONS FIELD, WHERE EXPLOSIVE ADVANCES IN TECHNOLOGY ARE OCCURRING. THIS MARKET IS ALREADY LARGER THAN THE AUTO INDUSTRY AND THE GROWTH POTENTIAL FOR BOTH EQUIPMENT MANUFACTURERS AND SERVICE PROVIDERS IS ENORMOUS. AMERICA, WHICH LEADS THE FIELD HAS FOUND THAT ONLY A FREE MARKET CAN ACCOMMODATE THE RAPID, UNANTICIPATED, AND REVOLUTIONARY CHANGES IN TECHNOLOGY AND MARKET OPPORTUNITY. JAPAN SIMPLY CANNOT AFFORD TO BE LEFT BEHIND, BUT WILL NOT BE ABLE TO COMPETE ON THE BASIS OF PROTECTED MARKETS, MONOPOLISTIC ENTITIES, COSTLY FEE STRUCTURES, AND PERVASIVE REGULATION. JAPAN MUST ALLOW THE MARKET TO DO ITS MAGIC IN ORDER TO HARNESS THE POTENTIAL OF TELECOMMUNICATIONS -- WITH LESS REGULATION AND MORE ACCESS FOR FOREIGN FIRMS.

SOMETIMES JAPAN REMINDS ME OF AN ASTRONAUT WHO WANTS TO VISIT THE HEAVENS WHILE INSISTING ON KEEPING ONE FOOT ON THE GROUND. YOU CAN GO TO THE HEAVENS, OR YOU CAN STAY ON THE GROUND, BUT YOU CAN'T DO BOTH.

TRADE IRRITATIONS CONTINUE TO BE THE GREATEST IMPEDIMENT TO SMOOTH U.S.- JAPAN RELATIONS AND ARE A BURDEN TO JAPAN'S ROLE AS A WORLD LEADER. NO NATION HAS MORE TO GAIN FROM AN OPEN WORLD TRADING AND FINANCIAL SYSTEM THAN DOES JAPAN. WE ARE NOT ASKING THE JAPANESE TO DO ANYTHING WE ARE NOT WILLING TO DO OURSELVES. AMERICA IS JAPAN'S AND THE WORLD'S LARGEST OPEN MARKET. OUR GROWTH IN RECENT YEARS HAS PERMITTED JAPAN AND MANY OTHER NATIONS SUFFERING FROM SLOW GROWTH TO TAP OUR MARKETS FOR GROWTH AND PROFITS.

PERMIT ME TO CLOSE BY MAKING AN OBVIOUS POINT: THOSE OF YOU IN THIS ROOM ARE ESSENTIAL TO THIS PROCESS. MANY AMERICAN BUSINESSES ARE DOING VERY WELL IN THIS

MARKET. IT REQUIRES THE BEST PRODUCTS, COMPETITIVE PRICES, PATIENCE, PERSISTENCE, AND, AS YOU KNOW, IT OFTEN REQUIRES DEEP POCKETS. THOSE AMERICAN FIRMS THAT HAVE TAKEN THIS MARKET SERIOUSLY AND WHICH HAVE BEEN ABLE TO FIND SUFFICIENT OPENNESS TO PERMIT SUCCESS, HAVE HAD SOME VERY GOOD RESULTS.

MOREOVER, MANY OF THESE PROBLEMS CAN BE SOLVED AT THE PRIVATE LEVEL AND SHOULD BE WHENEVER POSSIBLE. THE MORE YOU CAN WORK OUT PROBLEMS AMONG YOURSELVES, THE LESS GOVERNMENT NEEDS TO DO. THE MORE YOU SUPPORT THE EFFORT TO MAKE MARKETS IN JAPAN MORE OPEN, THE MORE YOU WILL BENEFIT FROM EXPANDED MARKET OPPORTUNITIES.

WHILE I HAVE TRIED TO CANDIDLY DESCRIBE SOME OF MY FRUSTRATIONS, I MUST ALSO SAY THAT MANY THINGS ARE GOING WELL HERE. OUR SECURITY, POLITICAL, DEVELOPMENTAL AND CULTURAL RELATIONS ARE STRONG AND PRODUCTIVE. THERE HAS BEEN IMPORTANT PROGRESS IN THE ECONOMIC AREA WHILE MUCH REMAINS TO BE DONE.

RELATIONS BETWEEN OUR TWO NATIONS ARE PROBABLY MORE IMPORTANT THAN THOSE BETWEEN ANY OTHER NATIONS ON EARTH. IF WE ARE WORKING WELL TOGETHER PRACTICALLY EVERY SERIOUS WORLD PROBLEM CAN BE BETTER MANAGED OR EVEN SOLVED. BUT A WEAKENED OR RUPTURED BILATERAL RELATIONSHIP CAUSES THOSE SAME PROBLEMS TO BECOME MUCH MORE DIFFICULT TO HANDLE.

THE GOOD NEWS FOR OUR NATION, FOR JAPAN, AND FOR THE REST OF THE WORLD AS WE MEET TODAY IS THAT, DESPITE THE TRADE DIFFICULTIES, JAPAN AND THE UNITED STATES ARE WORKING TOGETHER AS ALLIES AND FRIENDS IN ONE OF THE MOST REMARKABLE PARTNERSHIPS ON EARTH.

BECAUSE THOSE OF YOU IN THIS COUNCIL HAVE DONE SO MUCH TO BRING THIS ABOUT, I WANT TO CLOSE BY THANKING YOU -- JAPANESE AND AMERICANS ALIKE -- FOR THE SUPERB AND INDISPENSABLE EFFORTS YOU ARE MAKING TO FOSTER THE MANY SUCCESSES WE ENJOY TODAY.

THANK YOU.



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