

PRESS RELEASE



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Speech by Ambassador Walter F. Mondale Keidanren Committee on U.S. Affairs

*Tokyo
December 16, 1993
(As delivered)*

Thank you for inviting me to speak here this morning. I wish to thank Mr. Makiyama for his kind introduction — and for his very able leadership of this important committee.

I also wish to express my sympathy and best wishes for one of Japan's foremost business leaders, Akio Morita. He is a friend of mine, and I know that I join with many others in wishing him a speedy recovery. He is a much-needed source of wisdom during this critical period in Japan's economic transition.

Since arriving, I have been very impressed by the quality and talent of Japan's business leadership. At the same time, I realize that many companies are now hurting as a result of the lingering recession and the restructuring that is taking place in the Japanese economy.

I sense a growing recognition in the business community that many of Japan's traditional economic policies and business practices must be altered to reflect Japan's changing place in the world and its new international responsibilities. I also find that business leaders here remain very positive about the need for strong ties between Japan and the United States.

As members of this committee, of course, you have a special interest and concern for the success of the U.S.-Japan relationship in all its dimensions.

This relationship is certainly one of the most remarkable international success stories of the past half century. We are allies, partners and

friends. Our destinies are now inseparable. We are working together in a number of areas.

In the security area, the partnership between the United States and Japan could not be any better. Our alliance is the foundation of stability here and throughout the region. We remain fully committed to our security arrangements here; every country in the region — except North Korea — has told us that they want us to be here. While we are reducing our force levels elsewhere in the world, we have made it clear that our presence in Japan will remain strong. As a result, we will soon have as many forces in Asia as in Europe — a dramatic shift from only a few years ago.

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 United States and Japan are effective partners at the regional level. We worked together to make last month's historic APEC meeting a success. The combined leadership of the United States and Japan will be crucial to ensure the continued prosperity and stability of the Asia-Pacific region.

Likewise, last month's Congressional vote on the North American Free Trade Agreement (NAFTA) — which reaffirmed America's commitment to free trade and open markets —

will help reduce trade barriers and produce new economic opportunities, not just in North America but worldwide. We appreciated Japan's support in this effort.

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.

Japan's huge external surpluses are one of the principal asymmetries in the world economy today. The collapse of your "bubble economy" and the protracted recession have worsened your trade imbalances — not just with the United States, but with almost every one of your trading partners. These imbalances reflect a number of complex factors, but they also show that your economic structure is not as open to imports and foreign investment as the other major economies of the world.

At last July's G-7 summit, Japan pledged to "implement fiscal and monetary measures as necessary, to ensure sustained non-inflationary growth led by strong domestic demand." This reflected a consensus among the G-7 nations that robust growth in the world economy depends on a sustained expansion of domestic consumer demand in Japan. Without this, Japan's huge external surpluses will continue to accumulate — draining demand from an already weak world economy and fueling protectionist pressures.

We also face a number of serious sectoral and structural issues. We have begun to address these problems, and I believe a note of hope is in order.

First of all, 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. The stakes were as high as they get, and the world is grateful to Japan for taking this historic step to open its rice market. By conservative estimates, the success of the Uruguay Round will mean a net gain in annual world income of at least 200 billion dollars by the end of the decade. Japan will be one of the biggest winners.

A second positive step in the economic area is the joint "Framework for a New Economic Partnership" which was signed last July by President Clinton and then-Prime Minister Miyazawa. Prime Minister Hosokawa's government has reaffirmed its commitment to this Framework agreement.

As you know, on February 11 the President and the Prime Minister will meet in Washington to review progress on the negotiations. It will be the first meeting called for under the Framework agreement. Both of our governments understand that it must be a productive and successful meeting.

At the heart of the Framework is a bargain.

The United States has agreed to "reduce its fiscal deficit, to promote domestic saving and to strengthen its international competitiveness" — and we have promised to keep American markets open. For its part, Japan has 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 global imports of goods and services. The United States and Japan have also pledged to work together "to promote global growth, open markets and a vital world trading system."

