

**The United States-Japan Relationship in
the Rapidly Changing World Environment**

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It is indeed a great honor and pleasure for me to be invited to speak to you today about the U.S.-Japan relationship in this rapidly changing world environment.

Before going back to Japan for good last August, I worked in New York for six years as the president of Nippon Steel U.S.A., Inc. and made many good friends -- American as well as Japanese. Before my departure I met several of my American friends to say good-bye to them. I told them that when I go back to Japan, I would assume the position of President Director General of the Japan-U.S. Business Council, which functions as the secretariat of the U.S.-Japan Businessmen's Conference. All of my friends, without exception, shook their heads and told me that they wanted to congratulate me on my new assignment but considering the gravity of the attitude towards Japan prevailing in Washington at the moment - - that was last July -- they all said, "I pity you, Eiji, in your new job." Then they added two more words, "Good luck." I now see signs of a further deterioration of our bilateral relationship, which is indeed very alarming.

Not too long ago, the second-ranking political leader in the U.S.S.R. came to Japan and took the opportunity to visit a department store in Tokyo. After, he commented to his Japanese companion, "I was surprised to find out that the Japanese people are poor, because there are so many things displayed in the store but I observed no waiting line at the counter. In my country, on the contrary, if there is anything in the stores, I assure you there will always be long, long lines."

In Japan, too, we see long, long lines from time to time. Several weeks ago, the

Tokyo Metropolitan Office began to sell the houses they built for the people of Tokyo who were looking for residences. Those houses are an hour and a half away from downtown Tokyo by commuter trains. Each house has approximately one hundred square meters of floor space and they cost from \$300,000 to \$400,000 each. It was reported later that the one house which was built on a good site actually attracted 4,700 applicants and the lucky family who finally bought this house was shown on TV, smiling.

The total land value of the four main Japanese islands is said to be worth four times as much as that of the entire United States. Since the area of Japan is only one twenty-fifth that of the United States, the unit land value in Japan is then 100 times as much as in the U.S. This is indeed incredible and causes a great many social tensions and problems in Japan.

It is now 1990, and in ten more years we will be in the twenty-first century. The last decade began with the invasion of Soviet troops into Afghanistan and intensified tension between the West and the East. In 1985, Mr. Gorbachev became Secretary General of the Soviet Union and his concept of "perestroika" began to influence the satellite countries in Eastern Europe. By the end of 1989, most Eastern European countries had hastened to change their political systems and one after another, democratic governments were established. The radical changes which took place in the region were most dramatically symbolized by the opening of the Berlin Wall last December.

The two leaders of the U.S. and U.S.S.R. met at Malta last December and promised to move toward coexistence of the two different political and economic systems. The world, after more than forty years of confrontational relations between the two Superpowers and between East and West, has now entered into an era of new world order, though we see much uncertainty and instability, and in some cases strife, in various parts of the world.

If we turn our eyes to Asia, for a moment, we also see many uncertainties. Our big neighbor, China, after the sad suppression of the democratic movement in Tiananmen Square last June, has been suffering from the economic sanctions of their major trading partners throughout the world. China's population of more than 1.1 billion is suffering from a severe economic depression. In which direction will the North Korean regime go, after they have observed the upheaval in the Eastern European countries, particularly in Rumania? There are uncertain political and economic elements in the Philippines and Indochina. And Hong Kong will be returned to China before the end of this decade.

During the 1980s, countries in East Asia, such as Japan, South Korea, Taiwan, and the other NIEs and member countries of ASEAN, all made remarkable economic progress and grew, but there are many uncertainties and much instability in Asia as a whole, which makes us worry about its future.

The Japanese have been lucky in maintaining a good relationship with the U.S. over the last forty years. Most Japanese have taken this friendly relationship between the U.S. and Japan for granted and very few have doubted the continuation of our alliance in the future. Unfortunately, however, the relationship between the U.S. and Japan is now rapidly deteriorating. One of the main reasons for this, of course, is the persistent trade imbalance - - on the order of 50 billion dollars -- between our two countries.

