

NOV. 4, 1994 -- 3:00 PM

**BEYOND THE FRAMEWORK TALKS:
BUILDING A MATURE U.S.-JAPAN RELATIONSHIP
(AMBASSADOR'S REMARKS, U. OF MD./KEIDANREN)
(NOV. 4, 1994)**

Speaker Dr. DC & F/A

P. Destler

THANK YOU SO MUCH FOR INVITING ME HERE TODAY. I UNDERSTAND THAT MY REMARKS FOLLOW TWO HOURS OF DISCUSSION ON TRADE ISSUES AND PRECEDE A BUFFET RECEPTION. SO I WILL STAY TRUE TO MY LIBERAL ROOTS TONIGHT AND OUT OF MY CONCERN FOR THE HUNGRY AND TIRED, I PROMISE TO KEEP MY REMARKS SHORT.

I REGRET THAT I COULD NOT SIT IN ON THE DISCUSSION YOU HELD TODAY ON GOING BEYOND THE FRAMEWORK TO BUILD A MATURE U.S.-JAPAN RELATIONSHIP. HAD I BEEN HERE, YOU WOULD HAVE HEARD ME SAY THAT IT IS PREMATURE TO MOVE BEYOND THE FRAMEWORK. INDEED, I BELIEVE THAT FULLFILLING ALL OF THE ELEMENTS OF THE FRAMEWORK IS IMPORTANT TO ACHIEVING A MATURE U.S.-JAPAN RELATIONSHIP.

*Barry Lamont
(at home)
signed
the Framework
Approach*

OUR COUNTRIES ENTERED INTO THE FRAMEWORK IN JULY OF 1993 BECAUSE WE WERE BOTH LOOKING FOR A NEW STRATEGIC BARGAIN IN THE POST-COLD

WAR WORLD -- ONE THAT WOULD BRING INTO
BALANCE OUR ECONOMIC RELATIONSHIP WHILE
BROADENING THE SCOPE OF OUR POLITICAL AND
SECURITY PARTNERSHIP.

I BELIEVE THE PESSIMISM WIDELY FOUND
SURROUNDING THE FRAMEWORK PROCESS CAN NOW BE
REPLACED BY GROWING CONFIDENCE THAT, ALTHOUGH
DIFFICULT, THE FRAMEWORK AGREEMENT IS
RESULTING IN SIGNIFICANT PROGRESS AND THE
PROSPECTS FOR FURTHER SUCCESS IS NOW MUCH
MORE HOPEFUL THAN WAS SEEN TO BE THE CASE JUST
A FEW MONTHS AGO.

WE HAVE MADE MUCH PROGRESS. JAPAN HAS
AGREED TO A THREE YEAR DOMESTIC FISCAL
STIMULUS PACKAGE. WE HAVE REACHED AGREEMENTS
IN TELECOMMUNICATIONS, MEDICAL EQUIPMENT, AND
INSURANCE. WE ARE MAKING PROGRESS ON GLASS.

WE ARE NOW WORKING ON AGREEMENTS TO OPEN
THE FINANCIAL MARKETS, INCREASE OPPORTUNITIES
FOR DIRECT INVESTMENT, DEREGULATION, AND THE
ENFORCEMENT OF EXISTING AGREEMENTS IN OTHER
AREAS. WE HOPE TO COMMENCE NEGOTIATIONS
SHORTLY IN THE CRUCIAL AUTO SECTOR.

ALTHOUGH NOT IN THE FRAMEWORK, WE HAVE REACHED AGREEMENTS ON CONSTRUCTION, INTELLECTUAL PROPERTY, AND CELLULAR PHONES.

ALL OF THESE ARE WHAT WE CALL BUILDING BLOCK AGREEMENTS. THEY ESTABLISH OBJECTIVES AND MEASUREMENTS AS A FOUNDATION TO JUDGE OUR PROGRESS AND THAT WILL BE HELPFUL IN REACHING FURTHER AGREEMENTS.

