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WITHDRAWAL SHEET

Ronald Reagan Library

Collection Name MCMINN, DOUGLAS: FILES

Withdrawer

KDB 9/19/2013

File Folder JAPAN - U.S.-JAPAN - TRADE POLICY (2)

FOIA

F11-015

Box Number 5

BENSON, M

14

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
162529	REPORT	RE U.S.-JAPAN TRADE RELATIONS	6	11/23/1982	B1
162530	SCOPE PAPER	U.S.-JAPAN SUBCABINET CONSULTATIONS DECEMBER 6-7, 1982	3	ND	B1
162531	SCOPE PAPER	WORLD ECONOMIC OUTLOOK AND INTERNATIONAL MONETARY ISSUES	1	ND	B1
162532	SCOPE PAPER	FOREIGN EXCHANGE MARKETS DEVELOPMENTS AND AND YEN/DOLLAR QUESTION	2	ND	B1
162533	SCOPE PAPER	U.S.-JAPANESE TRADE RELATIONS	2	ND	B1
162534	SCOPE PAPER	JAPAN: ECONOMIC ASSESSMENT	1	ND	B1

The above documents were not referred for declassification review at time of processing

Freedom of Information Act - [5 U.S.C. 552(b)]

B-1 National security classified information [(b)(1) of the FOIA]

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162534	SCOPE PAPER JAPAN: ECONOMIC ASSESSMENT	1	ND	B1

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MEMORANDUM

INFORMATION

NATIONAL SECURITY COUNCIL

November 6, 1982

MEMORANDUM FOR WILLIAM P. CLARK

FROM: DOUGLAS McMINN 

SUBJECT: Meeting of the Cabinet Council on Commerce and Trade (CCCT), November 8, 2:00 p.m. in the Cabinet Room (U)

Issue

The CCCT will meet with the President on Monday to discuss international trade strategy and specialty steel and be briefed on the work plan of the CCCT for the next two years.

International Trade Policy Strategy

Bill Brock has prepared for the President his personal assessment of the current environment in international trade and his proposed US trade strategy for dealing with the problems and challenges he sees in this area (Tab A). Brock's major theme is that the maintenance of open markets worldwide is now threatened by a rising level of protectionism in the United States and around the globe. In the United States, protectionist sentiment is fueled by unfair trade practices and increased protection abroad, as well as unemployment and falling profits in key industries at home.

Brock is concerned that the political coalition that has supported an open U.S. trade policy has eroded substantially as a result of our inability to solve key trade issues. Many of the major U.S. industries that have supported an open US trade policy in the past have become disaffected. Brock's conclusion is that a new comprehensive trade program for the United States is essential. Brock is also very concerned about the domestic politics of the trade issue -- former Vice President Mondale has seized this issue as a major vehicle in his early Presidential campaign strategy.

To avoid wholesale protectionist legislation in the Congress next year, Brock proposes aggressive and far-reaching U.S. action:

- Agricultural export subsidies (represents a major shift in Administration policy);
- Adjustment assistance (represents a major shift in Administration policy)

- ✓ -- Fast-track import relief (represents a major shift in Administration policy);
- ✓ -- Strengthened Eximbank program;
- ✓ -- Removal of government export disincentives (anti-bribery, antitrust);
- ✓ -- Meaningful substitute for DISC; *test deferral program on efforts which has constituted an export subsidy*
- ✓ -- Stepped-up pressure on Japan to open its market; and
- ✓ -- Improvement in international trade rules as a result of the GATT Ministerial.

Much of Brock's program is highly controversial and will bring to the surface fundamental philosophic and budgetary differences within the Administration.

With respect to Monday's CCCT meeting, we should:

- Support Brock's overall analysis of the current problems related to trade (they are real);
- Point out, however, that trade policy is more than domestic and commercially oriented.
 - o A free trading system, by limiting government involvement in trade, seeks to minimize occasions for governmental disputes over trade.
 - o If we give up the premise of limiting government intervention, more and more trade issues will end up as political disputes (e.g., steel, autos, agricultural subsidies).
- Ensure that the President is not pressed to make issue-specific decisions prematurely.
 - o The chief result of Monday's meeting should be to sensitize the President and Cabinet to the real problems confronting us and to agree that the issues raised by Brock need to be addressed quickly.
- Support strongly a Presidential speech on U.S. international trade policy before the GATT Ministerial on November 24. (Brock will raise this issue at Monday's meeting.)
 - o The timing of a Presidential trade speech is critical internationally (impetus to the GATT Ministerial) and domestically (giving heart to many of our major industries, avoiding Congressional protectionism, and taking a Presidential campaign issue away from the Democrats).

Specialty Steel Determination Under Section 301 of the Trade Act of 1974

Bill Brock has sent two memoranda to the President concerning import relief for our domestic specialty steel industry (Tab B). His October 26 memo recommends that the President take certain action pursuant to Section 301 of the Trade Act of 1974, in response to subsidy practices by a number of our trading partners. These subsidy practices are being followed in the foreign production of specialty steel products.

