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HOUSE OF REPRESENTATIVES

REPT. 105–607
Part 1

RELATING TO THE IMPORTANCE OF JAPANESE-AMERICAN RELATIONS AND THE URGENT NEED FOR JAPAN TO MORE EFFECTIVELY ADDRESS ITS ECONOMIC AND FINANCIAL PROBLEMS AND OPEN ITS MARKETS BY ELIMINATING INFORMAL BARRIERS TO TRADE AND INVESTMENT, THEREBY MAKING A MORE EFFECTIVE CONTRIBUTION TO LEADING THE ASIAN REGION OUT OF ITS CURRENT FINANCIAL CRISIS, INSURING AGAINST A GLOBAL RECESSION, AND REINFORCING REGIONAL STABILITY AND SECURITY

JUNE 25, 1998.—Ordered to be printed

Mr. GILMAN, from the Committee on International Relations, submitted the following

REPORT

[To accompany H. Res. 392]

The Committee on International Relations, to whom was referred the resolution (H. Res. 392) relating to the importance of Japanese-American relations and the urgent need for Japan to more effectively address its economic and financial problems and open its markets by eliminating informal barriers to trade and investment, thereby making a more effective contribution to leading the Asian region out of its current financial crisis, insuring against a global recession, and reinforcing regional stability and security, having considered the same, report favorably thereon with amendments and recommend that the resolution as amended be agreed to.

The amendments are as follows:

Strike out all after the resolving clause and insert in lieu thereof the following:

That it is the sense of the House of Representatives that Japan should urgently undertake the following steps to enhance alliance cooperation and raise Japan to the position of regional partnership that it should enjoy by virtue of its economic size, technological achievements and its democratic political system:

(1) Undertake a broader and faster deregulation of its economy, in order to improve long-term growth prospects and promote opportunities for foreign firms, improve transparency and disclosure, reward innovation and competition and reduce systemic risk.

(2) Further open its distribution system to eliminate exclusionary and discriminatory business practices that are not only limiting imports but stifling economic growth and competition in Japan.

59–006

(3) Fully honor and implement its bilateral trade agreements with the United States as well as its multilateral trade commitments.

(4) Take other aggressive steps to reduce numerous barriers to imports and foreign investment and seek to lower its current account surplus to 2 percent or less of gross domestic product.

(5) Move promptly to dispose of nonperforming bank loans by disposing of nonperforming real estate and other loans and by allowing the market to determine the real value of these assets and loans.

(6) Take immediate steps to address systemic problems in the banking system, close insolvent banks, and recapitalize weaker banks with banks that have strong fundamentals and good management.

(7) Address its fiscal problems in a manner that does not jeopardize economic recovery, with an emphasis on significant and meaningful tax cuts and a comprehensive stimulus package that restores economic confidence and avoids the traditional sectorally-oriented approach of the past.

(8) Adopt all appropriate policies to strengthen the Japanese yen.

Amend the preamble to read as follows:

Whereas the maintenance and improvement of a very positive international relationship between the United States and Japan is vital to the two countries and to the entire global economic and trading system;

Whereas the United States-Japan Security Alliance and close economic cooperation have underpinned the security, stability, and prosperity of the Asia-Pacific region, thereby allowing that region to enjoy unmatched economic growth and development for nearly three decades.

Whereas the current financial crisis in Asia's threatens the foundation of Asia unmatched peace and prosperity, the stability of the global economic system, and related vital American security and economic interests;

Whereas, although the Government of Japan's $128,000,000,000 economic stimulus and tax reduction package of April 24, 1998, includes numerous provisions designed to promote consumer spending and industrial growth, it is by no means clear that these measures will restore economic growth or will be targeted at the most productive sectors of the economy.

