

Chronological: "U.S.-Japan Trade War", Maui County Bar Association, Maui Palms Hotel, Kahului, Maui, 1985-05-31

Senator Daniel K. Inouye Papers

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news from

Senator DANIEL K. INOUE

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U.S.-JAPAN TRADE WAR

KAHULUI, HAWAII-Although public opinion polls seem to suggest that Americans are not overly concerned with the Nation's horrendous budget deficits, this issue is, and will continue to be, a high priority for the Congress until resolved.

This is not to say that the United States faces no other economic problems. We have read a great deal about foreign investment, foreign ownership, and the overvalued dollar, and all of these issues deserve our attention. Studies show, however, that many of our financial difficulties are secondary in nature and stem from the budget deficits. Today I wish to touch upon one of these secondary concerns: the United States' trade deficit--more specifically, our trade deficit with the Japanese.

The trend in our balance of payments over the last four years is frightening. In 1980, the last year of the Carter Administration, the U.S. trade deficit stood at \$25.4 billion. Since then, it has gone from \$27.9 billion in 1981 to \$36.3 billion in 1982, \$60.6 billion in 1983, and \$123.3 billion in 1984. On a bilateral basis, our imports from Japan have exceeded our exports by \$10.4 billion in 1980, \$15.8 billion in 1981, \$17 billion in 1982, \$19.6 billion in 1983, and a staggering \$33.6 billion in 1984--more than our entire trade deficit just three years earlier.

Congress has reacted to this imbalance and the breakdown of trade negotiations with Japan by passing two resolutions that call upon the President to invoke trade sanctions, quotas, and import restrictions if the Japanese do not open their markets to our goods. Even though they were non-binding, the resolutions passed by a unanimous vote of 92 to 0 in the Senate and by 394 to 19 in the House. Both bodies are moving quickly on trade legislation that would give this sentiment the force of law if we do not secure greater access to Japanese markets in the near future. Congress's reaction to our mounting trade deficits is not totally unexpected. The Japanese should have seen

the danger signs and should have known that the United States' concern, frustration, and anger has been brewing for several years.

The Japanese have responded time and again, contending that we must be patient and that we should understand that in Japan, the decision-making process is complex, tedious, and time-consuming. However, consider the following chronology:

(1) The Voluntary Export Restraints (VER) were due to expire on March 31, 1985, and on March 1, 1985, President Reagan announced that he would not request Japan to renew its voluntary limits on auto exports to the United States.

(2) Four weeks later, on March 28, 1985, Prime Minister Nakasone announced that Japan would increase its passenger car exports to the United States from 1,850,000 units to 2,300,000 units for the period April 1985 through March 1986, an increase of 24.5 percent.

Obviously Japan can and does expedite its decision-making process--if it wants to.

The reaction in Congress was swift and angry. "This is war!" many shouted, and within hours, the Senate passed by a vote of 92-0, S.Con.Res. 15, condemning Japanese trade practices and urging protectionist measures. The House of Representatives followed suit on April 2, 1985, by adopting a similar resolution, H.CON.RES. 107 by a vote of 394-19.

Japan should not take this reaction lightly. The anger and frustration are real and reflect the mood of this nation.

Having said this, I wish to suggest that it would serve us poorly to point the finger of accusation at Japan and nowhere else. If we are to cure our trade deficits, making Japan the scapegoat for our trade problems is not the answer. The problem is a bit more complex.

I believe we should soften our rhetoric and consider the following:

A. TRADE SURPLUS:

Although Japan's surplus is the highest in terms of actual dollars--\$31.46 billion in 1983--its per capita surplus of \$267 is lower than:

NORWAY: \$4.325 billion trade surplus
per capita trade surplus: \$1047

GERMANY: \$22.26 billion trade surplus
per capita trade surplus: \$ 362

HOLLAND: \$4.325 billion trade surplus
per capita trade surplus: \$302

CANADA: \$14.88 billion trade surplus
per capita trade surplus: \$614

We should ask ourselves the following questions: "Why are we picking on Japan alone? Why not pick on our European friends as well?"

B. HISTORY

A second reason we have difficulty in pointing the finger at any one country such as Japan is that the geopolitical realities that affect world trade have changed markedly over the last 40 years. Up until World War Two, international trade was fairly simple. History indicates that for the most part, our economic adversaries were also our political and military enemies. Indeed, analysts have suggested that the basis for warfare is often economic. Commerce follows the flag, and armies have been sent out to secure land, trade routes, and raw materials ever since the beginning of recorded history. Yet today we find that those who threaten us economically--like Japan--are our military and diplomatic allies. Those who do not compete with us economically are, ironically, our fiercest political and military adversaries. The realities of the world economy and international politics are much more complex today and require very sensitive handling. A bitter economic war could jeopardize a friendly military and diplomatic alliance.