Initially most agencies of the Trade Policy Committee agreed with the actions under Section 301 recommended in USTR's October 26 memorandum and expected that the President would make his decision on the basis of this memo. However, USTR drafted a second uncleared memo to the President (October 27) on this issue and sent it to the White House as a cover to this earlier decision memo. ⁴This October 27 memo requests that the President meet with our domestic specialty steel industry to give them assurances concerning their petition for import relief under Section 301. These assurances go well beyond what had been agreed to within the government on the specialty steel issue and would commit the President to what many, including myself, believe would be very unwise actions.

The upshot of all this is that now most agencies have reassessed their positions on the specialty steel issue as a whole, and no consensus or near-consensus exists on proper recommendations to the President. Given this fact, we are trying to drop this item from Monday's CCCT agenda. The President should not be placed in the position of making an important decision without proper Cabinet-level review and discussion.

Attachments

DOMESTIC POLITICS

Japan's conservative ruling Liberal Democratic Party (LDP), after an extended internal contretemps, named Yasuhiro Nakasone new party president in late November. He was elected Prime Minister by the Diet and, along with his new Cabinet, was officially installed in office on November 26. He has immediately come under media attack because of the large number of supporters of one-time Prime Minister Tanaka (under a legal cloud in connection with the 1974 Lockheed scandal) included in the cabinet. Despite such criticism and although limited by the same institutional, social, political and economic constraints, Nakasone seems to possess the potential for more vigorous leadership than that of his predecessors. While leaning to a pro-US line, he also seems likely to push for a more independent and self-reliant Japan.

Nakasone inherits a long list of problems--how to handle trade and defense ties with the US, electoral reform, aid negotiations with Korea, former Prime Minister Tanaka's Lockheed bribery trial and, most recently the so-called textbook controversy with Japan's Asian neighbors. He obviously wants to get off to a quick dealing with such problems and to demonstrate strong leadership. As a first step, he will meet the President in Washington in mid-January.

Japan's opposition parties, however, remain in disarray and have been unable to take full advantage of these issues. Although it is still the largest of Japan's opposition parties, the Japan Socialist Party (JSP) is torn by ideological disputes, and faces a steady erosion of its electoral appeal. The Japan Communist Party (JCP) continues to keep its distance from both Moscow and Beijing while remaining hostile to the US. Largely isolated from the rest of Japan's political spectrum, the JCP depends primarily on its pursuit of such popular domestic issues as pollution, public services, and political corruption for its modest electoral successes.

Of greater importance to the future of Japanese politics is the continuing development of moderate opposition parties--the conservative Democratic Socialists (DSP), the Buddhist-affiliated Komeito, the LDP splinter New Liberal Club (NLC), and the Socialist break-away Social Democratic Federation (SDF). These parties find considerable support among younger urban voters and tend to share a common interest in close US-Japan ties, moderate economic policies and a somewhat stronger Japanese defense posture. However, inasmuch as the middle-road parties are still unable to resolve differences with each other, as well as with the Socialists and the LDP, their prospects for forming a coalition that offers a viable alternative to LDP rule remain on the horizon, but for the moment still beyond reach.

US-JAPAN ECONOMIC RELATIONSHIP

ESSENTIAL FACTORS

Review of the Relationship

Despite trade and other frictions, the overall state of the US-Japan economic relationship is generally healthy, and the Japanese hope to use discussion on this item to put trade frictions in perspective. The US and Japan are the largest and second largest industrial democracies. Their economies are becoming increasingly interdependent, bound by myriad commercial relationships and economic activities.

Trade is a large factor in the relationship. Two-way trade between the two countries is expected to total more than \$60 billion this year. The US is Japan's largest trading partner, buying 25 percent of Japan's merchandise exports, and Japan is the second largest foreign market for the US, purchasing 12 percent of US exports. US trade with Japan is roughly equal to US trade with the FRG, France and England combined. Japanese trade with the US is larger than Japanese non-oil trade with Asia and almost double Japan's trade with Europe.

The similarity and complementarity of the two economies provide enormous market opportunities and a stimulus to two-way trade, capital and technology flows. The US is Japan's largest supplier of agricultural commodities. Both countries are also becoming increasingly dependent on bilateral trade in manufactured goods as a consequence of intra- and inter-industry specialization and the gains specialization brings. Each country is the other's largest supplier of manufactured goods. Bilateral service trade has also expanded dramatically and now accounts for at least one third of total bilateral trade.

Increasing bilateral economic interdependence is also reflected in the growth in long-term capital flows, both portfolio and direct investment. By the end of 1981, US direct investment in Japan totaled approximately \$6.8 billion. This represented 3 percent of total US foreign investment, and 60 percent of foreign investment in Japan. Japanese direct investment in the US, by the end of 1981, totaled some \$6.9 billion, accounting for some 7 percent of total foreign investment in the United States.