Most recently, the so-called "Japan bashers" and "U.S. bashers" have exchanged harsh criticisms of each other's countries, often in an emotional tone, in an attempt to appeal to the nationalism of their countrymen. Some Japanese investments in the U.S. have also been criticized by Americans. It is very regrettable that a feeling of distrust and a loss of mutual confidence is now growing in the minds of an increasing number of Americans, as well as Japanese. I was recently told, to my great shock, that our American friends who try to explain

Japanese problems and issues with good reasoning are often put in embarrassing situations in the United States. It is indeed very sad.

The threat of a military confrontation between the U.S. and the Soviet Union has apparently diminished due mainly to the "perestroika" advocated by Mr. Gorbachev. As a result, economic power and technological capabilities have begun to assume more important roles in world affairs than before. In this respect, we Japanese take seriously the survey which reported that more than sixty percent of U.S. citizens take the Japanese economic threat more seriously than the Soviet military threat.

For some time after the war, Japanese economic success was the subject of much admiration by other nations, but more recently, Japanese economic power has created jealousy and has been taken as a threat. In extreme cases, people in other countries call Japan the adversary of Western democracy and the free market system.

The Japanese economy has grown steadily since the end of World War II within the international free trade and open market system which the U.S., as the predominant world leader, has strongly promoted for the benefit of the rest of the world. Now Japan has become "an economic and financial superpower," and though individual Japanese do not feel this economic power, the rest of the world expects Japan to live up to the principle of a free market economy and to pursue an open market policy to show their good intentions to others.

Since last summer, the U.S. government has been asking Japan to further open specific markets to reduce the huge trade imbalance between our two countries by using the Super 301 section of the Omnibus Trade act and by initiating the Structural Impediments Initiatives. Some Japanese complain that the U.S. is not reasonable and is asking too much. They say the U.S. is actually trying to interfere with Japanese domestic affairs. Bitter feelings

against the U.S. are being created in Japan due to this "pressure." However, it is true that we have many problems in our country and we should humbly listen to what the Americans have to say. We should then positively react to their requests and improve our situation wherever we think possible.

Europeans as well as Americans complain about the closed Japanese market. A book was recently published in Japan which advocated that Japan say "no" to the United States. It is a best seller in Japan now. But I think we should also learn to say "yes" when a request is a reasonable one.

The problem areas which were pinpointed by the U.S. delegation are, for example, the lack of a proper land policy in Japan, the difference between prices of commodities in Japan and other countries, and the complicated distribution networks in Japan. Many of those issues are ones which for many years the Japanese have wanted changed and improved for their own benefit. In this respect, many Japanese actually appreciated the initiatives taken by the U.S. against the Japanese government.

Very recently, a Japanese cabinet member, after a trip to the U.S., told reporters that it was not reasonable for Japan to tell the world that Japan will never import a single grain of rice and that the rest of the world would be strongly against our rice policy. These remarks were a great shock to the Kaifu government, as well as to the Liberal Democratic Party (LDP), because the election of the Lower House is just around the corner and they are very much afraid of the Japanese rice farmer's negative reaction to the above statement. More and more Japanese, however, now admit that sooner or later we shall have to import rice from abroad.

Taking a look at the 1990 political agenda between the U.S. and Japan, the election

of the Japan Lower House will be held in February, followed by the third meeting of the U.S. Structural Impediments Initiations. The USTR's office will make a report of its investigation in March. In April, the countries with unfair trade practices will be identified and a new list of items to be included in further negotiations will be made. In November, U.S. mid-term elections will take place. If the trade imbalance between our two countries does not shrink radically by that time, we are afraid that stronger anti-Japanese feelings will be created on Capital Hill. Meanwhile, no one knows what kind of radical changes may accrue in the areas of world politics and international finance, since there are so many uncertainties in many places and unexpected events can throw a shadow over our relationship.

When we entered 1990, the first year of the last decade of this century, many TV stations as well as newspapers throughout the world did surveys to find out what influential politicians, businessmen, and economists think are the most importance things we should keep in mind in the coming decade.