C. COMPLACENCY:

A third point about the trade deficit is that following World War Two, history shows that we became commercially complacent. In 1945, we were without question the most powerful country in the world militarily, economically, and politically. If you wanted to buy, ship, or build something, you looked to the United States. If you sought state-of-the-art technology, you found it in the United States. If you wanted financial or intellectual capital, it was available in the United States. The rest of the world's economies were incapacitated, and we assisted in reconstructing them all. In so doing, we assumed that no improvements were needed in our own system and that no one could ever compete with our economic or diplomatic clout. In the meantime, countries like Japan and our former enemies in Europe were rebuilding their economies from the ashes of war. They took our technologies, researched them, modified them, and yes--even improved on them. Their new industries were perfectly matched to the realities of post-war trade and quickly supplanted our industries. Once giants in the fields of electronics and steel, we are now playing catchup.

D. RESEARCH AND DEVELOPMENT:

In the two decades following World War II, we were the leaders in basic research. Americans held or controlled most of the important patents and copyrights in such fields as the television and electronics industry, where everyone watched sets designed and built in America. Leadership in these areas came only after an investment exceeding \$500 billion in research and development. Then, content that we were ahead and could never be dislodged, we sold much of this intellectual capital for a mere \$12 billion. We shouldered the expense of the basic research and development, leaving our friends to do the fine-tuning for production and marketing at a fraction of our cost. Using American technology, the Japanese and others developed better products for the market.

We now have a situation where the Japanese know the American market better than some Americans and are more effective selling in it. Even more telling, it is often Japanese products and not American goods that set the standard for an industry. When we finally woke up, we found that a quarter of our automobile market had gone to the Japanese. Hardly a single television or stereo used in this country is now built here. Our kitchens are filled with foreign microwaves, our rec rooms replete with imported videocameras and electronics. Yet we ask, after years of complacency, what happened? We awoke to the threat of Sputnik, but we failed to see the danger of this economic competition.

E. MARKETING:

Although the United States is still very capable in terms of production, we have not done well in marketing, especially overseas. For example, the Japanese have thousands of men and women in the United States with one thing in mind: studying our marketing, sales, and advertising techniques. Another example is that all Japanese automobiles are designed and produced exclusively for the United States, not Japan. One major Japanese company builds lawnmowers and snowplows strictly for sale to Americans; none are sold in Japan. Every trade journal we publish is immediately translated and distributed to interested Japanese companies by the Japanese Government. We have nothing similar. And as we all know, you don't need spies when you have trade journals, since they include almost everything--sometimes even classified information.

In the face of this competition, one would expect American companies and the U.S. Government to move swiftly to meet the challenge. But we have not. There are over 200 countries in the world today, and all use the metric system--except for three: the United States, Burma, and Brunei (formerly Borneo). As a result, several countries have stopped the flow of our goods to their markets because they are not made to metric specifications. We are coming around slowly, but it is like pulling wisdom teeth, and the United

States still has no firm commitment to go metric nor does it have a timetable for doing so.

It may interest you to know that the cars we sell the Japanese have their steering wheels on the left, the way we do in the United States. This is fine when you drive on the right hand side of the road, but as those of you who have visited Tokyo are aware, the Japanese drive on the left. Moreover, Japanese roads are narrow and street corners tight--very difficult circumstances under which to maneuver a Lincoln or a Cadillac. There are also U.S. office furniture manufacturers who, after meeting with early successes in this country, tried to export their products to Japan without modification. Their efforts were unsuccessful, and a little basic research would have revealed the fact that the average Japanese man stands 5' 4" while the average American male is 5' 9" tall. Americans were thus trying to sell office chairs that left their clients' feet dangling off the floor--not exactly what a business looks for in terms of image or efficiency.

F. EDUCATION:

We hear a great deal these days about high technology. Everywhere we turn, including Hawaii, people are touting high tech as the industry of the future and a solution to our economic woes. But let us look at some statistics about the United States' commitment to this concept. Only 6 percent of last year's U.S. college graduates were engineers, whereas in Japan the figure exceeded 40 percent. Aside from basic differences in curriculum and education policy, there are more troubling explanations for these differences. 7 percent of the 1984 American high school graduates were functionally illiterate. But then American boys and girls go to school 180 days a year while Japanese children attend school for 240 days. While we study the decline of American education and suggest possible remedies, the Japanese have for years been strengthening their school systems and their commitment to education as a key to competitiveness and modernization.

If we are to compete with the Japanese, I believe we need to consider the points that I have highlighted today. However, having said this, I don't want the record to show that the Japanese have been unfairly criticized for their recent trade practices. Japan must be made aware that trade is a two way street and that the U.S. will not tolerate a situation where U.S. exports to Japan have remained stable at about \$21 to \$23 billion per year since 1981 while Japanese exports to the U.S. have increased from \$38 billion to \$57 billion.

The Japanese claim to be advocates of free trade, yet our banks and insurance companies find it nearly impossible to do business there. In the United States, however, Japanese firms are unfettered by any restrictions

except state laws which govern financial institutions, foreign and domestic. In California, it is just as easy to walk into Mitsui Bank, Sumitomo Bank, or the Bank of Tokyo as it is Wells Fargo or the Bank of America, but we do not see the same thing in Tokyo.

