U.S.-JAPAN TENSIONS IN A CHARGED ECONOMIC ENVIRONMENT

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Rising tensions between the United States and Japan reflect the massive — and relatively recent — shifts in trade and capital balances between the two nations. These shifts have resulted from major differences in beliefs and behavior between the two countries in:

–Trade policy and financial practices, especially our definition of "free trade," "national treatment," and "reciprocal market access."

–Internal economic policies governing consumption, savings, and investment.

–Responsiblity for debt burdens of developing nations and defense burdens of the free world.

–Geopolitical relations and moral obligations toward developing democratic states such as Israel and against oppressive states such as South Africa.

U.S. trade policy is based on a fundamental belief in free markets, national treatment, and international rules of trade as first established in 1947 through the General Agreement on Tariffs and Trade (GATT). This point of view holds that trade flows between nations should be unfettered, and, as a result, the highest quality, lowest priced goods and services are made available to the consumer. Thus, foreign corporations operating abroad are treated as domestic corporations within that country. Countries treat industries the same and do not deem any industry essential to military or economic security or to their national prestige. Finally, if a concession is granted to one GATT nation, it is automatically granted, regardless of merit, to the other signatory nations.

After World War II, U.S. policy shaped by these beliefs led to the restoration of international economic order. Through such initiatives as the United Nations and the Marshall Plan, the United States promoted global economic development and expansion. Institutions to sustain and regulate international trade, such as GATT, the International Monetary Fund and the International Court of Settlements, were established. The United States has continued to lend expertise and capital abroad, investing in foreign industries, and supporting international organizations such as the World Bank, that provide development assistance and debt relief. Most importantly, the United States

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has kept its own market open to imports in the belief that our example would be its own best reward and other nations would follow our lead.

The world trading system and the U.S. open market allowed the Japanese export-driven economy to flourish. In the four decades since World War II, Japan has become a world leader in trade and finance. The world's largest publicly-owned company is Japan's Nippon Telegraph and Telephone Co. In fact, eight of the world's 10 largest companies are now Japanese. By the same token, Japan's Dai-Ichi Kangyo is the world's largest bank, and seven of the world's 10 largest banks are Japanese.

Since 1946, Japan has built a premier world class economy from an industrial base that had been obliterated. It has amassed such vast quantities of capital that it is now the world's chief creditor. Japan has become the major supplier of foreign capital to the United States. U.S. banks set up in Japan more than 40 years ago to import capital now function to export capital from Japan to the United States. Overall, Japan's net overseas holdings have climbed to more than $180 billion from $11.5 billion in 1981. Most of this money is flowing to the United States.

By contrast, the United States is now the world's largest debtor nation. American net overseas investment has dropped from a positive $106.3 billion in 1980 to a negative $263.6 billion in 1986. The U.S. private and public consumption rates are substantially higher than Japan's. There is no dispute that in the United States rates of home ownership, purchases of consumer appliances, and money spent on entertainment far exceed those in Japan. In fact, Japan's efforts to share some of its accumulated national wealth with its citizens have been unsuccessful and faint-hearted. Further, the U.S. national savings rate is only a fraction of the Japanese saving rate and now lags behind even Great Britain. Differences in savings rates result largely from major divergences in the two nations social welfare programs. For example, in Japan there is no parallel to the American Social Security system. Thus, Japanese families save considerably more than families in the United States. The net result of differences that exist between our nations in the consumption rate and the savings rate has meant the that the United States is forced to borrow from abroad to maintain even a minimal level of domestic investment.

The United States has accumulated so much debt that it threatens the sovereignty of our nation. *New York Times* headlines underscored this situation after the stock market crash of October 19, 1987: "Foreigners Called Key to Rates — Markets Fear Cut in Flow of Capital to U.S." As a nation, the United States is spending more than it is earning. As astounding as it sounds, the United States is borrowing money from abroad to pay for goods it insists on importing.