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As allies and the world's two largest importers of oil, each country has a considerable interest in the energy policies and security of the other. U.S. decontrol of domestic petroleum prices has been welcomed in Japan as a step toward increasing domestic production and reducing consumption, thereby reducing US pressure on world oil markets. The US and Japan have similar interests as avoiding oil supply disruptions, maintaining the political stability and security of petroleum exporting countries, building up petroleum stockpiles, stimulating development of new energy sources, and diversifying sources of supply. We cooperate bilaterally on nuclear fuel reprocessing, joint research projects and other matters.

Relations with third countries and approaches to global problems are also important parts of the overall economic relationship. The US and Japan have generally pursued parallel and cooperative policies in these areas based on a sharing of broadly similar values and interests. Japan stood with us and our European allies against Soviet aggression in Afghanistan and interference in Poland. When the Soviet Union intervened in Afghanistan, Japan cooperated with the United States in boycotting the Moscow Olympics and in participating in economic sanctions against the Soviet Union. Japan also increased its foreign assistance to Pakistan. Following the assassination of President Sadat, Japan also buttressed Egypt's new government with increased aid. In Korea, Japan's economic assistance has complemented our own defense and economic efforts. In addition, the US and Japan both work with member states of ASEAN to promote economic development in Southeast Asia. Finally, Japan has borne much of the cost of Indochinese refugee programs, and in October Tokyo announced a new Japanese-funded program to train and provide health care to US-bound refugees.

In international fora, the Japanese almost never get out in front on an issue, preferring instead to wait until other countries commit themselves. On North/South issues, they often take positions mid-way between the US and the developing countries. Developing countries provide about 60 percent of Japan's imports and purchase nearly 50 percent of Japan's exports. Japan has become an important source of overseas development assistance within the OECD framework and is committed to a further major expansion of that effort. Japan has joined the US and other OECD countries in agreeing to guidelines for Export-Import Bank financing of commercial transactions.

Future Prospects

We want to continue and intensify the broad and largely cooperative pattern of interaction which has characterized US-Japan economic and political cooperation, both bilaterally and globally, in recent years. Increased cooperation would contribute greatly to world stability and peace and to achievement of our foreign policy objectives. It can be placed in jeopardy if we do not handle bilateral problems skillfully.

Japan's new importance on the world stage is not just a result of its economic and commercial endeavors. Increasingly, it also derives from Japan's expanded (albeit still cautious) political and diplomatic activities. This stands in sharp contrast to the situation only a few years ago when Japan's leaders felt obliged to pursue a non-political role, reactive rather than active, in world affairs.

We want to work in close partnership with Japan in resolving bilateral issues, in meeting global challenges and in maintaining the international economic and political systems. To do this, we want to encourage Japan to play an expanded role in international affairs, particularly in the economic area, commensurate with its position as the second largest industrial democracy. Japan's leaders and opinion-molders are coming to realize that Japan's national interests are best served by positive and active international involvement. We want to support and encourage this trend.

This is not to say there are not, and will not be, major irritants in the relationship. First and foremost, trade issues are, and will continue to be, real sources of friction which must be squarely addressed. Given the importance of our overall relationship, however, both countries should seek to deal with bilateral disagreements in a positive and constructive spirit. Progress can be made toward equal market access, toward additional economic cooperation and toward a more equal defense role provided we and the Japanese remain conscious how great the benefits are of the close relationship that has prevailed between our two nations for more than 30 years. We thus want to emphasize a cooperative approach, whereby the US and Japan strengthen their joint efforts in this regard.

TALKING POINTS

o Together our two countries produce about 35 percent of world output and are responsible for almost 20 percent of world trade.

o The interdependence between our two countries is striking. Total bilateral trade will reach more than \$60 billion this year. Each country is the other's largest overseas trading partner. The similarity and complementarity of the two largest economies in the free world provide enormous market opportunities and are important stimuli to trade, capital and technology flows.

o We have similar interests on many energy issues, such as avoiding oil supply disruptions, maintaining the political stability and security of petroleum exporting countries, building up petroleum stockpiles, stimulating development of new energy sources, and securing diversified sources of supply. Our two countries are cooperating in of these energy areas.

o Our two countries are also working closely together on many international economic matters and in international fora based on shared fundamental values and interests.

o We appreciated Japan's support and cooperation in preparations for the GATT Ministerial and at the Ministerial itself. We look forward to continued cooperation on East-West relations. In addition, we are cooperating on global negotiations and other aspects of the North/South dialogue and are cooperating on economic assistance to developing countries, such as the ASEAN nations.

o Your increased economic assistance to Egypt, Pakistan, and Turkey over the last few years, has also promoted mutual goals and served our mutual interests.