The Japanese must be made aware that perceptions are as important as reality. They may argue that all things considered, Japan is open to American trade, but this is not the impression held by most Americans, many of whom are convinced that Japan is not playing the game according to the rules of free trade. Americans are reinforced in this perception every day as they drive past Nissan, Mitsubishi, Toyota, Honda, and countless other Japanese car dealerships knowing that for every 475 cars they sell here, we sell 1 in Japan.

Finally, the Japanese should remember that if this perception persists, and if we do not soon negotiate a reasonable and fair trade agreement, a very ugly word will appear on the lips of Americans: reciprocity. I hope that for the sake of both American and Japanese consumers, we are able to arrive at a sensible agreement in the near future. Otherwise, businesses and sensibilities on both sides of the Pacific will be hurt.

In the meantime, as the United States negotiates new trade agreements with Japan, we must not lose sight of the fact that global markets and global patterns of trade are changing, and we must change with them. The issue is competitiveness, and the United States must work hard to develop and maintain a competitive edge abroad. Even if Japanese markets opened up tomorrow, Japan could only absorb \$2 to \$3 billion in new imports from the U.S. That still leaves us with a trade deficit of over \$120 billion. Assuming that we can link the problems of our high deficits and the overvalued dollar, the U.S. still has to develop a trade strategy for the future.

We now do more trading with Pacific Rim nations than we do with our traditional European allies. By the end of the 20th century, the volume of our trade with Pacific nations will more than double our trade with Europeans. We must not only increase our exports to Japan but also develop technologies and products that compete with the Japanese in world markets.

What we need is more than just a return to Yankee ingenuity. We need a rebirth of the Yankee trader who is willing to take a good idea, develop it, and market it in new frontiers. World trade is an important frontier for this country and we must meet the challenge posed by the Japanese by becoming even more competitive than they have become. Otherwise, the United States will become a second-class economic regime, militarily strong but dependent upon the whims of foreign trading partners.

The danger behind the current rise of protectionist ideology is that, in the long run, it is an admission of defeat. If we must hide our industries behind permanent trade barriers, it is an acknowledgement that the United States is no longer competitive in the world market. However, if trade sanctions are understood as a bargaining tool and a short-term mechanism necessitated by unfair foreign competition, then we will have met the challenge posed by the Japanese.

We must rise to this challenge and reassert the United States' capability to outcompete all comers in the expanding and changing markets of the world. To do so we must solve the problem of U.S. competitiveness abroad, which hinges on our budget deficits, high interest rates, and overvalued dollar. The trade deficit is but a symptom of the greater economic problems facing our nation--a challenge where you, the members of the banking and financial communities, will play a key role.

SPEECH DELIVERED TO:
Maui County Bar Association
Maui Palms Hotel
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May 31, 1985

J.S.-JAPAN TRADE WAR

ALTHOUGH PUBLIC OPINION POLLS SEEM TO SUGGEST
THAT AMERICANS ARE NOT OVERLY CONCERNED WITH THE
NATION'S HORRENDOUS BUDGET DEFICITS, THIS ISSUE IS,
AND WILL CONTINUE TO BE, A HIGH PRIORITY FOR THE
CONGRESS UNTIL RESOLVED.

THIS IS NOT TO SAY THAT THE UNITED STATES FACES
NO OTHER ECONOMIC PROBLEMS. WE HAVE READ A GREAT DEAL
ABOUT FOREIGN INVESTMENT, FOREIGN OWNERSHIP, AND THE
OVERVALUED DOLLAR, AND ALL OF THESE ISSUES DESERVE OUR
ATTENTION. STUDIES SHOW, HOWEVER, THAT MANY OF OUR
FINANCIAL DIFFICULTIES ARE SECONDARY IN NATURE AND
STEM FROM THE BUDGET DEFICITS.

TODAY I WISH TO TOUCH UPON ONE OF THESE SECONDARY
CONCERNS: THE UNITED STATES' TRADE DEFICIT--MORE
SPECIFICALLY, OUR TRADE DEFICIT WITH THE JAPANESE.

•:

THE TREND IN OUR BALANCE OF PAYMENTS OVER THE
LAST FOUR YEARS IS FRIGHTENING. IN 1980, THE LAST
YEAR OF THE CARTER ADMINISTRATION, THE U.S. TRADE
DEFICIT STOOD AT \$25.4 BILLION. SINCE THEN, IT HAS
GONE FROM \$27.9 BILLION IN 1981 TO \$36.3 BILLION IN
1982, \$60.6 BILLION IN 1983, AND \$123.3 BILLION IN
1984.

ON A BILATERAL BASIS, OUR IMPORTS FROM JAPAN HAVE EXCEEDED OUR EXPORTS BY \$10.4 BILLION IN 1980, \$15.8 BILLION IN 1981, \$17 BILLION IN 1982, \$19.6 BILLION IN 1983, AND A STAGGERING \$33.6 BILLION IN 1984--MORE THAN OUR ENTIRE TRADE DEFICIT JUST THREE YEARS EARLIER.