On sectoral issues, we have agreed that "tangible progress" must be achieved on the objectives laid out in the Framework. We are conducting negotiations in five areas (or "baskets"). We have agreed to assess the progress achieved in each of these baskets by using "objective criteria, either quantitative or qualitative or both as appropriate."

The Framework does not call for single-number "targets" for market share, nor is the United States asking for them. The Framework also does not seek to "manage" trade; instead, it seeks to "un-manage" and expand trade by removing market barriers.

The Framework agreement is best understood in the broader context of U.S.-Japan relations and the global economy. As the two largest economies in the world, the United States and Japan must have a shared vision of our economic objectives — and with this shared vision come shared responsibilities.

The rationale behind the Framework is an understanding that the world's major industrial economies — the United States, Europe and Japan — should be equivalent in terms of their overall openness to imports and investment. It does not mean that we will be identical in every respect. But it does mean that our fundamental economic patterns should be similar.

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

In his inaugural policy speech to the Diet, 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."

I am impressed by the many voices — especially in the business community — who join with the Prime Minister in calling for Japan to deregulate, open its markets, increase consumer choice, stimulate domestic demand and reduce the current account surplus.

As you may recall, each of these goals was also among the key recommendations of the two Maekawa reports. Likewise, many people have been looking forward to the Economic Reform Research Council's final report on deregulation, which is being released today.

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

With its decision to accept rice liberalization under the GATT, for example, Japan has earned the respect and gratitude of the world — and I believe Japanese consumers will ultimately enjoy the benefits.

With the Framework agreement, Japan has signaled that it wants to move toward the

kind of broad economic openness that characterizes the other major industrial nations.

I did not come to your country to tell your government, your people or your businesses what to do. That is not my role, and I will not cross that line.

We do have a special relationship, however. As friends, we have a responsibility to be straightforward and candid with each other. While friends do not try to run each other's affairs, they also do not keep silent when useful advice can be offered in the spirit of friendship.

During the 1980s, at every G-7 meeting, Japan and the other members told the United States — pleaded with us — that we had to get our budget deficits under control. At that time, these deficits were the major asymmetry in the world economy. They were getting worse every year, and we weren't doing anything about it. Our friends in Japan and elsewhere told us that this could not be sustained and that we needed to shape up — for our own good and for the good of the world economy.

You were right. Now the United States is finally attacking these deficits. It was very difficult — and there will be more difficult decisions down the road. But at least now we are headed in the right direction. It was important that Japan and the other G-7 members kept reminding us of the urgency of correcting our deficit.

This is an example of the proper advice that friends owe to each other.

I hope that my own comments this morning — and in the future — will be accepted in this same spirit. The relationship between the United States and Japan must always be based on dignity and respect. We cannot allow our economic problems to produce the frustration and mistrust that would poison this most important relationship. We have too much at stake to permit this to happen.

We should instead be focused on working together as partners to find common ground, resolve our problems and enhance our cooperation. I know this is a time of difficult decisions for your country. As experienced business leaders, you have the knowledge, judgment and leadership to help guide Japan into the future.

If the United States and Japan can work through our economic differences — and we must — then our two great nations will be able to concentrate on using our enormous power and influence to make a difference in addressing the many other problems in the world today.

The recent elections in Russia remind us of how precious our own partnership is. There, we see how an outrageous demagogue, Vladimir Zhirinovsky, can prey on the vulnerability, suffering and desperation of the Russian people. He is a merchant of hate, but his party got the

votes. When we see what has happened in Russia, we realize that the United States and Japan have so much going for us. We are prosperous economies; we are stable democratic societies; and we are committed to working together.

It is in this spirit that I hope we will approach our economic challenges in the coming months. I look forward to working with all of you toward this end.

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[Draft - 12/14/93]
Speech to the Keidanren Committee on U.S. Affairs
December 16, 1993

Thank you for inviting me to speak here this morning. I wish to thank Mr. Makihara for his kind introduction -- and for his very able leadership of this important committee.