There is another complicating overlay to our differences. Over the past two decades, regardless of yen-dollar exchange relationships, Japanese exports to the United States have surged while U.S. exports to Japan have stagnated. The trade relationship has never been reciprocal. The United States continues to be Japan's largest customer. In 1986, the United States purchased $80.5

U.S.-Japan Consumption, Investment and Savings

(As a Percent of GDP)	U.S.	JAPAN
PRIVATE CONSUMPTION	65.7	57.6
GOVERNMENT CONSUMPTION	20.5	9.9
INVESTMENT	16.1	27.7
BUSINESS SAVINGS	2.6	1.1
GOVERNMENT SAVINGS	−3.3	4.3
HOUSEHOLD SAVINGS	2.7	11.0

* One reason for the low U.S. savings rate is the extent of home ownership in the United States. Homes, while not a consumable item, are treated as personal consumption.

billion of Japanese exports, literally 39 percent of Japan's exports. Japan, as the world's second largest economy, purchased only $29.1 billion of U.S. exports. The 1986 U.S. trade deficit with Japan was $58.6 billion, fully one-third of the U.S. trade deficit with the world. It did not improve at all in 1987.

In contrast to the United States, which is overly dependent on imports, Japan does not consume a large amount of products from other countries. While the United States now buys 55 percent of the manufactured goods exported by the developing countries, Japan purchases only nine percent. According to Robert Strauss, between 1982 and 1985, the United States absorbed 55 percent of the increase in non-oil exports from less developed countries while Japan consumed only 10 percent of this surplus.

The United States can no longer be the marketplace of the world. United States stimulation of growth abroad is suffocating domestic producers. When coupled with the fact that U.S. producers are effectively denied access to important markets like Japan's, the resentment of the United States is understandable. By examining two sectors, trade in manufacturing and reciprocity in finance, it becomes clear how these dynamics have resulted in unfavorable treatment of U.S. business and one-sided market penetration.

JAPAN'S BARRIERS TO FREE TRADE IN GOODS

The U.S. merchandise trade deficit with the world reached its highest level ever in 1986, rising to $160 billion. The $58.6 billion deficit with Japan comprised the largest single portion of that trade deficit. Although the sheer magnitude of the trade deficit with Japan is notable in and of itself, the composition of the deficit is even more revealing. While the leading U.S. exports to Japan are agricultural products such as soybeans and wheat, the leading Japanese exports to the United States are manufactured goods such as automotive products, electronics, and machine tools.

Japan has gained a substantial market share of many industries that at one time made up the heart of American manufacturing. The flood of imports has resulted in industry decline followed by plant closings and job loss. For

example, between 1981 and 1987, U.S. imports of Japanese machine tools increased from 25 percent to 49 percent. Japan accounted for 49 percent of these imports in 1985 compared to 37.9 percent in 1980. Japan's import penetration is considerably higher for computerized machine tools. The number of U.S. machine tool plants has decreased by one-third and employment has declined by 28 percent. Once such manufacturing capacity is gone, it is not easily recoverable. For the U.S. defense industrial base, the trends are ominous.

Although the U.S. market has been inundated with Japanese goods, U.S. producers have been unsuccessful in penetrating the Japanese market. The plight of the semiconductor industry is illustrative of the impenetrability of the Japanese market. Over the past 15 years, U.S. producers have never gained more than a 12 percent share of Japan's market. Meanwhile, the United States accounts for more than 50 percent of the European market for semiconductors. Six months ago, President Reagan finally imposed trade sanctions against Japan for violating a semiconductor trade pact by dumping chips in other countries at well below market value. Firms in the United States not only lost out in potential sales to Japan but in sales to third countries who purchased the chips illegally sold by Japan at a lower price. Some of these sanctions have been lifted because third country dumping has been stopped. Other sanctions are still in place because the Japanese have not fulfilled their promise to increase the U.S. market share in Japan from approximately 10 percent to 20 percent.

The Japanese decision to buy or not to buy products overseas certainly is not motivated by price. The consumer is not held sovereign in Japan as he is in the United States. In Japan, the goal is production to increase market share, even if that means making less profit or not having the plethora of consumer goods that most homes in American have or want to have.

Soda ash is another widely noted example of Japan's closed market. The U.S. share of the soda ash market has not budged over the past few years. Even when the dollar was high, soda ash made in the United States was less expensive than soda ash made in Japan. Although the dollar has depreciated by more than 40 percent since February 1985, the Japanese have not purchased an increasing amount of soda ash from the United States. Clearly, variables other than price driven by the exchange rate are at work here.