CONGRESS HAS REACTED TO THIS IMBALANCE AND THE BREAKDOWN OF TRADE NEGOTIATIONS WITH JAPAN BY PASSING TWO RESOLUTIONS THAT CALL UPON THE PRESIDENT TO INVOKE TRADE SANCTIONS, QUOTAS, AND IMPORT RESTRICTIONS IF THE JAPANESE DO NOT OPEN THEIR MARKETS TO OUR GOODS. EVEN THOUGH THEY WERE NON-BINDING, THE RESOLUTIONS PASSED BY A UNANIMOUS VOTE OF 92 TO 0 IN THE SENATE AND BY 394 TO 19 IN THE HOUSE.

BOTH BODIES ARE MOVING QUICKLY ON TRADE LEGISLATION THAT WOULD GIVE THIS SENTIMENT THE FORCE OF LAW IF WE DO NOT SECURE GREATER ACCESS TO JAPANESE MARKETS IN THE NEAR FUTURE. CONGRESS'S REACTION TO OUR MOUNTING TRADE DEFICITS IS NOT TOTALLY UNEXPECTED. THE JAPANESE SHOULD HAVE SEEN THE DANGER SIGNS AND SHOULD HAVE KNOWN THAT THE UNITED STATES' CONCERN, FRUSTRATION, AND ANGER HAVE BEEN BREWING FOR SEVERAL YEARS.

THE JAPANESE HAVE RESPONDED TIME AND AGAIN, CONTENDING THAT WE MUST BE PATIENT AND THAT WE SHOULD UNDERSTAND THAT IN JAPAN, THE DECISION-MAKING PROCESS IS COMPLEX, TEDIOUS, AND TIME-CONSUMING. HOWEVER, CONSIDER THE FOLLOWING CHRONOLOGY:

(1) THE VOLUNTARY EXPORT RESTRAINTS (VER) WERE
DUE TO EXPIRE ON MARCH 31, 1985, AND ON MARCH 1, 1985,
PRESIDENT REAGAN ANNOUNCED THAT HE WOULD NOT REQUEST
JAPAN TO RENEW ITS VOLUNTARY LIMITS ON AUTO EXPORTS TO
THE UNITED STATES.

(2) FOUR WEEKS LATER, ON MARCH 28, 1985, PRIME
MINISTER NAKASONE ANNOUNCED THAT JAPAN
WOULD INCREASE ITS PASSENGER CAR EXPORTS TO
THE UNITED STATES FROM 1,850,000 UNITS TO
2,300,000 UNITS FOR THE PERIOD APRIL 1985
THROUGH MARCH 1986, AN INCREASE OF 24.5
PERCENT.

OBVIOUSLY JAPAN CAN AND DOES EXPEDITE ITS DECISION-
MAKING PROCESS--IF IT WANTS TO.

THE REACTION IN CONGRESS WAS SWIFT AND ANGRY.
"THIS IS WAR!" MANY SHOUTED, AND WITHIN HOURS, THE
SENATE AS NOTED ABOVE, PASSED BY A VOTE OF 92-0,
S. CON. RES. 15, CONDEMNING JAPANESE TRADE PRACTICES
AND URGING PROTECTIONIST MEASURES. THE HOUSE OF
REPRESENTATIVES FOLLOWED SUIT ON APRIL 2, 1985, BY
ADOPTING A SIMILAR RESOLUTION, H. CON. RES. 107 BY A
VOTE OF 394-19.

JAPAN SHOULD NOT TAKE THIS REACTION LIGHTLY. THE
ANGER AND FRUSTRATION ARE REAL AND REFLECT THE MOOD OF
THIS NATION.

HAVING SAID THIS, I WISH TO SUGGEST THAT IT WOULD
SERVE US POORLY TO POINT THE FINGER OF ACCUSATION AT
JAPAN AND NOWHERE ELSE. IF WE ARE TO CURE OUR TRADE
DEFICITS, MAKING JAPAN THE SCAPEGOAT FOR OUR TRADE
PROBLEMS IS NOT THE ANSWER. THE PROBLEM IS A BIT MORE
COMPLEX.

I BELIEVE WE SHOULD SOFTEN OUR RHETORIC AND
CONSIDER THE FOLLOWING:

A. TRADE SURPLUS:

ALTHOUGH JAPAN'S SURPLUS IS THE HIGHEST IN TERMS
OF ACTUAL DOLLARS--\$31.46 BILLION IN 1983--ITS PER
CAPITA SURPLUS OF \$267 IS LOWER THAN;

NORWAY: \$4.325 BILLION TRADE SURPLUS

PER CAPITA TRADE SURPLUS: \$1047

GERMANY: \$22.26 BILLION TRADE SURPLUS

PER CAPITA TRADE SURPLUS: \$ 362

HOLLAND: \$4.325 BILLION TRADE SURPLUS

PER CAPITA TRADE SURPLUS: \$302

CANADA: \$14.88 BILLION TRADE SURPLUS

PER CAPITA TRADE SURPLUS: \$614

WE SHOULD ASK OURSELVES THE FOLLOWING QUESTIONS: "WHY

ARE WE PICKING ON JAPAN ALONE? WHY NOT PICK ON OUR

EUROPEAN FRIENDS AS WELL?

