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REAGAN'S MESSAGE TO JAPAN'S TAKESHITA

Japanese Prime Minister Noboru Takeshita arrives in Washington on January 12 for his first visit with Ronald Reagan since assuming the reins of government in Tokyo seven weeks ago. With the growing tension in the U.S.-Japan bilateral trade relationship, this visit could set a tone for U.S.-Japan relations that will extend well beyond the end of the Reagan Administration. Washington's relationship with Tokyo long has been one of the most important in the world. The special rapport that former Prime Minister Yasuhiro Nakasone and Ronald Reagan developed did much to strengthen these ties. Nakasone, in office for five years, was particularly effective in areas of concern to the U.S.--establishing Japan's place as an active member of the Western democracies, pressing Japan's defense cooperation as far as domestic sentiment would permit, and beginning to articulate the need for fundamental changes in Japan's economy.

New Assertiveness. While Japan traditionally has limited its defense budget to around 1 percent of its gross national product, its defense expenditures nonetheless increased by 46.5 percent from 1981 to 1986. Equally important has been Japan's willingness to support Reagan's Strategic Defense Initiative (SDI) and to develop technology for it. Japan also demonstrated a new assertiveness against the Soviet Union in November, when its U.S.-designed F-4 Phantom fighters fired warning shots at a Soviet TU-16 bomber violating Japanese airspace. Though such Soviet violations have been common, it was the first time since 1945 that Japanese forces had taken such steps. Additionally, Japan, at U.S. urging, has increased its aid to developing nations, particularly in Asia. Of special interest to the U.S.: Japan has increased its economic assistance to the Philippines from \$240 million in 1985 to \$430 million in 1986.

Overshadowing these positive aspects of the relationship has been a continuing strain in U.S.-Japan economic ties. Nakasone's promises to open Japanese markets to U.S. goods had mixed results. While U.S. import sanctions against Japanese computer chips were lifted in November, Tokyo still is perceived to be hindering other U.S. business access to the Japanese market. Even worse has been the "Toshiba incident," in which that Japanese firm sold critical submarine-propeller technology to the Soviets. This makes U.S. efforts at identifying and tracking Soviet submarines much more difficult. Another serious irritant is Japan's refusal to allow U.S. firms to compete for public works contracts in Japan.

Note: Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

It is believed that Takeshita will use his visit with Reagan to demonstrate, as Japanese officials privately say, that he is "a man of action" and "someone who can be trusted." For his part Reagan must emphasize to his guest that key issues on the U.S.-Japan agenda require resolution. Among them:

1) Increased Japanese contribution to free world security. Japan should continue to counter the Soviet military buildup in the Far East by expanding Japan's military exercises with the U.S., increasing the number of its fighter squadrons, and modernizing its maritime fleet to provide greater coverage of Japan's sea lanes. It also should accelerate its participation in the U.S. Strategic Defense Initiative. In regional matters, Japan should boost its aid to the Philippines.

2) Faster action on opening Japan's markets to U.S. goods and services. Reagan should point out to Takeshita that Japan's trade barriers not only harm American exporters, but lower the standard of living for the Japanese people. Japan's overreliance on export-led growth subjects it to serious economic dislocations when the value of the yen rises. The real imbalance between Japan and the U.S., Reagan should say, is Japan's reluctance to deregulate its economy and foster economic growth. It is that, not U.S. interest rates, which are the heart of the problem. As such, Reagan should make clear to Takeshita that the U.S. will not raise interest rates at home in order to shore up the value of the dollar in foreign currency markets. If Japan eases import restrictions on agricultural products, removes discriminatory licensing requirements, and liberalizes its wholesale and retail distribution system, this will create a more balanced Japanese economy, ease American protectionist pressure, and add stability to currency markets.

3) Allowing U.S. firms to compete for Japanese public construction contracts. Japan made it nearly impossible for U.S. companies to bid on \$60 billion in Japanese public works projects; while Japanese companies earned \$2 billion in 1986 on U.S. projects. Rightly angry over this, Congress has passed legislation to prohibit Japanese firms from bidding on U.S. public works projects until Tokyo opens its doors. Reagan should make the point that, unless these doors open, his hands are tied in terms of resisting similar future legislation. Further, Reagan should tell Takeshita that the Administration is opposed to U.S. domestic content laws which, among other things, place legal limits on foreign participation in U.S. public works projects.

Reagan and Takeshita have the opportunity this month to instill some much needed confidence in the world's financial markets and to reaffirm to U.S. friends and allies in the Asia-Pacific region that both countries will contribute their share to the Free World's defense. How Takeshita responds to the suggestions from Reagan will set the course for U.S.-Japan relations for years to come.

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For further information:

Lindley H. Clark, Jr., "Japan and U.S. May Be Entering a New Relationship," *The Wall Street Journal*, December 31, 1987.

Gregg A. Rubenstein, "Guidelines for Increase of U.S.-Japanese Defense Technology Cooperation," Heritage Foundation Asian Studies Center *Backgrounder* No. 70, October 26, 1987.