I wish to acknowledge Mr. Hiraiwa's superb leadership of Keidanren -- and especially his efforts with the Economic Reform Research Council. This was a major undertaking, and I believe the Council's recommendations will help show the way as Japan prepares for the economic and social challenges ahead.

I also wish to express my sympathy and best wishes for one of Japan's foremost business leaders, Akio Morita, who recently suffered a stroke. His leadership in the U.S.-Japan Business Council, in Keidanren and in other forums has been invaluable. I know that I join with many others in wishing him a speedy recovery. He is a much-needed source of wisdom during this critical period in Japan's economic development.

During my first three months here, I have been meeting with many Japanese business leaders to learn about the challenges facing Japan's economy. I am impressed by the quality and talent of Japan's business leadership and by the continuing achievements of Japanese industry. I realize that many companies are now hurting as a result of the lingering recession, the high yen and the sluggish growth in the world economy.

In this context, there is a growing recognition in the business community that many of Japan's traditional economic policies and business practices must be altered to reflect Japan's changing place in the world and its new international responsibilities. I also find that business leaders here remain very positive about the need for strong ties between Japan and the United States.

As members of this committee, of course, you have a special interest and concern for the U.S.-Japan relationship in all its dimensions.

This relationship is certainly one of the most remarkable international success stories of the past half century. Once bitter enemies have become allies, partners and friends. Our destinies are now inseparable.

In the security area, the partnership between the United States and Japan could not be any better. Our alliance is the foundation of stability in this historically unstable region. The United States remains fully committed to our security arrangements here; every country in the region -- with the exception of North Korea -- has told us that they want us to stay.

While we are reducing our force levels elsewhere in the world, we have made it clear that our presence in Japan will remain unchanged. As a result, we will soon have as many forces in Asia as in Europe -- a dramatic shift from only a few years ago.

When Secretary of Defense Les Aspin visited Japan and Korea in early November, he reaffirmed America's security commitments in the region. His visit was followed at the end of November by Admiral Charles Larson, the commander of all our forces in the Pacific region, who met with top government and military officials in 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 cooperating on a full range of global issues -- environmental protection, health, population, science and aid to developing countries. Tim Wirth, the State Department's new counselor for global affairs (and a former colleague of mine in the U.S. Senate), was here last week to consult with Japanese leaders. He came away very pleased and impressed by the many efforts our two countries are already making, and he is excited about new opportunities for cooperation.

The United States and Japan are also effective partners at the regional level. We worked together to make last month's historic APEC meeting a success. Both of our nations look to APEC not as a trading bloc, but as a building block for a more open regional and global economy. America's involvement in APEC reflects President Clinton's broader vision of a "New Pacific Community" based on shared strength, shared prosperity and shared commitment to freedom and democracy. No region will be more important for American foreign policy in the coming decades than this one. The combined leadership of the United States and Japan will be crucial to ensure the continued prosperity and stability of the Asia-Pacific region.

The difficulties in the U.S.-Japan 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 that does not mean we can be complacent.

Japan's huge external surpluses are the principal asymmetry in the world economy today. The collapse of the bubble economy and the protracted recession have exacerbated Japan's trade imbalances -- not just with the United States, but with almost every one of its trading partners. These imbalances -- the massive current account surpluses which Japan accumulates -- are the inevitable result of an economic structure that is not as open to imports and foreign investment as it should be. The high yen is likewise a reflection of this closed economy, as the world's financial markets respond to the current account surplus by bidding up the value of Japan's currency.

At last July's G-7 summit, Japan pledged to "implement fiscal and monetary measures as necessary, to ensure sustained non-inflationary growth led by strong domestic demand, keeping in mind the need for long-term fiscal prudence." The G-7 declaration reflected a consensus that robust growth in the world economy will depend on a sustained expansion of domestic consumer demand in Japan. Without this, it is likely that Japan's huge external surpluses will continue to accumulate -- draining demand from an already weak world economy and fuelling protectionist pressures.

