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AMBASSADOR CLAYTON YEUTTER
UNITED STATES TRADE REPRESENTATIVE
Foreign Correspondents Club Tokyo, Japan August
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THE UNITED STATES TRADE REPRESENTATIVE
WASHINGTON
20506

AMBASSADOR CLAYTON YEUTTER
UNITED STATES TRADE REPRESENTATIVE

Foreign Correspondents Club

Tokyo, Japan

August 13, 1985

It's a pleasure to be here in Japan for my first major overseas trip since becoming U.S. Trade Representative on July 1.

I have been hoping that my first major speech outside the United States would be in Japan. Thanks to the kind invitation of the Foreign Correspondents Club, that hope is now being realized.

I have visited Japan many times in the past. Each visit has provided the opportunity to make more new friends. I have great respect and affection for this country, which has accomplished so much with so few physical resources. That is a great tribute, of course, to its human resources.

Today I would like to address my remarks to the people of Japan as a friend of Japan at a pivotal time in our relationship. Trade between our two nations does not concern just our government and yours, our businesses and your businesses. It concerns all of us -- all Americans and all Japanese.

It is in all of our interests to foster a fair, open and efficient world trading system. For the U.S., growth in world trade is indispensable to a continued rise in our living standards through increased efficiency and expanded consumer choice.

For Japan, exporting has been the key to an economic revival such as the modern world has never seen. An open world trading

system is essential for you to have access to raw materials and to earn foreign exchange.

Increasing world trade also provides the best chance for progress by developing nations, and an integrated world economy can be a powerful force for peace.

Yet, the world trading system is beset by serious problems. Increasingly, countries are resorting to unfair export subsidies and non-tariff import barriers in an attempt to get the upper hand on their trading partners. If we allow such impulses to continue to grow globally, all of us will end up suffering, because world trade ultimately will decrease.

That's why Japan and the United States have taken a strong leadership role in calling for a new round of multilateral negotiations under the General Agreement on Tariffs and Trade (GATT).

The GATT system has permitted a major expansion of world trade through the mutual reduction of trade barriers, to the benefit of all trading countries, over the past 37 years. Its success is based on a framework of rules and commitments that up to now have been widely accepted as being fair.

Six years have now elapsed since the end of the last round of trade negotiations. In the intervening period, world trade

has been buffeted by severe economic problems -- a deep worldwide recession, crushing debt burdens, volatile exchange rate movements and a growth in trade restrictions to deal with payments problems.

Many GATT rules have fallen into disuse or abuse, and trade barriers have been rising as one country after another has taken actions outside of the existing rules in an attempt to solve its grave economic problems. What is remarkable under the circumstances is that the world has not resorted to much greater protectionism than has been the case. But what is also clear is that the core of the multilateral trading system -- the GATT -- is in urgent need of repair. There is both old business, required to improve and strengthen existing provisions, and new business, to extend the GATT to new areas and to deal with new problems affecting world trade.

If we do not take firm action soon to strengthen GATT rules and to expand the GATT to new areas, we risk a deterioration in the world trading system of phenomenal proportions. If the GATT is allowed to become ineffective and irrelevant, protectionism will rise in waves and our world trading system will be obliterated.

I'm confident that, by working together, we can prevent this from happening. Japan's leadership in advocating a new round of multilateral negotiations is a crucial and welcome

factor in preserving that system for all of us.

By its impressive economic development, which has earned the world's admiration, Japan has achieved the strength and the credibility to play a major leadership role in the global trading community. With a determined national effort, you have become the second most important economic power in the Western world.

As Japan developed its modern economy, you saved with fervor, and that helped provide the capital to fuel your growth. You innovated, and your management techniques and people skills are now admired and emulated throughout the world. And you learned the importance of quality products, probably better than anyone.

You also protected your fledgling industries from foreign competition, giving them a chance to flourish into world-class export competitors. You actively constrained imports while vigorously expanding exports.

Now it's time for Japan to take the next step toward full economic partnership in the family of nations: You must fully expose your economy to foreign competition, just as you have asked other nations to expose their industries to competition from Japanese firms. As the U.S. recovery of the past two and

a half years has strengthened the economies of our trading partners, and helped pull them out of economic lethargy, Japan too has the capacity to lift other economies and help sustain global trade growth. In these difficult times we may even have a moral obligation to do so.

That means many of the trade barriers erected to protect your infant economy as it developed must come down. Your economy now is mature, and your "infant" industries are no longer in need of protection.

You have recognized this need to begin to erase your trade barriers. That is evidenced by your series of market opening measures, announced over the past two or three years. But announcements are not enough. Implementation is the key, and that calls for followup, not only by your government, but also by your importers and foreign exporters. Results are the ultimate measure of success, and thus far the results are modest at best.

Access to Japanese markets is certainly a matter of great importance to the United States. In 1984, two-way trade between the U.S. and Japan reached \$81 billion. That makes Japan our second-largest trading partner, after Canada -- our neighbor with whom we share a 4,000-mile border.

Unfortunately, our trading relationship is very one-sided.

In 1984, Japan's trade surplus with the United States reached \$37 billion. This year, it may reach \$50 billion or even higher. These numbers cannot be sustained for long; the trend must be reversed. But it should not be reversed via Japanese export restraint measures. Export restraint is no substitute for market access. I do not want to see fewer Japanese exports to the United States. I want to see more U.S. exports to Japan.