o Cooperation on global issues does not imply that our two countries must always have identical policies toward each issue or region. Differences in economic, geographical and political situations do lead to differences in interests or the perception of interests in some situations. In most cases, however, our fundamental values and interests tend to lead toward parallel, mutually reinforcing actions.

o There are, of course, inevitable frictions in any relationship so comprehensive and interdependent as ours. Trade frictions are particularly troublesome.

o As the discussions on trade these last few days have shown, there are a number of issues which need to be resolved: excessive tariffs on some items, agricultural quotas, a number of non-tariff barriers, certain business practices, etc. In our view, Japan must make more visible progress in reducing its remaining barriers to trade and opening its markets if we are to hold off protectionist sentiment in the US and in the US Congress.

o As we look to the future, we have been encouraged by Japan's willingness to play an expanded role, and sometimes to take on a leadership role, on a number of international issues. It is a trend we support and encourage. Japan's international role should be commensurate with its economic size and the global reach of its interests.

o We would also like to redouble our efforts in working with you in close partnership. Our success in maintaining a mutually beneficial relationship is not only vital to our own prosperity and security but critical to the world as a whole. Progress in solving the broader problems of the international economy depends in large part on our close and effective cooperation.

Drafted:EA/J:AJCroddy:eh
11/22/82 ext. 23152

WSJ

11/11/82

U.S.-Japan Salvos

D. McManis

Trade frictions between the world's two largest market economies have been getting uglier than usual. The Japanese are growing more and more irritated by the hectoring and often inconsistent demands by U.S. politicians. Meanwhile Americans, especially those most committed to free trade, are increasingly upset that Japan isn't doing enough to eliminate its few remaining trade barriers. Here are some suggestions for both sides.

For the Americans, let's stop complaining about the bilateral trade deficit until the U.S. Congress decides to lift the ban on the export of U.S. oil. That action alone could slash the U.S.-Japan deficit by billions.

And let's not hear anything more about the "undervalued" yen. The dollar has appreciated against all major currencies, as a result of domestic monetary policy and expectations about future U.S. financial stability and economic strength. There is no evidence that the Japanese have manipulated exchange rates to keep the yen low; on the contrary, officials such as Bank of Japan Governor Haruo Mayekawa have publicly expressed worries that the depreciation of the yen is *hurting* the Japanese economy. In any case, liberalized access to Japanese financial markets, which U.S. officials are also (quite properly) pushing for, would further depress the yen, at least in the short run.

Finally, let's hear a little less demagoguery about how Japanese customs inspections and the like are all that keep U.S. car companies and other manufacturers from swamping the Japanese market. Anyone familiar with, for example, the size of Tokyo parking places and the quality of small U.S. cars, as well as the price differential—the average retail car

price is \$3,000 lower in Tokyo than in New York—will tell you that just isn't so.

On the Japanese side, we'd like to see more attention to the political balance between free-trade and protectionist forces in the U.S. and other Western countries. It is hard to overemphasize the damage that will be done both to Japanese export interests and to the world economy in general unless the free-trade forces are given something to fight for. And that means a stronger Japanese commitment to trade liberalization, particularly in agriculture, tobacco and high technology.

Ruling Liberal Democratic Party politicians in Japan may feel that they have gone as far as they can in liberalizing; in particular, they fear that possible inroads by the Socialist opposition into their rural power base make it difficult to lower barriers on rice, citrus and beef imports. But at the same time, they might want to pay attention to the weakening of the free-trade coalition in the U.S. The U.S. labor movement, once the strongest political supporter of free trade, has already turned protectionist. Even the U.S. farm lobby can no longer be counted on to oppose domestic protectionism; instead its major trade issue these days seems to be complaining about export rebates by the European Common Market.

Such groups, as well as U.S. and European hi-tech exporters, can be brought back onto the free-trade bandwagon. But they need a good reason and they need something to show for their efforts. Japan, which would lose more than any other economy from a world trade war, could play a much stronger role in preventing one, by removing its remaining trade irritations.

U.S.-JAPAN TRADE FORECAST
AND MAJOR ASSUMPTIONS

U.S.-Japan Trade
(Billions of Dollars, f.a.s.)

	<u>Exports</u>	<u>Imports</u>	<u>Balance</u>
1978	12.9	24.5	-11.6
1979	17.6	26.3	-8.7
1980	20.8	30.7	-9.9
1981	21.8	37.7	-15.8
1982	20.1	37.6	-17.5
1983	18.6	42.3	-23.7

Assumptions
(Percent Change)

	Real GNP		Exchange Rate (y/\$)*	
	<u>U.S.</u>	<u>Japan</u>	<u>Annual</u>	<u>4th Qtr/4th Qtr</u>
1980	-0.2	4.2	-4.5	6.4
1981	1.9	3.0	3.4	-1.5
1982	-1.5	3.1	-13.9	-15.6
1983	4.0	3.4	1.8	12.5

*Note: Minus sign indicates a yen depreciation.