HISTORY.

A SECOND REASON WE HAVE DIFFICULTY IN POINTING THE FINGER AT ANY ONE COUNTRY SUCH AS JAPAN IS THAT THE GEOPOLITICAL REALITIES THAT AFFECT WORLD TRADE HAVE CHANGED MARKEDLY OVER THE LAST 40 YEARS. UP UNTIL WORLD WAR TWO, INTERNATIONAL TRADE WAS FAIRLY SIMPLE. HISTORY INDICATES THAT FOR THE MOST PART, OUR ECONOMIC ADVERSARIES WERE ALSO OUR POLITICAL AND MILITARY ENEMIES. INDEED, ANALYSTS HAVE SUGGESTED THAT THE BASIS FOR WARFARE IS OFTEN ECONOMIC. COMMERCE FOLLOWS THE FLAG, AND ARMIES HAVE BEEN SENT OUT TO SECURE LAND, TRADE ROUTES, AND RAW MATERIALS EVER SINCE THE BEGINNING OF RECORDED HISTORY.

YET TODAY WE FIND THAT THOSE WHO THREATEN US
ECONOMICALLY--LIKE JAPAN--ARE OUR MILITARY AND
DIPLOMATIC ALLIES. THOSE WHO DO NOT COMPETE WITH US
ECONOMICALLY ARE, IRONICALLY, OUR FIERCEST POLITICAL
AND MILITARY ADVERSARIES. THE REALITIES OF THE WORLD
ECONOMY AND INTERNATIONAL POLITICS ARE MUCH MORE
COMPLEX TODAY AND REQUIRE VERY SENSITIVE HANDLING. A
BITTER ECONOMIC WAR COULD JEOPARDIZE A FRIENDLY
MILITARY AND DIPLOMATIC ALLIANCE.

C. COMPLACENCY:

A THIRD POINT ABOUT THE TRADE DEFICIT IS THAT
FOLLOWING WORLD WAR TWO, HISTORY SHOWS THAT WE BECAME
COMMERCIALY COMPLACENT.

IN 1945, WE WERE WITHOUT QUESTION THE MOST POWERFUL
COUNTRY IN THE WORLD MILITARILY, ECONOMICALLY, AND
POLITICALLY. IF YOU WANTED TO BUY, SHIP, OR BUILD
SOMETHING, YOU LOOKED TO THE UNITED STATES. IF YOU
SOUGHT STATE-OF-THE-ART TECHNOLOGY, YOU FOUND IT IN
THE UNITED STATES. IF YOU WANTED FINANCIAL OR INTEL-
LECTUAL CAPITAL, IT WAS AVAILABLE IN THE UNITED
STATES. THE REST OF THE WORLD'S ECONOMIES WERE IN-
CAPACITATED, AND WE ASSISTED IN RECONSTRUCTING THEM
ALL. IN SO DOING, WE ASSUMED THAT NO IMPROVEMENTS
WERE NEEDED IN OUR OWN SYSTEM AND THAT NO ONE COULD
EVER COMPETE WITH OUR ECONOMIC OR DIPLOMATIC CLOUT.

IN THE MEANTIME, COUNTRIES LIKE JAPAN AND OUR FORMER
ENEMIES IN EUROPE WERE REBUILDING THEIR ECONOMIES FROM
THE ASHES OF WAR. THEY TOOK OUR TECHNOLOGIES, RE-
SEARCHED THEM, MODIFIED THEM, AND YES--EVEN IMPROVED
ON THEM. THEIR NEW INDUSTRIES WERE PERFECTLY MATCHED
TO THE REALITIES OF POST-WAR TRADE AND QUICKLY SUP-
PLANTED OUR INDUSTRIES. ONCE GIANTS IN THE FIELDS OF
ELECTRONICS AND STEEL, WE ARE NOW PLAYING CATCHUP.

D. RESEARCH AND DEVELOPMENT:

IN THE TWO DECADES FOLLOWING WORLD WAR II, WE WERE THE LEADERS IN BASIC RESEARCH. AMERICANS HELD OR CONTROLLED MOST OF THE IMPORTANT PATENTS AND COPYRIGHTS IN SUCH FIELDS AS THE TELEVISION AND ELECTRONICS INDUSTRIES, WHERE EVERYONE WATCHED SETS DESIGNED AND BUILT IN AMERICA. LEADERSHIP IN THESE AREAS CAME ONLY AFTER AN INVESTMENT EXCEEDING \$500 BILLION IN RESEARCH AND DEVELOPMENT. THEN, CONTENT THAT WE WERE AHEAD AND COULD NEVER BE DISLODGED, WE SOLD MUCH OF THIS INTELLECTUAL CAPITAL FOR A MERE \$12 BILLION.