An "emergency" import program could ease the situation in the short run, but would be no substitute for long-term efforts to expand market opportunities for U.S. and foreign suppliers.

Our goal must be to address our serious trade problems in a way that is mutually beneficial. That means expanding trading opportunities, not limiting them. As Japanese markets are opened to foreign imports, you will find that your economy is strengthened and your standard of living is enhanced. To achieve these benefits will require a concerted effort to remove trade barriers that constrain imports from coming into the Japanese marketplace.

You believe that you have already been responsive to that need, and to a certain extent you have. But the recent history of our trade relationship with Japan has shown that, as formal trade restraints -- tariffs and quotas -- are stripped away, import levels do not rise appreciably. Some of that can be blamed

on our own policies, or on shortcomings in our own export efforts, but not all of it. Other institutionalized barriers, visible and invisible, are so pervasive that many foreign firms simply can't crack the Japanese market.

Under such circumstances your trading partners begin to perceive that there is something unfair about the Japanese importing environment. These concerns were acknowledged recently by your prominent business organization, the Keidanren, which published a study concluding that "major obstructions to trade exist in the systems of authorization, inspection and paperwork processing." The organization called for a comprehensive overhaul of Japan's trade regulatory system.

I would like to cite just two examples, though I have brought many others with me.

In the U.S., rules are applied equally to all products, regardless of source. In Japan, it is easy to obtain the requisite authorization and other paperwork necessary to have Japanese-made high-cube containers transported to Japanese ports for export. What has been impossible has been for those same high-cube containers to be transported within Japan when they came back full of imported products. A solution may be near at hand but the differing regulations set by prefectural groups and other involved entities as to hours of travel have so far frustrated both governments'

efforts to settle what should be a simple issue.

If you wanted to build a manufacturing plant in the U.S., local governments would compete with each other to have you select their location, in order to provide jobs for their people. But U.S. cigarette companies are prohibited from building plants here. And despite recent reforms, imported cigarettes still face a high tariff and price approval by the Ministry of Finance, factors which have kept the U.S. share of the market around 2%, compared to 25% in Europe and 70% in Hong Kong.

Prime Minister Nakasone understands well how a more open system would benefit Japan. Last January, he and President Reagan agreed to initiate "MOSS" talks designed to open Japanese markets in four industry sectors. In April, he pledged a major new effort to increase Japanese imports. In June, your government announced tariff reductions on more than 1,800 products, and in recent days, Mr. Nakasone announced an extensive "action program" designed to reduce non-tariff barriers, open further your capital markets, and expand domestic demand. I commend all these endeavors.

Your Prime Minister deserves a great deal of credit for his willingness to open up Japan to the international trading world. I admire his political courage in doing so, and his perspicacity in recognizing the importance of this action to

Japan.

So far, however, progress in the MOSS effort has been mixed. Talks in the four selected industries have laid the groundwork for positive change in some areas; in others progress has been nominal and disappointing. The industries involved in the talks are telecommunications, electronics, forest products, and medical equipment and pharmaceuticals. In each of these sectors, there is a large, potential growth market here in Japan, and the U.S. has highly competitive products. Yet, we have not been able to overcome your import barriers. We must do so in the MOSS talks, our exports to you must accordingly increase, and our export community must emerge from the process with a feeling that they will in the future have the opportunity to compete fully, fairly, and openly in the Japanese market.

The new action program is encouraging in that it deals with many of the problems of greatest concern to us. It is a bold stroke, with great potential benefits both for Japan and its trading partners. But we have deep reservations about the pace of implementation, and concern with respect to what is actually intended in some areas.

In summary, the prevailing attitude in the U.S. is that there is still a long way to go in achieving satisfactory access to the Japanese market. We feel that our markets are much more

open to you than yours are to us. That perception may not always be accurate; it assuredly is not accurate in some product categories. But it is accurate in many, and that leads to frustrations.

At the moment we're all frustrated! You wonder whether you can ever satisfy the demands of those impatient Americans. And you feel that we should look in a mirror and solve our own macroeconomic problems, some of which clearly affect our international competitiveness.

We are frustrated too, in cases like those I just mentioned, and others like them. And neither the U.S. Congress nor the Administration can long tolerate a global trade imbalance of \$150 billion per year. No other nation on the face of the earth would have tolerated it this long. There are now 200 trade bills pending in the U.S. Congress, many of them directed at Japanese trade practices. A number of those bills will come to a vote within the next 90 days.

So we must all respond. Your interests, our interests, and those of the entire world are at stake. Our bilateral political and economic relationships alone are too important for either of us to permit this situation to explode. The Administration is determined to counter unfair trade practices. But this is not the time for Japan or the U.S. to do something foolish. We need to calm everyone down and approach our trade disputes in

a systematic, rational, and sensible way.

Our trading relationship is not a zero-sum game. For us to win, it is not necessary for you to lose. And for Japan to win, it is not necessary that the U.S. lose. If we handle these issues and disputes properly, we can both win!

There is considerably more that both of us can do in confronting these mutual problems. We can assist you by articulating what we deem to be our respective priorities, and you can do likewise. Together we should be able to meet the challenge. After all, we're friends, not adversaries!

My basic request is that you truly open your markets, and that you apply the same level of commitment to your importing endeavors as you do to exporting. We Americans need to become more aggressive salesman, but we'll be much more enthusiastic if there are vigorous buyers on the Japanese side.

Your consumers just might decide that those "Made in U.S.A." products are all right!