Despite these problems, I believe a note of hope is not out of order.

First of all, 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 Japan's cooperation and leadership. The stakes were as high as they get, and the world is grateful to Japan for taking this historic step. Prime Minister Hosokawa and his government deserve a lot of credit for their courage in moving forward.

I know that Japan's decision to liberalize the rice market was very, very difficult. As someone who has sat in the political "hot seat" on a few occasions, I understand that there is never a good time to make this kind of controversial decision. But, in order for this GATT round to succeed, every nation had to make sacrifices, confront protected industries and challenge vested economic and political interests. Nonetheless, every country also recognized that these tough choices were necessary for the greater good of a more open international economic system.

A second reason for hope in the economic area is the joint "Framework for a New Economic Partnership" which was signed last July by President Clinton and then-Prime Minister Miyazawa. Prime Minister Hosokawa has reaffirmed his government's solid commitment to follow through on this Framework agreement.

The Framework provides a structure for ongoing economic consultations between our two governments, including twice-a-year meetings between the American President and the Japanese Prime Minister. On February 11, President Clinton and Prime Minister Hosokawa will meet in Washington to review progress on the negotiations. It will be the first meeting authorized under the Framework agreement, and that means the time for heavylifting is drawing near. Both of our governments understand that it must be a productive and successful meeting.

At the heart of the Framework is a bargain between Japan and the United States.

The United States has agreed to "reduce its fiscal deficit, to promote domestic saving and to strengthen its international competitiveness."

For its part, Japan has 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 global imports of goods and services.

The language of the Framework reflects an agreement by the two governments about our responsibilities to each other. We acknowledged that our economic relationship should be "balanced and mutually beneficial." We agreed that we must work together "to promote global growth, open markets and a vital world trading system."

Both of our governments agreed that "tangible progress" must be achieved on the objectives laid out in the Framework. We also agreed to conduct negotiations in five specific areas (or "baskets") to address Japan's sectoral and structural impediments to open trade and investment. We agreed to assess the progress achieved in each of these baskets by using "objective criteria, either quantitative or qualitative or both as appropriate, which will be established using relevant information and/or data that both governments will evaluate."

Now, there has apparently been some confusion here about these objective criteria. Some people say that the United States is demanding "targets." In my experience, a target is a single point which you either hit or miss; you either win or you lose. That is not what we are interested in. As with free trade, we believe that both of our nations can win under the Framework. What we are interested in -- and what the government of Japan has already agreed to -- is the ability to measure our progress toward fulfilling the objectives outlined in the Framework.

The Framework does not try to manage trade with targets; instead, it tries to unmanage and expand trade by removing market barriers. To determine how well we are doing in removing these barriers and increasing market access, we need indicators -- quantitative and qualitative. Japan and the United States have already agreed in the Framework on the need for these indicators. The question is what these specific indicators will be for each "basket." This is precisely what American and Japanese negotiators are now trying to work out.

The Framework agreement is best understood in the broader context of U.S.-Japan relations and the global economy. As the two largest economies in the world, the United States and Japan must have a shared vision of our economic objectives -- and with this shared vision come shared responsibilities. The Framework sets in place a systematic, deliberative, mutual process to realize this shared vision and to help move Japan's economy in a direction more appropriate to its present economic stature.

Underlying the Framework is an understanding that the world's major industrial economies -- the United States, Europe and Japan -- should be equivalent in terms of their overall openness to imports and investment. It does not mean

that we must be identical in every respect. But it does mean that we should be similar in our fundamental economic patterns.

At their meeting last month in Seattle, President Clinton and Prime Minister Hosokawa discussed the importance of Japan moving in a direction that will make its economy look more like the world's other major open economies. This is obviously not going to happen overnight, nor will it be a simple process that can be captured with a single number. In fact, it will require major changes in Japan's traditional economic policies and business practices.