WE SHOULDERED THE EXPENSE OF THE BASIC RESEARCH AND DEVELOPMENT, LEAVING OUR FRIENDS TO DO THE FINE-TUNING FOR PRODUCTION AND MARKETING AT A FRACTION OF OUR COST. USING AMERICAN TECHNOLOGY, THE JAPANESE AND OTHERS DEVELOPED BETTER PRODUCTS FOR THE MARKET.

WE NOW HAVE A SITUATION WHERE THE JAPANESE KNOW THE AMERICAN MARKET BETTER THAN SOME AMERICANS AND ARE MORE EFFECTIVE SELLING IN IT. EVEN MORE TELLING, IT IS OFTEN JAPANESE PRODUCTS AND NOT AMERICAN GOODS THAT SET THE STANDARD FOR AN INDUSTRY. WHEN WE FINALLY WOKE UP, WE FOUND THAT A QUARTER OF OUR AUTOMOBILE MARKET HAD GONE TO THE JAPANESE. HARDLY A SINGLE TELEVISION OR STEREO USED IN THIS COUNTRY IS NOW BUILT HERE.

OUR KITCHENS ARE FILLED WITH FOREIGN MICROWAVES, OUR
REC ROOMS REplete WITH IMPORTED VIDEOCAMERAS AND
ELECTRONICS. YET WE ASK, AFTER YEARS OF COMPLACENCY,
WHAT HAPPENED? WE AWOKE TO THE THREAT OF SPUTNIK, BUT
WE FAILED TO SEE THE DANGER OF THIS ECONOMIC
COMPETITION.

E. MARKETING:

ALTHOUGH THE UNITED STATES IS STILL VERY CAPABLE
IN TERMS OF PRODUCTION, WE HAVE NOT DONE WELL IN
MARKETING, ESPECIALLY OVERSEAS. FOR EXAMPLE, THE
JAPANESE HAVE THOUSANDS OF MEN AND WOMEN IN THE UNITED
STATES WITH ONE THING IN MIND: STUDYING OUR MARKETING,
SALES, AND ADVERTISING TECHNIQUES.

ANOTHER EXAMPLE IS THAT ALL JAPANESE AUTOMOBILES ARE
DESIGNED AND PRODUCED EXCLUSIVELY FOR THE UNITED
STATES, NOT JAPAN. ONE MAJOR JAPANESE COMPANY BUILDS
LAWNMOWERS AND SNOWPLOWS STRICTLY FOR SALE TO
AMERICANS; NONE ARE SOLD IN JAPAN. EVERY TRADE
JOURNAL WE PUBLISH IS IMMEDIATELY TRANSLATED AND
DISTRIBUTED TO INTERESTED JAPANESE COMPANIES BY THE
JAPANESE GOVERNMENT. WE HAVE NOTHING SIMILAR. AND AS
WE ALL KNOW, YOU DON'T NEED SPIES WHEN YOU HAVE TRADE
JOURNALS, SINCE THEY INCLUDE ALMOST EVERYTHING--
SOMETIMES EVEN CLASSIFIED INFORMATION.

IN THE FACE OF THIS COMPETITION, ONE WOULD EXPECT
AMERICAN COMPANIES AND THE U.S. GOVERNMENT TO MOVE
SWIFTLY TO MEET THE CHALLENGE. BUT WE HAVE NOT.

THERE ARE OVER 200 COUNTRIES IN THE WORLD TODAY, AND ALL USE THE METRIC SYSTEM--EXCEPT FOR THREE: THE UNITED STATES, BURMA, AND BRUNEI (FORMERLY BORNEO). AS A RESULT, SEVERAL COUNTRIES HAVE STOPPED THE FLOW OF OUR GOODS TO THEIR MARKETS BECAUSE THEY ARE NOT MADE TO METRIC SPECIFICATIONS. WE ARE COMING AROUND SLOWLY, BUT IT IS LIKE PULLING WISDOM TEETH, AND THE UNITED STATES STILL HAS NO FIRM COMMITMENT TO GO METRIC NOR DOES IT HAVE A TIMETABLE FOR DOING SO.

IT MAY INTEREST YOU TO KNOW THAT THE CARS WE SELL THE JAPANESE HAVE THEIR STEERING WHEELS ON THE LEFT, THE WAY WE DO IN THE UNITED STATES.

THIS IS FINE WHEN YOU DRIVE ON THE RIGHT HAND SIDE OF THE ROAD, BUT AS THOSE OF YOU WHO HAVE VISITED TOKYO ARE AWARE, THE JAPANESE DRIVE ON THE LEFT. MOREOVER, JAPANESE ROADS ARE NARROW AND STREET CORNERS TIGHT-- VERY DIFFICULT CIRCUMSTANCES UNDER WHICH TO MANEUVER A LINCOLN OR A CADILLAC. THERE ARE ALSO U.S. OFFICE FURNITURE MANUFACTURERS WHO, AFTER MEETING WITH EARLY SUCCESSES IN THIS COUNTRY, TRIED TO EXPORT THEIR PRODUCTS TO JAPAN WITHOUT MODIFICATION. THEIR EFFORTS WERE UNSUCCESSFUL, AND A LITTLE BASIC RESEARCH WOULD HAVE REVEALED THE FACT THAT THE AVERAGE JAPANESE MAN STANDS 5' 4" WHILE THE AVERAGE AMERICAN MALE IS 5' 9" TALL.