Similarly, in the auto industry, the prices of imported cars from Japan have not gone up in proportion to the decline of the dollar and the appreciation of the yen. Over one-half of our trade deficit with Japan is in automotive products. Japan captured 20.7 percent of the motor vehicle industry in 1986, selling 2.4 million cars in the United States valued at over $25 billion. Foreign cars imported by Japan, in contrast, totaled less than three percent of their market. A story is told that last year Japan permitted one South Korean-made car to be imported into its market, but only for the purpose of disassembling it to ascertain engineering and design features. Of course, Japan reported that imports increased 100 percent over the prior year total, which had been zero!

Of the 8.2 million domestic cars sold in the United States in 1986, over 295,000 were produced in Japanese transplants such as Honda of America. It is estimated that by 1990, Japan will have the capacity to produce nearly two million such automobiles in the United States in addition to the two million it already exports here. Further, the 8.2 million U.S. domestic car market includes joint ventures between the Big Three and Japanese companies producing in the United States.

The closed nature of the Japanese market can be illustrated further by examining the auto parts industry and its relation to the motor vehicle manufacturers in Japan. In 1986, the United States had a $6 billion deficit with Japan in auto parts. Meanwhile, U.S. exports of auto parts to Japan were valued at approximately $250 million, where they have hovered for years.

The major structural barrier to penetrating the Japanese market is "*keiretsu*," the interlocking family relationship that Japanese motor vehicle companies develop with their suppliers. The motor vehicle manufacturer contracts with a parts firm for the life of a particular car model. The supplier plays a creative role in designing parts and production methods to best produce the car line. The "*keiretsu*" relationship often includes other entities such as banks and insurance companies. Except for a few select U.S. companies that the Japanese hold up as models of how "*keiretsu*" has been overcome, the family relationship is an insurmountable hurdle. This holds true even for those firms willing to go to Japan and to work extensively with Japanese motor vehicle manufacturers.

It is absolutely indefensible that the Japanese transplants have not initiated more long-term sourcing relationships with U.S. parts suppliers and have instead imported parts or encouraged members of their Japanese supplier families to set up plants in the United States. Not only are U.S. auto manufacturers and auto supply firms being adversely affected by imports, but they now face stiff competition in the United States as well.

The transplants were at first welcomed to the United States under the assumption that the Japanese production of motor vehicles in the U.S. would result in a corresponding decline in imports from Japan along with an increase in sourcing from U.S. parts firms. This has not occurred, and instead, there has been an onslaught of foreign investment in the United States in motor vehicle and auto parts manufacturing firms. The net benefit of this foreign investment has been seriously questioned in relation to capacity and employment.

Overall, Japan's foreign direct investment in the United States reached $24 billion in 1986, most of it targeted at the manufacturing sector. In absolute terms, Japanese direct investment in the United States falls behind the direct investment of the United Kingdom and the Netherlands. It is unsurpassed, however, in its rate of growth. Between 1982 and 1986, Japan's foreign direct investment increased by 152 percent. Japanese motor vehicles manufacturers have invested over $4.8 billion in setting up plants in the United States. Each major Japanese motor vehicle manufactuer has either an operating plant in

the United States or will have one or more in place in the next few years. Additionally, it is estimated that well over 100 parts firms have migrated to the United States.

The additional capacity from transplant operations will cause an automobile glut in the United States. Demand for cars in the United States is flat, resting at less than 10 million cars annually. By 1990, it is projected that U.S. production capacity will be 15.5 million units. By that same year, with an additional 2.5 million units to be produced by the transplants and with increasing import penetration, it is obvious that the Big Three automakers stand to lose substantial market share.

There is great concern about the effect of foreign investment on U.S. employment. Traditional arguments welcome foreign investment as a needed inflow to create jobs in America and to compensate for the high rate of U.S. debt and lack of funds to invest in manufacturing. The focus of the issue has now shifted to whether this investment is adding or displacing U.S. jobs.

In the auto and auto parts area, foreign investment may in fact be resulting in a net displacement of U.S.-owned production and workers. The United Auto Workers contends that a traditional U.S. auto plant provides jobs for approximately 25,000 parts and industry employees, whereas a transplant operation generates only 6,700 jobs. If the transplants continue to import parts or bring their supplier firms here, the U.S. parts industry will not only diminish, but its workers will become assemblers of parts while the manufacturing design, engineering technology, and high value-added components of production will remain in Japan.

The immediate jobs created by foreign direct investment can certainly benefit a region. In fact, states are falling over themselves to attract foreign investment to their particular area. Last year, one-half of our nation's governors traveled abroad to attract foreign investment. The bidding wars involve a variety of incentives that range from new roads, land, buildings, and tax breaks to providing English lessons to foreign workers and Japanese lessons for their children. Kentucky, for example, spent $325 million to lure Toyota to build a plant in the state.