Japan's economic success over the past four decades was built on a strategy of export-led growth. The imperative was to increase domestic savings and investment to fuel export-oriented industries. Domestic consumer demand was suppressed, as were imports and incoming investment.

Although Japan long ago ceased to be a developing nation, your economy to this day performs in a manner which sets it apart from the economies of the other major industrial nations. For whatever reasons -- and I know there is much debate about this -- the numbers clearly show that Japan is not as open to imports and foreign investment.

For example, Japan's ratio of manufactured imports to GDP remains about one-half the G-7 average. This figure has remained roughly constant over the past decade, while the level of imports in other G-7 countries has continued to increase.

Japan also accepts little of the world's foreign investment. Of the global stock of inward direct investment, 38 percent is in Europe, 28 percent is in the United States, and less than one percent is in Japan.

These disparities are repeated at the sectoral level. We see a persistent and repeated pattern: Regardless of the country of origin, foreign goods and services which are competitive everywhere else in the world run into overwhelming barriers in Japan.

Who suffers the most because of these barriers?

American businesses suffer, of course. So do European companies and firms from other Asian countries. They cannot sell and invest in Japan to the extent that they should be able to.

But those who really suffer the most from these barriers are the Japanese people, who must literally "pay the price" for an overregulated and closed economy.

By helping to open markets and boost domestic demand, successful implementation of the Framework will expand Japan's international trade and create new opportunities for companies that wish to do business here. But, even

more, it will create new opportunities for Japanese consumers and help bring the living standards of the Japanese people more in line with Japan's wealth as a nation.

The Framework is an essential step to bring better balance to the U.S.-Japan economic relationship and reduce a source of continuing friction between our two nations. The Framework is also fully consistent with the government of Japan's own stated goal of providing greater benefits to Japanese consumers by restructuring the economy to open markets and expand domestic demand.

In his inaugural policy speech to the Diet in 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."

It is clear that the domestic pressures for these changes in Japan's economic structure are growing stronger. I am impressed by the many voices -- especially in the business community -- who join with the Prime Minister in calling for Japan to deregulate and open its markets, increase consumer choice, stimulate domestic demand and reduce the current account surplus.

As you may recall, each of these goals was also among the key recommendations of the two Maekawa reports in 1986 and 1987. The aim then, as now, was to reward the Japanese people for their hard work by providing them with lower consumer prices and access to the full range of goods and services available in the world marketplace. (In case there was ever any doubt, the new popularity of discount stores and mail-order shopping demonstrates that Japanese consumers want low prices and value for their money -- just like consumers everywhere.)

In line with the Maekawa reports, many people have been looking forward to the Economic Reform Research Council's final report, which is being released today. Although I have not seen this final report, I know some have expressed worries that it may not live up to earlier expectations. Nonetheless, the principles outlined by the Council in its interim report are a good foundation for deregulation. Thorough implementation of the Council's deregulation program will be essential if Japanese consumers are to begin enjoying a larger share of the benefits of Japan's economic miracle and if Japan's economy is to be more in harmony with international standards.

Japan, of course, must make its own decisions about what economic policies it wants. Japan must also live with the consequences of these decisions.

With its decision to accept rice liberalization under the GATT, for example, Japan has earned the respect and gratitude of the world -- and Japanese consumers will ultimately enjoy the benefits of access to the world rice market.

With the Framework agreement, Japan has signalled that it wants to move toward the kind of broad economic openness that characterizes the other major industrial nations. The details are yet to be worked out, however, and these will show the real seriousness of Japan's commitment to achieving this goal.

On economic stimulation and domestic demand-led growth, the government of Japan made a pledge at last July's G-7 summit. Although a stimulus package was announced in September, its economic impact -- as well as that of two previous packages -- seems to be limited. Because so much depends on the health of Japan's economy, it is no exaggeration to say that virtually every other nation in the world is watching to see what Japan will do next.