DOC/ITA/TD/TIA/OTIA
November 22, 1982

UNCLASSIFIED

The U.S. merchandise trade deficit with Japan is expected to be \$10 billion for 1982, compared to \$15.8 billion last year. The deterioration this year is the direct result of lower exports to Japan. Exports have been adversely affected by sluggish growth in the Japanese economy, an appreciated dollar, and lower prices for agricultural exports. For the full year, exports are expected to be 8 percent lower than last year, or approximately the same value as in 1980. Imports from Japan are expected to about the same level in 1982 as in 1981, breaking a two year pattern of approximately 20 percent annual increases. The recession in the U.S. economy and voluntary Japanese restraints on automobile exports are the major factors holding back import growth despite the appreciated dollar.

In 1983, an even more substantial deterioration in the U.S. trade balance with Japan is anticipated. The U.S. economic recovery will induce an increased demand for imports and increase the deficit to approximately \$24 billion. Exports to Japan will again be affected by relatively sluggish growth in the Japanese economy and also by the lagged effects of the 1982 yen depreciation. Only during the latter half of 1983 do export prospects appear more favorable--a yen appreciation during the year will offer improved export prospects. Even on a quarterly basis, however, the trade deficit with Japan is projected to continue to increase as imports increase faster than exports.

Assumptions. The forecast is based on assumptions consistent with a general consensus on the economic outlook for both countries. The major components of the outlook include: U.S. real GNP growth of 4.0 percent, Japanese real economic growth of 3.4 percent, and a slight appreciation of the yen amounting to 1.8 percent. The forecast would be altered under different assumptions, but it should be noted that slightly altered assumptions will not make a drastic difference. Imports are nearly twice the value of exports, so to keep the deficit unchanged in 1983, export growth would have to be nearly double the projected import growth rate.

Prepared by:
Gary Keynon (377-3124)
Office of Trade & Investment Analysis
Department of Commerce

UNCLASSIFIED
DOC/ITA/TD/TIA/OTIA
November 22, 1982

MEMORANDUM

NATIONAL SECURITY COUNCIL

ACTION

November 29, 1982

MEMORANDUM FOR MICHAEL O. WHEELER

FROM: DOUG McMINN

SUBJECT: My Travel to Japan for the US-Japan Subcabinet
and Trade Subgroup Meetings (U)

As you know, I'll be leaving tomorrow for Tokyo (November 30) for economic and trade talks with the Japanese. The head of the US side on trade issues (Ambassador Macdonald), his staff and other delegation members will be traveling business-class.

In order to be included in delegation discussions on the plane flight to Tokyo, I would like authorization to upgrade my ticket to business-class. The return flight would remain coach-class.

Approve _____ Disapprove _____

cc: Pat Plauth

MEMORANDUM

INFORMATION

NATIONAL SECURITY COUNCIL

December 14, 1982

MEMORANDUM FOR WILLIAM P. CLARK

FROM: DOUGLAS W. McMINN 

SUBJECT: Trip Report - Tokyo, Japan, December 1-8 (U)

The US-Japan Trade Subcommittee and Subcabinet meetings were held in Tokyo on December 3-4 and 6-7, respectively. I participated in both sets of formal meetings as well as in a number of informal bilaterals with officials from the Japanese government and private sector. The trip (in advance of Prime Minister Nakasone's visit to Washington) was very useful for me, even though we made little or no progress on the bilateral trade issues that were discussed formally.

Trade Subcommittee Sessions

The Trade Subcommittee consultations, headed on the US side by Ambassador MacDonald of USTR, were extremely difficult, primarily because US-Japan bilateral trade relations are at a post-World War II low. For the past 18 months the US has had a laundry list of trade problems that it has been pressing the Japanese to solve. These problems include tariff and non-tariff barriers on US manufacture exports, Japanese import procedures, agricultural trade (e.g., barriers to our beef, citrus and tobacco exports), standards-related issues such as Japan's certification procedures and Japanese industrial policy.

MacDonald pushed the Japanese hard for solutions to our trade problems. He reiterated a now old refrain that major openings of the Japanese market are needed to deflect growing protectionist pressures in the US. Specific Japanese responses to individual US requests were asked for by January 1, 1983. Realistically, we will probably not see any positive movement on the part of the Japanese on these issues before Prime Minister Nakasone's visit to Washington in mid-January. The Trade Subcommittee sessions brought home the fact that a growing danger in our bilateral relationship is that Japan underestimates the intensity and nature of protectionist forces in the United States and their relationship to the 1984 Presidential election process.

US-Japan Economic Subcabinet Consultations

The Subcabinet sessions produced a general dialogue on a number of important bilateral and multilateral issues and developments, but (with the exception of the report of the Trade Subcommittee) were low key and could best be described as a "study in mediocrity."