AMERICANS WERE THUS TRYING TO SELL OFFICE CHAIRS THAT LEFT THEIR CLIENTS' FEET DANGLING OFF THE FLOOR--NOT EXACTLY WHAT A BUSINESS LOOKS FOR IN TERMS OF IMAGE OR EFFICIENCY.

F. EDUCATION:

WE HEAR A GREAT DEAL THESE DAYS ABOUT HIGH TECHNOLOGY. EVERYWHERE WE TURN, INCLUDING HAWAII, PEOPLE ARE TOUTING HIGH TECH AS THE INDUSTRY OF THE FUTURE AND A SOLUTION TO OUR ECONOMIC WOES. BUT LET US LOOK AT SOME STATISTICS ABOUT THE UNITED STATES' COMMITMENT TO THIS CONCEPT. ONLY 6 PERCENT OF LAST YEAR'S U.S. COLLEGE GRADUATES WERE ENGINEERS, WHEREAS IN JAPAN THE FIGURE EXCEEDED 40 PERCENT.

ASIDE FROM BASIC DIFFERENCES IN CURRICULUM AND EDUCATION POLICY, THERE ARE MORE TROUBLING EXPLANATIONS FOR THESE DIFFERENCES. 7 PERCENT OF THE 1984 AMERICAN HIGH SCHOOL GRADUATES WERE FUNCTIONALLY ILLITERATE. BUT THEN AMERICAN BOYS AND GIRLS GO TO SCHOOL 180 DAYS A YEAR WHILE JAPANESE CHILDREN ATTEND SCHOOL FOR 240 DAYS. WHILE WE STUDY THE DECLINE OF AMERICAN EDUCATION AND SUGGEST POSSIBLE REMEDIES, THE JAPANESE HAVE FOR YEARS BEEN STRENGTHENING THEIR SCHOOL SYSTEMS AND THEIR COMMITMENT TO EDUCATION AS A KEY TO COMPETITIVENESS AND MODERNIZATION.

IF WE ARE TO COMPETE WITH THE JAPANESE, I BELIEVE WE NEED TO CONSIDER THE POINTS THAT I HAVE HIGHLIGHTED TODAY.

HOWEVER, HAVING SAID THIS, I DON'T WANT THE RECORD TO
SHOW THAT THE JAPANESE HAVE BEEN UNFAIRLY CRITICIZED
FOR THEIR RECENT TRADE PRACTICES. JAPAN MUST BE MADE
AWARE THAT TRADE IS A TWO WAY STREET AND THAT THE U.S.
WILL NOT TOLERATE A SITUATION WHERE U.S. EXPORTS TO
JAPAN HAVE REMAINED STABLE AT ABOUT \$21 TO \$23 BILLION
PER YEAR SINCE 1981 WHILE JAPANESE EXPORTS TO THE U.S.
HAVE INCREASED FROM \$38 BILLION TO \$57 BILLION.

THE JAPANESE CLAIM TO BE ADVOCATES OF FREE TRADE,
YET OUR BANKS AND INSURANCE COMPANIES FIND IT NEARLY
IMPOSSIBLE TO DO BUSINESS THERE. IN THE UNITED
STATES, HOWEVER, JAPANESE FIRMS ARE UNFETTERED BY ANY
RESTRICTIONS EXCEPT STATE LAWS WHICH GOVERN FINANCIAL
INSTITUTIONS, FOREIGN AND DOMESTIC.

IN CALIFORNIA, IT IS JUST AS EASY TO WALK INTO MITSUI BANK, SUMITOMO BANK, OR THE BANK OF TOKYO AS IT IS WELLS FARGO OR THE BANK OF AMERICA, BUT WE DO NOT SEE THE SAME THING IN TOKYO.

THE JAPANESE MUST BE MADE AWARE THAT PERCEPTIONS ARE AS IMPORTANT AS REALITY. THEY MAY ARGUE THAT ALL THINGS CONSIDERED, JAPAN IS OPEN TO AMERICAN TRADE, BUT THIS IS NOT THE IMPRESSION HELD BY MOST AMERICANS, MANY OF WHOM ARE CONVINCED THAT JAPAN IS NOT PLAYING THE GAME ACCORDING TO THE RULES OF FREE TRADE.

AMERICANS ARE REINFORCED IN THIS PERCEPTION EVERY DAY
AS THEY DRIVE PAST NISSAN, MITSUBISHI, TOYOTA, HONDA,
AND COUNTLESS OTHER JAPANESE CAR DEALERSHIPS KNOWING
THAT FOR EVERY 475 CARS THEY SELL HERE, WE SELL 1 IN
JAPAN.