Finally, there is an issue which has just come up, but which could have grave implications for Japan's international economic relations. This concerns the reverse engineering -- or "decompilation" -- of computer software. A committee of the Cultural Affairs Agency in the Education Ministry is considering a proposal to deny copyright protection to computer software by establishing a broad right to engage in reverse engineering. This right is not recognized in either the United States or Europe, where decompilation is permitted only under special and very limited circumstances. Moreover, Japan's general level of copyright protection for computer software is already considerably weaker than that in either the United States or Europe.

If the Education Ministry accepts this proposal, it would deprive computer software producers of their fundamental economic rights to intellectual property -- rights which are already well established in the United States and Europe. Moreover, this proposal has the potential to destroy the innovative spirit which has been driving the spectacular growth and success of the worldwide information industry.

In its decision on this issue, the government of Japan has the opportunity to join with the United States and Europe in affirming copyright protection for computer software. If it chooses to deny this protection, then it will be isolating itself from the mainstream of international legal and economic opinion.

I did not come to your country to tell the government of Japan, or Japanese business, what to do. That is not my role, and I will not cross that line. The United States and Japan do have a special relationship, however. As friends, we have a responsibility to be straightforward and candid with each other. While friends do not try to run each other's affairs, they also do not keep silent when useful advice can be offered in the spirit of friendship.

During the 1980s, at every G-7 meeting, Japan and the other members told the United States that we had to get our budget deficits under control. At that time, these deficits were the major asymmetry in the world economy. These deficits were

getting bigger and bigger every year. Even worse, we weren't doing anything to stop this trend -- much less reverse it. Our friends in Japan and elsewhere told us that this could not be sustained and that we needed to shape up -- for our own good and for the good of the world economy.

They were right, and now the United States is finally attacking these deficits. It was very difficult, but the new President has shown his leadership and Congress has stepped in line. There will be more difficult decisions down the road, but at least now we are headed in the right direction. We would not be doing this if Japan and the other G-7 members had not kept reminding us of the urgency of correcting our deficit.

This is an example of the proper advice that friends owe to each other.

My own comments this morning are offered in the same spirit. The relationship between the United States and Japan must always be based on dignity and mutual respect. We cannot allow our economic problems to produce the frustration and mistrust that could poison our very special diplomatic relationship. We depend on each other too much to permit this to happen.

We should instead be focused on working together as partners to find common ground and make the most of it. I know this is a time of difficult decisions for your country. As experienced business leaders, your knowledge, judgment and leadership will be essential to help guide Japan into the future.

If the United States and Japan can work through our economic differences -- and I believe we can -- then our two great nations will be able to concentrate on using our enormous power and influence to make a difference in addressing the many other problems in the world today. And we all know that the world has no shortage of problems.

Thank you.

**SPEECH
KEIDANREN COMMITTEE ON U.S. AFFAIRS
DECEMBER 16, 1993**

**THANK YOU FOR INVITING ME TO SPEAK
HERE THIS MORNING. I WISH TO THANK MR.
MAKIHARA FOR HIS KIND INTRODUCTION --
AND FOR HIS VERY ABLE LEADERSHIP OF THIS
IMPORTANT COMMITTEE.**

**I WISH TO ACKNOWLEDGE MR. HIRAIWA'S
SUPERB LEADERSHIP OF KEIDANREN, INCLUDING
HIS EFFORTS WITH THE ECONOMIC REFORM
RESEARCH COUNCIL.**

Ant Okawara

I ALSO WISH TO EXPRESS MY SYMPATHY
AND BEST WISHES FOR ONE OF JAPAN'S
FOREMOST BUSINESS LEADERS, AKIO MORITA.

HIS LEADERSHIP IN THE U.S.-JAPAN BUSINESS
COUNCIL, IN KEIDANREN AND IN OTHER FORUMS
HAS BEEN INVALUABLE.

He is a friend of mine

I KNOW THAT I JOIN WITH MANY OTHERS IN
WISHING HIM A SPEEDY RECOVERY. HE IS A
MUCH-NEEDED SOURCE OF WISDOM DURING THIS
CRITICAL PERIOD IN JAPAN'S ECONOMIC
TRANSITION.