Both sides agreed on the importance of working closely together in managing global economic problems, such as global economic recovery, LDC debt, international energy issues, and other matters. The Japanese were also strongly supportive of US views on East-West economic relations and GATT Ministerial follow-up issues, and on a range of developing country issues including global negotiations, economic cooperation among developing countries, and joint aid projects.

Informal Bilaterals

The informal bilaterals were themselves worth the trip to Tokyo. The most notable of the meetings were with the chairman of the Keidanren, Mr. Yoshihiro Inayama (Director of Nippon Steel Corporation); with the leadership of the Liberal Democratic Party (Diet members); and with Mr. Kazutoshi Hasegawa, Executive Assistant to Prime Minister Nakasone. These three meetings represented a cross-section of Japanese economic and political leadership. From these and other meetings it is clear that the Japanese:

- Consider US-Japan trade issues to be the major problem in our bilateral relationship;
- Recognize the critical importance of the US as an open market for Japanese exports;
- Tend to consider our current bilateral trade problems to be similar in scope to those appearing periodically in the past;
- Mistakenly assume that US domestic economic recovery will eliminate or substantially reduce pressures for Japan to open its market;
- Underestimate the intensity and nature of protectionist forces in the US;
- Are extremely nervous about the Nakasone visit to Washington which comes at a time when he is still politically tenuous at home.

cc: Norm Bailey
Henry Nau
Gaston Sigur

Washington Post, pA22

Thursday, December 16, 1982

Japan as the Political Issue

FOREIGN TRADE—and specifically trade with Japan—seems to be emerging as the central issue in this early phase of the next presidential election. Sen. Robert Dole offered a few sharp remarks yesterday on the possibility that a “limited” trade war might be required to focus Japanese attention on American complaints. The trouble with a limited trade war, like other kinds of limited war, is that it sometimes runs beyond the limits. But Sen. Dole was trying to tell the Japanese that if they fail to work toward reasonable solutions, they risk highly unreasonable solutions.

The senator offered that thought on a day that provided a rich and full display of horrible examples of what might come next. The steel industry was back in town, shrieking as usual about the awful injustice of allowing effective competition into the American market. Earlier this fall, in response to steel imports from Europe, the Reagan administration extended the European steel cartel and its market-sharing formula to the United States. It was hardly a triumph for the principles of the free market. But the cartel covers only European steel, and now the American companies want similar protection from the Japanese producers. If they get it, you will presently begin hearing from them about the unfairness of competition from Korea, Taiwan, Mexico and so forth.

Meanwhile, the two houses of Congress were debating other sorts of restrictions. Should the steel and concrete for federally aided highway repairs be limited to American products? Should Toyota and Datsun automobiles be barred from this country under a local content rule? Both of these ideas are utterly misguided. But if they aren't enacted this month, they will be back in January, big as life, in the next Congress.

What should Japan's new government do? First, it needs to begin negotiating, seriously and rapidly, on some of its own highly visible import restrictions. Mr. Dole mentioned the Japanese quotas on beef and citrus fruit. Second, and much more important, it needs to ensure that the recent rise of the yen's exchange rate continues. Japan has to accept the truth that it is impossible for other countries, suffering very high unemployment at home, to allow Japan to maintain its own economic growth courtesy of an undervalued currency. When the yen approaches its true trading value, Japan will find that the political tension with its friends and allies has been correspondingly reduced. Japan is being asked to accept lower growth, in a time of world recession, as its contribution to the preservation of an open system of world trade. The prospects for a real economic recovery—whether in Japan, Europe or North America—depend crucially on keeping that trading system open.

THE UNITED STATES TRADE REPRESENTATIVE
WASHINGTON
20506

December 22, 1982

Should be a two pg memo with attachments

DRAFT

[Handwritten initials]

buy it?

Japan's willingness to open its market to our products and those of our trading partners, and desire to open the referendum, is perhaps the key element determining the result of

MEMORANDUM FOR THE PRESIDENT

FROM: Ambassador William E. Brock

SUBJECT: Japanese Prime Minister Nakasone's January 17-19 Visit and the Trade Issue

Context

- o From the standpoint of international trade, no visit by a foreign head of state is likely to be as politically important for your Administration as that of the Japanese Prime Minister. Yasuhiro Nakasone is coming to the United States at a time when Japan's trade policies and practices are viewed by many Americans (correctly or not) as unfair as well as the cause of lost jobs.
- o Congress has before it the domestic content bill; other protectionist legislation seems certain to be introduced when the new Congress meets. The year 1984 now looks as though it will be a referendum on the trading system that has been built over the last 35 years.
- o ~~In short,~~ there is widespread and growing popular sentiment against free trade, much of which is fueled by Japan's continuing trade surplus with us, up this year to \$18 billion from \$16 billion in 1981, and expected to rise to some \$24 billion in 1983.
- o The bilateral trade imbalance per se is not the real problem, since the United States itself has a surplus with other trading partners, notably the European Community. But, while Japanese goods have come to occupy a powerful place in the U.S. marketplace, Japan continues to maintain barriers against competitive U.S. exports of such products as beef, citrus, cigarettes, and a variety of manufactured goods. This creates a strong belief among Americans that Japan's trade policies are unfair. Particularly in a time of economic difficulties, the Japanese appear to be attempting to take advantage of the system by targetting exports and restricting imports.