The health of our nation's manufacturing sector cannot be looked upon as a regional issue. As a state attracts a plant to its region, another plant of a similar kind may be closing up, often in an area where that industry has traditionally been concentrated. Illinois recently enacted a law that requires a written statement which assesses the effect of the proposed foreign investment on the state's economy to be submitted before the state will authorize development assistance. Such an idea should be carried out on a national basis. State legislators must question the appropriateness of using public funds to lure foreign investment when the incentives go well beyond any measures ever undertaken on behalf of domestic firms.

JAPAN'S BARRIERS TO FREE TRADE IN THE FINANCIAL SECTOR

The pace and volume of growth in international banking is staggering. Capital flows freely between national borders fueled by the increase of world

trade, the needs of multinational corporations, the 1970s recycling of petrodollars, and the removal of U.S. capital controls which increased the international mobility of funds. Capital movements are now 10 times the volume of trade in merchandise and services. The result of these massive flows is the globalization of banking and finance — the transformation of distinct national financial markets into a world market for financial assets.

Globalization has sparked debate about whether U.S. domestic banks and securities firms are disadvantaged in world markets, whether there is equal access to foreign markets, and whether differing regulatory and customary practices foment unfair competition. This debate rages between the United States and Japan.

The rapid advance of Japan's financial institutions into the world market has been astonishing. The growth of Japanese bank firms has eclipsed that of all other countries' banks. By 1986, Japanese banks had become the world's largest lenders. Japan has four of the world's biggest securities firms and seven of the world's 10 largest banks. This is a radical change from just a few years ago when most of the world's largest banks were U.S.-owned. Japanese banks have access to a huge pool of inexpensive deposits, generated by the high savings rate of the country coupled with tremendous income from exports of goods and services.

Japanese banking operations in the United States reached $245 billion in 1986, representing 46.6 percent of foreign banks' operations in the United States, and nearly 9 percent of total U.S. banking assets. Japanese banks can claim 36.3 percent of the world's deposits, while American banks take in only 11.4 percent. While size does not necessarily correlate with strength or activity internationally, it does raise concerns about the ability of U.S. financial institutions to retain their domestic market and compete for additional market share.

Take, for example, the California market, one of the nation's most lucrative. Japanese-owned banks now command 12 to 13 percent of the California market. It is estimated that the figure will rise to 24 percent within five to 10 years. The gain will come at the expense of the large California banks as Japanese banks service customers who would normally go to the domestic institutions.

John Bonn, Chairman of the U.S. Export-Import Bank, has stated that foreign banks may soon be the biggest users of the Export-Import Bank trade finance program. The Japanese banks have a history of being loss leaders in order to saturate a market, and they are buying into this one.

How are the Japanese institutions so quickly increasing market share? U.S. banks accuse the Japanese of undercutting prices. Japanese banks often price loans 25 to 50 basis points lower than their competitors. They also can offer higher rates for deposits and lower rates on consumer loans. They are able to do this because of the sheer size of their deposit base and the lower capital ratio requirements. Japanese banks can get a decent return on a thin profit margin because their capital reserve requirements are low — about three percent compared to six percent in the U.S. — and accounted for more leniently. They are also less worried about profit. Short-term losses can lead

to long-term gains in market share. U.S. banks, on the other hand, must be concerned with their return on assets to remain in good standing with the regulators and to meet reserve requirements.

Equalizing capital requirements is central to fair competition in banking. U.S. banks are losing business to the Japanese in the U.S. domestic market because the costs of their capital, and therefore the cost of services, is higher. Examples of Japan's bankroll in the United States are common. When the maker of Lee and Wrangler jeans wanted to borrow $50 million, it turned to Fuji Bank. When Boston College wanted to raise money cheaply, it got a guarantee from Sumitomo Trust. Japan's banks have cornered the market on letters of credit on municipal bonds and are carving their niches in the U.S. retail market.

Reciprocity in market access is also central to debate in U.S.-Japan financial relations. In contrast to Japanese inroads into the U.S. domestic market, the United States has very limited access to Japan's. Japan is an extremely competitive market, yet a very protected one.