Since January

**DURING MY FIRST THREE MONTHS HERE, I
HAVE BEEN VERY IMPRESSED BY THE QUALITY
AND TALENT OF JAPAN'S BUSINESS
LEADERSHIP. AT THE SAME TIME, I REALIZE
THAT MANY COMPANIES ARE NOW HURTING AS
A RESULT OF THE LINGERING RECESSION AND
THE RESTRUCTURING THAT IS TAKING PLACE
IN THE JAPANESE ECONOMY.**

I sense

**IN THIS CONTEXT, THERE IS A GROWING
RECOGNITION IN THE BUSINESS COMMUNITY
THAT MANY OF JAPAN'S TRADITIONAL
ECONOMIC POLICIES AND BUSINESS PRACTICES**

**MUST BE ALTERED TO REFLECT JAPAN'S
CHANGING PLACE IN THE WORLD AND ITS NEW
INTERNATIONAL RESPONSIBILITIES. I ALSO
FIND THAT BUSINESS LEADERS HERE REMAIN
VERY POSITIVE ABOUT THE NEED FOR STRONG
TIES BETWEEN JAPAN AND THE UNITED
STATES.**

**AS MEMBERS OF THIS COMMITTEE, OF
COURSE, YOU HAVE A SPECIAL INTEREST AND
CONCERN FOR THE U.S.-JAPAN RELATIONSHIP
IN ALL ITS DIMENSIONS.**

**THIS RELATIONSHIP IS CERTAINLY ONE OF
THE MOST REMARKABLE INTERNATIONAL
SUCCESS STORIES OF THE PAST HALF
CENTURY. WE ARE ALLIES . . . PARTNERS . . .
FRIENDS -- AND OUR DESTINIES ARE NOW
INSEPARABLE.**

**IN THE SECURITY AREA, THE PARTNERSHIP
BETWEEN THE UNITED STATES AND JAPAN
COULD NOT BE ANY BETTER. OUR ALLIANCE IS
THE FOUNDATION OF STABILITY IN THIS
HISTORICALLY UNSTABLE REGION.**

**THE UNITED STATES REMAINS FULLY
COMMITTED TO OUR SECURITY ARRANGEMENTS
HERE; EVERY COUNTRY IN THE REGION -- WITH
THE EXCEPTION OF NORTH KOREA -- HAS TOLD
US THAT THEY WANT US TO STAY.**

**WHILE WE ARE REDUCING OUR FORCE
LEVELS ELSEWHERE IN THE WORLD, WE HAVE
MADE IT CLEAR THAT OUR PRESENCE IN JAPAN
WILL REMAIN STRONG. AS A RESULT, WE WILL
SOON HAVE AS MANY FORCES IN ASIA AS IN
EUROPE -- A DRAMATIC SHIFT FROM ONLY A
FEW YEARS AGO.**

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 COOPERATING ON A FULL RANGE OF GLOBAL ISSUES -- ENVIRONMENTAL PROTECTION, HEALTH, POPULATION, SCIENCE AND AID TO DEVELOPING COUNTRIES. TIM WIRTH, THE STATE DEPARTMENT'S NEW COUNSELOR FOR GLOBAL AFFAIRS (AND A FORMER COLLEAGUE OF MINE IN THE U.S. SENATE), WAS HERE LAST WEEK TO CONSULT WITH JAPANESE LEADERS.

HE CAME AWAY VERY PLEASED AND IMPRESSED BY THE MANY EFFORTS OUR TWO COUNTRIES ARE ALREADY MAKING, AND HE IS EXCITED ABOUT NEW OPPORTUNITIES FOR COOPERATION.