Although the Japanese have honestly attempted to respond to our proposals that they dismantle their import barriers, and have made some progress, the following Japanese policies illustrate the barriers still facing U.S. exports:

-- Standards and Certification Problems

*→ into the problems
generically &
have
an
appendix
with more
detail*

In Japan, domestic manufacturers use a simple procedure for obtaining certification that products are in conformity with specifications. Japanese manufacturers capable of demonstrating compliance with mandatory and voluntary requirements can have their factories 'registered' and avoid individual inspection of products.

Under the Japanese system, foreign manufacturers can not have their factories 'registered'. Instead, foreign products are routinely subjected to 'lot inspection' -- the dockside inspection of samples from each lot of imported products to determine conformity with specifications. Thus, foreign producers are not assured that exported products will be approved and must tolerate burdensome, time-consuming and expensive uncrating and testing of their products.

Examples:

1. Metal Softball Bats: For three years U.S. producers have sought to re-enter the Japanese market only to be blocked by private and government barriers that prohibit them from obtaining factory 'registration' and the mandatory 'S' (for safety) mark. Currently, the U.S. Government is pursuing this case under the GATT Agreement on Technical Barriers to Trade (standards code) and through extensive bilateral consultations.

2. Motor Vehicles: Japanese producers exporting to the United States are permitted to 'self-certify' compliance with U.S. requirements and, thus, are not subjected to costly and time-consuming individual inspections. Despite the small number of U.S. cars imported into Japan (fewer than 5,000 in 1980) and the fact that Japanese officials witness tests in the United States each and every American vehicle sent to Japan must be individually inspected.

-- Other Barriers

Agricultural Quotas: Japan maintains GATT-illegal quotas on 19 categories of agricultural goods. The most important of these, from the viewpoint of U.S. export potential, are on beef and citrus products. The Japanese have been totally unwilling to discuss either the ultimate elimination of these quotas or any schedule to achieve that goal.

Manufactured Tobacco Products: Japan is the world's fourth largest market for these products, including cigarettes, cigars, and pipe tobacco. But she maintains high tariffs (35 percent on cigarettes and cigars, 60 percent on pipe tobacco). Moreover, a state monopoly (JTS), with exclusive rights to production within Japan, also controls and restricts the marketing, advertising, and distribution of all imported tobacco products. Recent allegations in the Wall Street Journal of discriminatory tactics by JTS sales personnel in removing foreign cigarettes from vending machines, and taking foreign advertising materials away from retail outlets, were admitted by the JTS, which promised to stop the practices. Although progress has been made on the distribution issues, the effect of the tariff is to keep the price of U.S. cigarettes substantially higher than their Japanese rivals. Hence, U.S. market share, which in Europe, Hong Kong, and elsewhere ranges from 25 to 50 percent, is confined to 1.5 percent in Japan.

Government Procurement: In 1980, after intensive negotiations, a bilateral agreement was signed between the United States and Japan opening procurement for Japan's Nippon Telegraph and Telephone Corporation (NTT) to foreign manufacturers. This agreement "equalized" the access that Japanese electronic companies have to the U.S. telephone market. In the year and a half since the agreement, however, U.S. sales of sophisticated telecommunications equipment to NTT have been \$ million, while the Japanese have sold \$ million of equipment to the United States. The U.S. equipment is competitive with the Japanese in third country markets and if the agreement is to be renewed, significant sales of U.S. equipment must be forthcoming.

Type Approval Problems: A constant problem for U.S. manufacturers seeking to penetrate the second largest market in the world is that of prolonged delays of official approval of the product. A U.S. maker of headphones, for example, struggled for the better part of a decade to get approval from NTT for use of the headphones in combination with Japanese telephone system equipment. Sometimes that period of delay is used by Japanese firms to develop a competitive product which then rapidly dominates the market. The U.S. semiconductor industry is one group that particularly alleges that "buy-Japanese" attitudes and practices often result in the disappearance of Japanese markets for specific U.S. semiconductors once Japanese firms begin to produce similar devices.

Industry Targetting

The Japanese Government follows an industrial policy in which certain industries are selected as key to national economic development, and targetted for government assistance. The policy tools used to foster development of target industries may effectively limit U.S. access to the fastest growing segments of the Japanese market, as well as influence competition in the United States and other export markets, by affording the selected Japanese firms significant advantages in the form of cost and risk subsidization. This is particularly troublesome where Japan has targetted industries in which the United States presently enjoys a leading position, such as computers, telecommunications, aerospace, and others.