I choose the following three elements as the most important things to consider:

- (1) The radical changes taking place in Eastern European countries are resulting in instability. The success of forming a new international order or political system based on what Mr. Bush and Mr. Gorbachev discussed in Malta depends on how long Mr. Gorbachev survives in the extremely difficult situation in his own country.
- (2) Almost twenty years have passed since the book *Limit to Growth* by the Club of Rome was published. Now the global environment is said to be very polluted. Lately we hear much about the warming up of the earth, acid rain, destruction of the ozone layer and the elimination of tropical rain forests.

Our precious earth is indeed in a very critical situation environmentally; the harmony of economic growth and protection of nature and the environment must be seriously and promptly pursued.

- (3) In the area of economics, we must tackle the problem of the widening gap in wealth between the countries of the North and the South, including the huge accumulated debts of developing countries. Another problem is the trend toward protectionist trade policies and the forming of economic blocks among the developed countries of the world. Our main concern is how to maintain and expand free trade and open market systems.

Our world is shrinking day by day and world population is growing quickly, particularly in underdeveloped countries. Interdependency among nations is also increasing day by day. We have to tackle those complicated political economic problems I mentioned before and the many other problems which confront us. The U.S., the U.S.S.R., the European Community and Japan are especially expected to take major roles in solving these problems by coordinating resources and bringing hope to the people of the next century. I firmly believe that this is the time for the U.S. and Japan to work closely together to solve many serious problems in the world. The U.S. and Japan, who have the world's two largest GNPs, could together exert much power, politically as well as economically. We should closely cooperate with each other to tackle these serious global issues. I believe our two countries are expected to be the anchor for stability and prosperity in the world.

It is very untimely and unfortunate that Japan's February 18th election, the most important and critical election in our country since the end of the war, comes at a time when strong political leadership is badly needed for Japan and for the U.S.-Japan relationship, as well as for the rest of the world.

As you may know, when the Upper House election took place last July, the LDP won only 109 seats, far less than the 127 seats needed for a majority. For the first time in thirty years, the LDP did not control both Houses of the Diet.

The LDP lost the election for many reasons. First, a company named "Recruit" distributed unissued shares to many influential politicians, particularly members of the LDP. Second, farmers were angry about the LDP's farm product liberalization policy. Third, land values and company stock prices skyrocketed, creating two distinct groups: "the rich" and "the non-rich." Scandals concerning women were also disclosed in connection with LDP politicians. The most important issue, however, was the introduction of the three percent consumption tax last April. The government did not fully explain the purpose of the new tax system to the public, and food items were not exempt from this tax, which made it unpopular, particularly among women.

The chairperson of the Japan Socialist Party, Ms. Takako Doi, fully utilized this opportunity to attack the LDP government. Many women were awakened to the political realities in our country and took a very active role in the election campaign. The Japanese political scene will never be the same again, because so many women now take politics very seriously.

In the coming election for the House of Representatives, the LDP must win more than 257 seats to have a majority in the 512 seat house. In order to fully control the Lower House, a party needs 271 seats. Until last fall, even the LDP was very pessimistic about the forthcoming election. They are now more optimistic, because the Japanese economy is still doing very well, opposition parties are not cooperating with each other, and events in the Soviet Union and Eastern Europe make the Japanese think that the Western political and

economic system is better.

Even if the LDP wins a majority in the Lower House, the LDP, or the government which is supported by the LDP, will have an extremely difficult time in running the country because the Upper House, or the Sangiin, is controlled by the opposition parties. Except for the budget, nomination of the prime minister and the ratification of treaties, all bills which pass the Lower House must be approved by the Upper House.

That is why some of the most influential LDP members repeatedly say that a partial coalition with one or two opposition parties is a "must" to run the government effectively. What they are saying is that if the LDP, which has only 109 seats in the Upper House, could ally with, for instance, the Komeito, or the Clean Party, which has twenty-one seats in the Upper House, this partial coalition would have 130 seats, or enough to control the Upper House.