THE KEY TO THE FRAMEWORK AND TO THE ECONOMIC FUTURE OF BOTH OUR COUNTRIES IS FREE AND OPEN MARKETS. THE FRAMEWORK IS NOT A ZERO-SUM GAME. A MORE OPEN JAPANESE MARKET IS ESSENTIAL NOT JUST TO US, BUT TO THE JAPANESE CONSUMER, TO JAPANESE COMPETITIVENESS, TO ALL OF JAPAN'S TRADING PARTNERS AND TO THE PRESERVATION AND EXPANSION OF A HEALTHY WORLD TRADING AND FINANCIAL SYSTEM.

WE HAVE ALL HEARD STORIES OF THE HIGH PRICES HERE. I THINK WE ALL AGREE ON THE CONNECTION BETWEEN THESE HIGH PRICES AND EXCESSIVE REGULATIONS THAT IMPEDE THE ENTRY INTO THE JAPANESE MARKET OF COMPETITIVE FOREIGN GOODS.

JUST THIS WEEK, JAPAN'S ECONOMIC PLANNING AGENCY ISSUED A REPORT POINTING OUT THAT PRICES IN JAPAN ARE HIGHEST ABOVE INTERNATIONAL STANDARDS IN AREAS WHERE JAPAN PROTECTS INEFFICIENT INDUSTRIES. THE REPORT CITED AREAS SUCH AS HOUSING -- WHERE THE COST OF BUILDING A HOUSE IS DOUBLE THAT IN THE U.S.; FOOD -- WHERE THE COST OF BEEF AND RICE ARE STILL WAY ABOVE INTERNATIONAL LEVELS; AND FINANCE -- WHERE THE AVERAGE RETURN ON PENSIONS ARE SIGNIFICANTLY BELOW INTERNATIONAL STANDARDS.

INDEED, WHERE JAPAN HAS OPENED ITS MARKET, PRICES HAVE BEGUN TO FALL -- TO THE OBVIOUS BENEFIT AND RELIEF OF THE JAPANESE CONSUMER:

-- AFTER THE CITRUS AGREEMENT, THE COST OF ORANGE JUICE FELL TO ABOUT HALF WHAT IT WAS BEFORE WE OPENED THE MARKET AND CONSUMPTION IS UP 4 TIMES;

-- DISTRIBUTION IS ANOTHER AREA. AFTER "TOYS ARE US" WAS FINALLY ABLE TO GET INTO THE MARKET HERE, TOY PRICES HAVE DROPPED BY 10 - 40 PERCENT;

-- NOW THAT TOP-QUALITY, LOW-PRICED AMERICAN "PC"S HAVE HIT THE MARKET, THE PRICE OF NEARLY ALL "PC"S HERE HAVE COME CLEAR DOWN WHILE THE QUALITY AND VARIETY HAVE GONE UP;

-- AND THE MOTOROLA AGREEMENT WE REACHED LAST APRIL MEANS THAT THE COST OF A CELLULAR PHONE HAS BEEN CUT IN HALF. BEFORE IT COST \$1,000 TO LEASE A PHONE, YOU COULDN'T BUY ONE. NOW, YOU CAN NOW BUY ONE FOR HALF THAT PRICE. THE CONSUMER RESPONSE HAS BEEN ASTONISHING: SUBSCRIBERS ARE UP FIVE TIMES LAST YEAR'S LEVEL, 500,000 NEW PHONES HAVE BEEN SOLD SINCE APRIL. MANY NEW JAPANESE JOBS HAVE BEEN ADDED. WHAT THE JAPANESE CONSUMER CAN NOW ENJOY IS A MUCH MORE EFFICIENT CELLULAR PHONE SERVICE COMPARED TO THE STAGNANT, BACKWARD SYSTEM SO INAPPROPRIATE TO THE VIBRANT TOKYO-NAGOYA CORRIDOR.