FINALLY, THE JAPANESE SHOULD REMEMBER THAT IF
THIS PERCEPTION PERSISTS, AND IF WE DO NOT SOON NEGOTIATE
A REASONABLE AND FAIR TRADE AGREEMENT, A VERY UGLY
WORD WILL APPEAR ON THE LIPS OF AMERICANS:
RECIPROCITY. I HOPE THAT FOR THE SAKE OF BOTH
AMERICAN AND JAPANESE CONSUMERS, WE ARE ABLE TO ARRIVE
AT A SENSIBLE AGREEMENT IN THE NEAR FUTURE.
OTHERWISE, BUSINESSES AND SENSIBILITIES ON BOTH SIDES
OF THE PACIFIC WILL BE HURT.

IN THE MEANTIME, AS THE UNITED STATES NEGOTIATES
NEW TRADE AGREEMENTS WITH JAPAN, WE MUST NOT LOSE
SIGHT OF THE FACT THAT GLOBAL MARKETS AND GLOBAL
PATTERNS OF TRADE ARE CHANGING, AND WE MUST CHANGE
WITH THEM. THE ISSUE IS COMPETITIVENESS, AND THE
UNITED STATES MUST WORK HARD TO DEVELOP AND MAINTAIN A
COMPETITIVE EDGE ABROAD. EVEN IF JAPANESE MARKETS
OPENED UP TOMORROW, JAPAN COULD ONLY ABSORB \$2 TO \$3
BILLION IN NEW IMPORTS FROM THE U.S. THAT STILL
LEAVES US WITH A TRADE DEFICIT OF OVER \$120 BILLION.
ASSUMING THAT WE CAN LICK THE PROBLEMS OF OUR HIGH
DEFICITS AND THE OVERVALUED DOLLAR, THE U.S. STILL HAS
TO DEVELOP A TRADE STRATEGY FOR THE FUTURE.

WE NOW DO MORE TRADING WITH PACIFIC RIM NATIONS THAN WE DO WITH OUR TRADITIONAL EUROPEAN ALLIES. BY THE END OF THE 20TH CENTURY, THE VOLUME OF OUR TRADE WITH PACIFIC NATIONS WILL MORE THAN DOUBLE OUR TRADE WITH EUROPEANS. WE MUST NOT ONLY INCREASE OUR EXPORTS TO JAPAN BUT ALSO DEVELOP TECHNOLOGIES AND-PRODUCTS THAT COMPETE WITH THE JAPANESE IN WORLD MARKETS.

WHAT WE NEED IS MORE THAN JUST A RETURN TO YANKEE INGENUITY. WE NEED A REBIRTH OF THE YANKEE TRADER WHO IS WILLING TO TAKE A GOOD IDEA, DEVELOP IT, AND MARKET IT IN NEW FRONTIERS. WORLD TRADE IS AN IMPORTANT FRONTIER FOR THIS COUNTRY AND WE MUST MEET THE CHALLENGE POSED BY THE JAPANESE BY BECOMING EVEN MORE COMPETITIVE THAN THEY HAVE BECOME.

OTHERWISE, THE UNITED STATES WILL BECOME A SECOND-CLASS ECONOMIC REGIME, MILITARILY STRONG BUT DEPENDENT UPON THE WHIMS OF FOREIGN TRADING PARTNERS.

THE DANGER BEHIND THE CURRENT RISE OF PROTECTIONIST IDEOLOGY IS THAT, IN THE LONG RUN, IT IS AN ADMISSION OF DEFEAT. IF WE MUST HIDE OUR INDUSTRIES BEHIND PERMANENT TRADE BARRIERS, IT IS AN ACKNOWLEDGEMENT THAT THE UNITED STATES IS NO LONGER COMPETITIVE IN THE WORLD MARKET. HOWEVER, IF TRADE SANCTIONS ARE UNDERSTOOD AS A BARGAINING TOOL AND A SHORT-TERM MECHANISM NECESSITATED BY UNFAIR FOREIGN COMPETITION, THEN WE WILL HAVE MET THE CHALLENGE POSED BY THE JAPANESE.

WE MUST RISE TO THIS CHALLENGE AND REASSERT THE UNITED STATES' CAPABILITY TO OUTCOMPETE ALL COMERS IN THE EXPANDING AND CHANGING MARKETS OF THE WORLD. TO DO SO WE MUST SOLVE THE PROBLEM OF U.S. COMPETITIVENESS ABROAD, WHICH HINGES ON OUR BUDGET DEFICITS, HIGH INTEREST RATES, AND OVERVALUED DOLLAR. THE TRADE DEFICIT IS BUT A SYMPTOM OF THE GREATER ECONOMIC PROBLEMS FACING OUR NATION--A CHALLENGE WHERE YOU, THE MEMBERS OF THE BANKING AND FINANCIAL COMMUNITIES, WILL PLAY A KEY ROLE.