One problem in this area in U.S.-Japan trade relations that will come to you for decision in the near future is that involving a petition concerning Japanese numerical control machine tool exports to this country. Houdaille Industries, a domestic producer of numerically controlled (NC) machine tools, has alleged that the Japanese Government has created and maintained a cartel in the machine tool industry since the early 1950s as part of Japan's industrial policy. The Japanese Government is said to have backed the cartel with tax breaks, concessionary loans, R&D subsidies, and other incentives, including grants from funds generated from wagering at bicycle and motorcycle tracks. As a result of the cartel, the Japanese machine tool industry has become a world leader in technological development, has gained a dominant position in its own market, and has become a major force in the U.S. market. Houdaille contends that these policies have unjustifiably restricted U.S. commerce. They have requested that you use your authority under Section 103 of the Revenue Act of 1971 to deny purchasers of Japanese numerically controlled machine tools the investment tax credit. An interagency task force chaired by my Office has been investigating the allegations contained in the petition. The results and a recommendation will be forwarded to you in the very near future.

Really?
A

Japanese Objectives

Japan will have two objectives for this visit: (1) Obtain U.S. blessing that Japan is an open market; and (2) avoid making hard decisions by pointing to U.S.-Japan meetings already scheduled at which trade issues are to be discussed. We should not give such a blessing, nor should we accept future meetings as adequate.

The Japanese have been following a pattern of no action for long periods while pressure builds abroad, then responding with a package of initiatives which are steps in the right direction, but which do not result in any significant opening of the market. When confronted with strong foreign pressure last spring, Japan produced such a package which accomplished their objective of getting through the Versailles Summit unscathed. No significant progress has been made on trade issues for the remainder of 1982.

We see the same pattern developing again. Pressures in Europe and the United States are extremely strong. The Japanese are frantically trying to determine what actions will defuse the situation sufficiently in the United States to permit a successful Nakasone visit. The concessions Japan will offer are unlikely to resolve any major problems. If Nakasone does not leave his meeting with you convinced that the trade problem is explosive and that he must move quickly to address it, then it is unlikely we will make much progress over the next six to twelve months. If there is no real progress within that period, congress may move in such a way as to take the initiative in trade policy away from the Administration.

Recommendations

1. That the trade issue be given top priority treatment in the visit, recognizing that there is no greater issue between our two countries as perceived by the American public.
2. That the trade policy objectives of the visit be twofold:
 - a. to secure significant Japanese movement toward U.S. objectives in the short run; and
 - b. to educate Prime Minister Nakasone as to the serious problem confronting Japan with the United States today, and as to what steps he needs to take in the near and mid-term future to overcome that problem.

Suggested talking points will be provided through the interagency coordinating process of USTR.

3. That prior to Prime Minister Nakasone's visit you meet with highly regarded leaders of the U.S. business, farm, and labor communities, who should both express their views and listen to your views of the Japan trade issues.
4. That the trade aspects of the Prime Minister's visit be coordinated by USTR through the normal interagency process in order that the U.S. Government speaks with one voice.

Bureaucratic response
if you have to ask if you ask of it



Don
RTH

Yaf

DEC 20 1982

MEMORANDUM FOR David R. Macdonald
Deputy U.S. Trade Representative

FROM: Lionel H. Olmer
Under Secretary for International Trade LHO

SUBJECT: U.S. Desiderata for Nakasone Visit

Below is a list of items to be considered in order to determine whether they should be included in any listing of U.S. trade requests for the forthcoming Nakasone visit:

- accelerated, substantive tariff reductions on items the U.S. has specified, including computer equipment, paper products, tobacco and seafood.
- * - resolution of the soda ash and paper cartel cases; and an announcement that import consortia in petrochemicals and lumber will not be authorized.
- * - a commitment that any renewal of depressed industry legislation or any formation of depression or rationalization cartels will include strict sanctions against import-restricting behavior and specific mechanisms to ensure that the views of foreign firms participating in an industry are adequately represented.
- a commitment that U.S. suppliers of nuclear equipment currently participating in joint development programs will have a substantial share of the contracts for plant and equipment purchases when projects move into the construction phase.
- a commitment that target industry programs will be open to qualified foreign firms.



- reaffirmation of the Japanese commitment to make NTT procurement as open as the U.S. telecommunications market, including a specific commitment to work with NTT management to ensure that all steps are taken to provide foreign bidders with equitable access to NTT.
- a commitment to a third year of voluntary restraints on Japanese automobile exports to the U.S.
- a commitment to the original goal of increasing auto parts imports from the United States and increasing purchases of U.S. parts for installation in Japanese cars in the U.S. -- including the after-sales market.

an affirmative program to promote foreign investment in Japan, including facilitated access to regional/industrial development funding institutions.

- an improved, strengthened OTO with the power to negotiate solutions where import barriers exist, and an effective appeals mechanism for firms dissatisfied with the OTO "explanation."
- adoption of the recommendations of the Work Group on High Technology Industries.

bcc: ~~Cast~~