I KNOW THAT STRUCTURAL CHANGE IS DIFFICULT HERE. BUT THE WORLD IS CHANGING AND UNLESS JAPAN ADAPTS TO THIS CHANGE, IT RUNS THE VERY REAL RISK OF BEING LEFT BEHIND.

LOOK AT WHAT HAS HAPPENED IN THE U.S. BY PROMOTING WORLD COMPETITION WE ARE NOW THE

MOST COMPETITIVE AND PRODUCTIVE NATION IN THE WORLD BY A LARGE MARGIN. WE HAVE OUR EDGE BACK IN TELECOMMUNICATIONS, CARS, MEDICAL EQUIPMENT, COMPUTERS , MICROPROCESSORS AND COMPUTER CHIPS, PRINTERS, FINANCIAL SERVICES AND IN A HOST OF OTHER AREAS. THIS HAPPENED BECAUSE WE KEPT OUR MARKETS OPEN AND HAD NO CHOICE BUT TO MEET THE DISCIPLINE OF WORLD COMPETITION.

IN JAPAN, WHEREVER HER COMPANIES COMPETE WITH THE WORLD THEY ARE OFTEN THE VERY BEST -- THIS IS THE CASE WITH CARS AND CONSUMER ELECTRONICS. BUT WHERE THEY PROTECT THEMSELVES FROM WORLD COMPETITION -- IN SUCH AREAS AS RETAILING, CONSTRUCTION, AND FINANCIAL SERVICES -- THEY ARE NOT IMPRESSIVE AND GRADUALLY THESE INDUSTRIES ARE SHRINKING AS COMPETITION MOVES OVERSEAS.

PERHAPS THE CLEAREST EXAMPLE HERE IS THE FINANCIAL MARKETS. EFFICIENT CAPITAL MARKETS ARE ESSENTIAL TO A NATION'S OVERALL COMPETITIVENESS. YET IN THE LAST FEW YEARS WE HAVE SEEN A SHARP SHIFT -- THE "HOLLOWING OUT" OF JAPAN'S FINANCIAL MARKETS. THE NUMBER OF FOREIGN FIRMS LISTED ON THE TOKYO STOCK

EXCHANGE HAS FALLEN FROM 127 IN 1991 TO ONLY 92 NOW. A RECENT REPORT STATED THAT TRADING IN TOKYO IS 25 PERCENT BELOW EXPECTATIONS WHILE SINGAPORE'S EXCHANGE IS TRADING 250 PERCENT ABOVE LAST YEAR'S LEVELS LARGELY ON THE STRENGTH OF JAPAN FUTURES INDEX CONTRACTS.

BY CONTRAST, WHERE DEREGULATION IS OCCURRING IN JAPAN, WE ARE STARTING TO SEE NEW BUSINESS SPRINGING UP. AFTER THE 1989 REFORM IN THE RETAIL LAW, FOR EXAMPLE, APPLICATIONS FOR NEW STORES DOUBLED FROM 800 TO 1600 IN JUST ONE YEAR. AND THE SAME ECONOMIC PLANNING AGENCY REPORT I MENTIONED EARLIER PREDICTS THAT JAPAN'S GDP WOULD RISE 8 PERCENT OVER FIVE YEARS IF THIS ECONOMY WERE DEREGULATED.

NO NATION HAS MORE TO GAIN FROM AN OPEN WORLD TRADING AND FINANCIAL SYSTEM -- AND MORE TO LOSE IF ITS MARKETS ARE CLOSED -- THAN JAPAN. ACCESS TO FOREIGN MARKETS AND CAPITAL IS ESSENTIAL TO HER ECONOMY.

THE ESSENCE OF THE FRAMEWORK AGREEMENT IS OUR MUTUAL RECOGNITION THAT WE CANNOT SIDESTEP OUR TRADE DIFFERENCES. WE MUST FACE THEM DIRECTLY. ONLY BY WORKING OUT THESE

DIFFERENCES TODAY CAN WE HOPE TO CONTRIBUTE TO REGIONAL AND GLOBAL GROWTH INTO THE NEXT CENTURY.