THE UNITED STATES AND JAPAN ARE ALSO EFFECTIVE PARTNERS AT THE REGIONAL LEVEL. WE WORKED TOGETHER TO MAKE LAST MONTH'S HISTORIC APEC MEETING A SUCCESS. BOTH OF OUR NATIONS LOOK TO APEC NOT AS A "TRADING BLOC", BUT AS A "BUILDING

**BLOCK" FOR A MORE OPEN REGIONAL AND
GLOBAL ECONOMY.**

**AMERICA'S INVOLVEMENT IN APEC
REFLECTS PRESIDENT CLINTON'S BROADER
VISION OF A "NEW PACIFIC COMMUNITY" BASED
ON SHARED STRENGTH, SHARED PROSPERITY
AND SHARED COMMITMENT TO FREEDOM AND
DEMOCRACY. *and* THE COMBINED LEADERSHIP OF
THE UNITED STATES AND JAPAN WILL BE
CRUCIAL TO ENSURE THE CONTINUED
PROSPERITY AND STABILITY OF THE ASIA-
PACIFIC REGION.**

LIKEWISE, LAST MONTH'S CONGRESSIONAL
VOTE ON THE NORTH AMERICAN FREE TRADE
AGREEMENT -- WHICH REAFFIRMED AMERICA'S
COMMITMENT TO FREE TRADE AND OPEN
MARKETS -- WILL HELP REDUCE TRADE
BARRIERS AND PRODUCE NEW ECONOMIC
OPPORTUNITIES, NOT JUST IN NORTH AMERICA
BUT WORLDWIDE. WE APPRECIATED JAPAN'S
SUPPORT IN THIS EFFORT.

THE DIFFICULTIES IN THE U.S.-JAPAN
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.**

**WITH RESPECT TO MACROECONOMIC
ISSUES, JAPAN'S HUGE EXTERNAL SURPLUSES
ARE THE PRINCIPAL ASYMMETRY IN THE WORLD
ECONOMY TODAY. THE COLLAPSE OF THE
BUBBLE ECONOMY AND THE PROTRACTED
RECESSION HAVE EXACERBATED JAPAN'S
TRADE IMBALANCES -- NOT JUST WITH THE**

**UNITED STATES, BUT WITH ALMOST EVERY ONE
OF ITS TRADING PARTNERS.**

**THESE IMBALANCES REFLECT A NUMBER OF
COMPLEX MACRO- AND MICROECONOMIC
FACTORS, BUT THEY ALSO SHOW THAT
JAPAN'S ECONOMIC STRUCTURE IS NOT AS
OPEN TO IMPORTS AND FOREIGN INVESTMENT
AS THE OTHER MAJOR ECONOMIES OF THE
WORLD.**

**AT LAST JULY'S G-7 SUMMIT, JAPAN
PLEDGED TO "IMPLEMENT FISCAL AND
MONETARY MEASURES AS NECESSARY, TO
ENSURE SUSTAINED NON-INFLATIONARY
GROWTH LED BY STRONG DOMESTIC DEMAND."
THE G-7 DECLARATION REFLECTED A
CONSENSUS THAT ROBUST GROWTH IN THE
WORLD ECONOMY DEPENDS ON A SUSTAINED
EXPANSION OF DOMESTIC CONSUMER DEMAND
IN JAPAN. WITHOUT THIS, JAPAN'S HUGE
EXTERNAL SURPLUSES WILL CONTINUE TO
ACCUMULATE -- DRAINING DEMAND FROM AN**

**ALREADY WEAK WORLD ECONOMY AND FUELING
PROTECTIONIST PRESSURES.**

**AT THE MICROECONOMIC LEVEL, WE FACE A
NUMBER OF SERIOUS SECTORAL AND
STRUCTURAL ISSUES. THE UNITED STATES
AND JAPAN HAVE BEGUN TO ADDRESS THESE
PROBLEMS, AND I BELIEVE A NOTE OF HOPE IS
NOT OUT OF ORDER.**

**FIRST OF ALL, WE HAVE FINALLY BROUGHT
THE URUGUAY ROUND OF THE GATT TO A
SUCCESSFUL CONCLUSION.**



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