Foreign entry into the Japanese domestic bank market was virtually impossible until 1969, when Morgan Guaranty was allowed to open a Tokyo branch. Presently there are 80 foreign banks in Japan, 18 of which are American. However, foreign banks hold only three percent of total banking assets, and less than one percent of domestic yen deposits and less than one percent of bank profits. The reasons given for the lack of foreign participation in the Japanese market are varied, but most boil down to structural differences, based on differing cultural business practices. As in trade in manufacturing, the Japanese are not as motivated by price as their non-Japanese competitors. They more often act in ways to garner market-share or to maintain long established relationships, making it virtually impossible for newcomers to attract business. In addition, foreign banks have been prohibited from advertising for deposits.

Another example of a lack of reciprocity is in the securities business. All foreign securities firms combined are estimated to account for less than three percent of the turnover of the Tokyo Stock Exchange. Foreign participation in Japan's government securities is severely limited. Three Japanese firms are the primary dealers of U.S. securities in the U.S. domestic market, and in fact, do huge volumes of business in government issues. By contrast, U.S. firms in Japan, as well as other firms, are excluded from the bulk of the Japanese government securities market because Japan uses a direct allocation system. In effect, each foreign firm is allowed less than 0.1 percent of any issuance.

Another significant issue, and a major difference between the banking systems of the United States and Japan, is the close relationships between Japanese banks and Japanese commercial firms. Again, as in manufacturing, the "*keiretsu*" relationship prevails. In addition, Japanese banks are allowed to hold 10 percent equity interest in non-banking commercial firms. Many U.S. companies have complained that the close relationships between Japanese banks and Japanese companies have enabled them to get long-term favorable

financing. So often, the accounting of "goodwill" provides the rationale for Japanese financing that permits a much higher ratio of debt to equity than in the United States.

These types of financial relationships, unavailable to U.S. firms, have historical precedence in Japan. Prior to World War II, banking activity was not restricted, and wealthy families often controlled banking and industry. Some of the most important and successful banks in Japan continue to be associated with some of Japan's major industrial giants. The conglomerates of Mitsubishi and Mitsui are two such cases. Interlocking commercial and financial enterprises provide a much more fluid system for moving debt and equity in world markets.

CONCLUSION

As Robert Samuelson stated in an insightful commentary in the *Washington Post* Nov. 4, 1987, "What is at issue is one of the great conflicts of out time: the collision between sovereign states and stateless economic forces." Japan and the United States, as sovereign states, operate under differing sets of assumptions. Indeed, these differences extend beyond the realm of economics to the cultures of American and Japanese society. The fundamental economic systems are distinctive: Japan operates under a plan-driven economy while the United States depends on the operation of the free market. Cost-benefit decisions, rational to Americans, are not necessarily the basis of Japanese decision-making. The United States is interested in raising the standard of living of all its citizens. In Japan, the consumer interest comes after the national interest. These fundamental differences must be taken into account in any negotiations between the United States and Japan.

The United States is struggling to compete in a world in which 75 percent of international commerce is conducted through economic systems that basically do not subscribe to a free-trade theory. Our international institutions, such as GATT, founded on the principle of free trade, were not designed and are not equipped to provide a meaningful framework for trade among disparate systems. The United States continues to rely on GATT to provide the rules of international trade, even though it now covers less than seven percent of world commerce and finance. The institution is archaic and unable to grapple with the extent of economic diversity.

Clyde Prestowitz, former Assistant Secretary of Commerce, argues that the two key tenets of GATT, national treatment and most-favored nation treatment, actually discriminate against American companies. National treatment discriminates against countries like the United States which have liberal commercial laws and fair recourse to a legal system. For example, a U.S. firm operating abroad may be limited to a minority share of a particular industry, while that country's firm would have open access to the U.S. market. Most-favored nation treatment similarly disadvantages a free trade nation. If the United States grants a concession to one country, it is automatically granted to all other signatory countries, regardless of whether those countries grant

similar concessions. It is clear the United States needs a new trade strategy which reflects current world practices. This strategy must be based on reciprocal market access.

My amendment in the Omnibus Trade Bill would make reciprocity a fundamental negotiating objective in the next GATT round. It states that "nondiscriminatory treatment and other multilateral trade benefits are not required to be extended by a country to any other country unless such other country permits reciprocal market access opportunities for that country's goods and services."