AMERICA'S MARKETS -- THE MOST OPEN IN THE WORLD -- HAVE BEEN THE KEY ELEMENT IN THE JAPANESE ECONOMIC MIRACLE. BUT JAPAN'S FAILURE TO ACCORD TO AMERICAN AND WORLD PRODUCTS ROUGHLY EQUIVALENT ACCESS TO HER OWN MARKETS IS FUELING INCREASING RESENTMENT IN AMERICA.

IT MUST BE NOTED THAT JAPAN'S ASIAN TRADING PARTNERS ALSO ARE HURT BY LIMITED MARKET ACCESS HERE. IN FACT, THEY NOW SUFFER LARGER TRADE DEFICITS WITH JAPAN THAN EVEN THE U.S. FOR YEARS, THE OPEN U.S. MARKET HAS BEEN THE ENGINE OF GROWTH IN ASIA. ALMOST ALL OF THE COUNTRIES OF ASIA DEPEND ON THE U.S. MARKET FOR SOMEWHERE BETWEEN A QUARTER AND A THIRD OF ALL OF THEIR EXPORT EARNINGS.

YET THE SHEER GROWTH OF THE ASIAN-PACIFIC ECONOMIES SUGGESTS THAT WE MAY NO LONGER BE ABLE TO ABSORB THE LEVEL OF EXPORTS FROM JAPAN AND THE REST OF ASIA AS WE HAVE UP TO NOW. WHILE WE WILL REMAIN OPEN, SURELY GROWTH AND STABILITY IN THE ASIA-PACIFIC REGION REQUIRES A

JAPANESE MARKET OPEN TO HER ASIAN TRADING PARTNERS AS WELL.

THIS IS WHERE THE FRAMEWORK COMES IN. THE FRAMEWORK IS THE ESSENTIAL BASIS FOR MOVING FORWARD TOWARD A WIN-WIN RESULT IN WHICH EVERYONE, ESPECIALLY JAPAN, IS A BENEFICIARY.

IN THIS NEW POST COLD WAR ERA, THERE IS PROBABLY NOTHING THAT WILL HELP THE WORLD MORE THAN AMERICAN AND JAPANESE COOPERATION IN BUILDING A HEALTHY, GROWING WORLD ECONOMY. I KNOW THAT OLD HABITS MAKE THIS DIFFICULT FOR JAPAN. I KNOW THAT MANY JAPANESE STILL SEE THEIR COUNTRY AS RESOURCE-POOR AND VULNERABLE, STILL NEEDING PROTECTIONIST POLICIES.

BUT REALITY IS DIFFERENT. JAPAN NOW HAS THE LARGEST FOREIGN EXCHANGE RESERVES IN THE WORLD AND IN MANY WAYS IS THE WORLD'S MOST IMPRESSIVE ECONOMY. SHE CAN BUY THE RESOURCES SHE NEEDS FROM AROUND THE WORLD; SHE CAN PRODUCE AND COMPETE WITH ANYONE. AS JAPAN OPENS HER ECONOMY, SHE WILL BECOME MORE PROSPEROUS AND HER PEOPLE WILL BE MORE FULLY EMPLOYED.

SURELY THE TIMES AND THE REALITIES OF
TODAY'S WORLD REQUIRE A NEW AND BOLDER
RESPONSE FROM JAPAN. THROUGH THE FRAMEWORK, I
AM HOPEFUL THAT THE U.S.-JAPAN RELATIONSHIP
WILL REACH A NEW MATURITY WHERE OUR ECONOMIC
TIES WILL BE STRENGTHENED, OUR POLITICAL AND
SECURITY COOPERATION ENLARGED, AND WE WILL
SUCCEED IN CONTRIBUTING, TOGETHER, TO A MORE
PROSPEROUS AND SECURE WORLD.

THANK YOU.



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