The Komeito, on the other hand, together with the other opposition parties, insists that the consumption tax should be repealed. It is difficult to conceive that the Komeito would change their platform overnight to join hands with the LDP, who insists that a revised consumption tax system should be accepted.

If the LDP cannot win the cooperation of major opposition parties such as the Komeito, our political situation will be very unstable and no major political decisions will be made.

If the opposition parties win the election by getting more than 257 seats in the Lower House in February, which is unlikely, they will control both Houses.

The Japan Socialist Party's major policies have been to oppose the mutual security treaty with the U.S., to oppose self-defense forces, to oppose the erection and operation of nuclear reactor power generation plants and, of course, to oppose the consumption tax.

Therefore, if the opposition parties win the next election, major Japanese domestic and foreign policies may radically change, including the U.S.-Japan relationship, which, as I have repeatedly said, is the most important relationship, not only for ourselves but also for the rest of the world.

Aside from the forthcoming election, Japan entered the 1990s facing many domestic problems. This is why we need a very strong political leader. We have a huge task before us; first to solve our own domestic problems and second to try to be a good world citizen who will be viewed by the rest of the world with real respect and confidence by helping countries who need our economic and technical strengths. We have a very difficult and painful road before us.

Some domestic problems which require our immediate attention include: the rapid movement towards an aging society; the lack of a proper land-use policy, particularly in urban areas; the existing discrepancy in the weight of electoral votes in national elections between rural and urban areas; the shortage of manpower and the problem of bringing in foreign workers; the movement of manufacturing industries abroad, such as the automobile and electronics industries, and the trend among college graduates to not join manufacturing industries; and, finally, the resource-wasting attitude among our people and the possibility of a "third" oil crisis, which could hit Japan hard.

Although we have many serious social and economic problems, the outside world looks at Japan as a very rich and affluent country. Not too long ago, I had the privilege of

having dinner with a group of U.S. politicians who visited Japan. One of them very frankly posed the following questions: "For some time your countrymen have been working very hard and you have accumulated a huge amount of money. You are now definitely an economic giant. What is your guiding idea, philosophy, or world view on how to spend this enormous amount of money for yourselves and for the rest of the world?"

I honestly was not prepared to answer his question immediately. To my shame, I could give him only a very general, vague, humanistic response, not a specific answer. I know that the gentleman who posed this question to me was not satisfied. I think it is time -- or perhaps the time has already passed -- for the Japanese to seriously think about their goal or mission in this world. Some Japanese may say we have one, but it is unfortunately not clear to the people of other countries.

We Japanese, since the war, are said to think mostly about ourselves, always telling ourselves and others that we are a small, resourceless and poor country, and hoping that the rest of the world would understand and tolerate our self-centeredness. If we continue to think and act this way, now that we are an economic superpower, we will be in danger of being isolated from the rest of the world. We are not strong militarily nor in world politics. We are strong only in the fields of finance and manufacturing. But we are now expected to think not only of our own welfare and happiness, but also the welfare and happiness of people of other nations; in other words, we must think of benefitting other nations. To successfully do our duty, we Japanese must become good politicians and diplomats, on top of being good financiers and manufacturers. Otherwise we may be faced with bitter feelings or even an adversarial attitude from other nations.

I am afraid our world will see more uncertainties and confusion in the coming decade. In spite of Paul Kennedy's best-selling book about the decline of great powers, and

here I mean the United States, I hope and believe that the U.S. will continue to be the world leader for quite some time. No other nation will challenge the U.S. for world leadership in the foreseeable future. Today, it is becoming more apparent that Germany and Japan are using their economic and technical powers to increase their influence in Europe and Asia. However, people in those regions want to have a strong U.S. interest and presence in the regions so that they will grow in a balanced and stable manner.

In the traditional Japanese "Noh" play, there are always a "Shite" and a "Waki." "Shite" is the main actor and "Waki" is the supporting player. I believe that the U.S. will continue to assume the role of the "Shite" on the world stage and Germany and Japan will play the "Waki" parts. Together we should try to make a better world by recognizing our respective roles and capabilities, as well as our limitations.

Thank you.