Our nation should negotiate reciprocity with other nations in financial activity to permit access to U.S. capital markets only to the extent the United States has access abroad. The United States should continue to pressure Japan to change its procedure for granting allocations for underwriting government securities from a direct allocation, which discriminates against all foreign firms, to an auction system. And the United States must complete the international negotiations on establishing equitable capital-ratio requirements.

There are several actions the United States must initiate domestically to create a more positive environment in which discussion can occur on reforming international economic institutions. We must understand the effect of Japanese investment on employment and our manufacturing sector. One step toward achieving such an understanding is included in the Foreign Investment Disclosure section of the Omnibus Trade Bill. This proposal, offered by Representative John Bryant of Texas, calls for reporting and disclosure of significant and controlling foreign-owned interests in U.S. business enterprises and real estate.

The United States must put its financial house in order and halt its credit binge by slowing the borrowing from foreign creditors that fuels public, and private, spending. Americans must be encouraged to save more. The United States must learn to earn, not borrow, its way out of its spiraling budget and trade deficits. In addition, the government of the United States should launch a major campaign to sell U.S. Savings Bonds. Its goal should be to displace foreign purchases of U.S. bonds, an amount nearing a total of $270 billion.

The United States needs to develop a highly trained and trustworthy U.S. Trade Corps. In Japan, government trade negotiators most often make lifetime commitments to government service, learning every aspect of an industry in order to negotiate aggresively on that industry's behalf. By contrast, most U.S. negotiators have brief tenures, seeking to use their government experience to obtain a higher paying position in the private sector. Often they lack experience in negotiating and, more importantly, lack a thorough understanding of the industry and a commitment to the issues involved. Like the Japanese, the United States should establish a core group of dedicated trade negotiators who understand U.S. industry and its needed negotiating objectives.

As a new world economic leader, Japan has an obligation to assist in maintaining international economic order. The United States has taken the lead in finding solutions to the debt burden of lesser developed countries. U.S. banks are still lending the much needed capital and the U.S. government

is still providing the bulk of funding and leadership in the World Bank. Japan, under pressure from the United States, has increased its lending. However, most Japanese aid is tied directly to Japanese trade concerns, that is, the bilateral aid granted is used to purchase Japanese goods. Japan has the capacity to increase its lending of untied capital, as well as expertise, to the lesser developed and debt burdened countries.

An amendment to the Omnibus Trade Bill would establish an international debt adjustment facility to work as intermediary between commercial banks and heavily indebted countries. The facility would purchase bank loans at a discount and revert the benefit of this discount back to the debtor country. This would benefit both creditor country banks and debtor countries. Once established, the United States should use access to its market as a means to obtain cooperation from nations like Japan to purchase Third World debt from this institution.

The United States should also encourage Japan to share the responsibility of world leadership. The U.S.-Japan alliance in the Pacific is viewed as a bulwark against Communist expansion in Asia. After World War II, the United States assumed the burden of paying for the Pacific defense system. There is increasing pressure in the United States to demand that Japan expand its share to a level commensurate with its wealth and stature in the world today. Recent developments in the Persian Gulf underscore the critical need for Japanese participation. Japan is a major beneficiary of open shipping lanes for oil through the Gulf, much more a beneficiary than the United States. Yet, the United States, once again, has taken the lead in protecting shipping in the area. Japan should shoulder more of the burden of the free world.

The United States should hold Japan, as a world leader, to a higher standard in meeting moral obligations in international relations. Japan, alone among OECD nations, has bowed to Arab demands and supported the boycott of the democratic state of Israel.

Further, Japan is now South Africa's leading trading partner. Japan has moved into markets vacated by American companies that pulled out when economic sanctions were imposed a year ago. Japanese sanctions against the apartheid government have been highly selective and do not touch products important to the Japanese economy such as coal and other minerals. Concomitantly, the Japanese have made great inroads into the South African consumer market — recognizing the market is *white* South Africa, and not the country at large.

As our economy changes, so must our trade policy — from free trade to reciprocal trade. And as the world economy changes, so must our international outlook. As Samuelson queries — can the United States and Japan "overcome parochial political pressures to adopt policies that achieve solid global expansion?" Certainly the United States alone cannot solve the trade and financial challenge facing it. Japan is part of the problem. Japan is also part of the solution. Japan, as an economically successful country, must fully share in the responsibility for world economic order and moral leadership. Clearly a new world institutional order in trade and finance beckons the next President of the United States and the new Prime Minister of Japan.