Whereas Japan's generous contributions to second line credits for the three International Monetary Fund program countries, South Korea, Thailand, and Indonesia, totaling $19,000,000,000, and its substantial structure adjustment loans and export credits to Indonesia, have helped contain the financial crisis, but are an inadequate alternative to a strong Japanese economy;

Whereas Japan accounts for three-fourths of the total East Asian Gross Domestic Product and therefore has the potential to help pull the region out of the financial crisis by serving as its "engine of growth", just as the United States, by being an "engine of growth" and having open markets, earlier assisted Mexico emerge from a substantial financial crisis;

Whereas a further weakening of the yen could trigger a round of competitive devaluations among Japan's Asian neighbors;

Whereas deteriorating economic conditions and ongoing financial market turbulence in Asia make it increasingly important that Japan play a leadership role in helping to restore confidence in the economic future of the region;

Whereas that regional leadership role coincides with Japan's stated goal of promoting strong domestic demand-led growth and avoiding a significant increase in its external trade surplus;

Whereas Japan's continued economic stagnation depresses the level of its imports from the United States and other countries in the Asia-Pacific region, thereby forcing its neighbors in the region to rely more heavily on their exports to the United States for growth;

Whereas weakened economic fundamentals in Japan and an accommodative monetary policy, coupled with a robust United States economy, have weakened the value of the Japanese yen against the United States dollar and therefore stimulated a rapid expansion of exports and a fast-growing merchandise trade surplus with the United States, which increased from $48,000,000,000 in 1996 to $55,000,000,000 in 1997;

Whereas the bursting of Japan's investment bubble in the 1991 has been accompanied by protracted asset-price and balance sheet adjustments by Japanese financial institutions, leading to a scarcity of credit and weak growth.

Whereas policies favoring low interest rates had encouraged, until recently, excessive private sector lending to overly indebted enterprises in Indonesia, Korea, and Thailand, and thereby contributed to the private debt crisis in the region;

Whereas past efforts to stimulate recovery through deficit spending targeted at the construction sector have proved inadequate and failed to accomplish their desired objectives;

Whereas inadequate deregulation initiatives have failed to restore vitality to the Japanese economy, while truly significant deregulation could add as much as a percentage point or more to Japanese economic growth; and

Whereas the continued failure of the Government of Japan to properly recognize and remedy the aforementioned policies will both prolong the Asian financial crisis and contribute to the inevitable rise in the American trade deficit with Japan, thereby potentially undermining American Domestic support for close economic, political, and security cooperation and coordination between the United States and Japan at a critical point in history: Now, therefore, be it

BACKGROUND AND PURPOSE

The purpose of House Resolution 392 is to emphasize the importance of U.S-Japanese relations to stress the urgent need for Japan to more effectively address its economic and financial problems and open its markets by eliminating informal barriers to trade and investment. The Committee believes that Japan plays a crucial stabilizing role in the Asia-Pacific region and that it must make a more effective contribution to leading the Asia-Pacific region out of its current financial crisis, insuring against global recession, and reinforcing regional stability and security.

The Committee notes that Japan has generously contributed second line credits totaling $19 billion to the three International Monetary Fund program countries, South Korea, Thailand, and Indonesia. Nevertheless, the Committee believes that Japan should more directly help the ailing Asian economies by opening its markets, deregulating its economy, eliminating barriers to trade, fixing its financial sector, adopting permanent tax cuts, and strengthening the yen.

Japan accounts for three-fourths of the total East Asian Gross Domestic Product and therefore has the potential to help pull the region out of the financial crisis by serving as its "engine of growth." The United States' response to the Mexican crisis is a good example of how Japan could jointly serve with the United States and Europe as the "engine of growth" for Korea, Thailand, and Indonesia. Regrettably, the Committee notes that Japan is slipping back into a recession or potential depression, with zero growth likely for 1998, followed by as much as a negative two percent contraction in 1999. If these projections are correct, Japan's imports from the United States and other countries in the Asia-Pacific region will not grow sufficiently, and Korea, Thailand, and Indonesia will be force to rely more heavily on exports to the United States for growth.

These weak economic fundamentals in Japan, coupled with a robust United States economy, have already weakened the value of the Japanese yen and therefore stimulated a rapid expansion of exports and a fast-growing merchandise trade surplus with the United States, which increased from $48 billion in 1996 to $55 billion in 1997. Although the United States was able to almost unilaterally absorb Mexico's imports after the peso crisis, the United States cannot absorb all of the additional imports from the Asia-Pacific region stemming from the financial crisis.

For example, the Committee notes that the United States-Japan trade deficit stood at $15.4 billion for the first quarter of 1998. This was a 17% increase over the first quarter of 1997. More importantly, Japan's imports from other Asian countries are significantly down. For example, over a period from December 1997 to January 1998, Japanese imports from Indonesia were down 17%, Thailand 5.9%, Malaysia 13.6%, Hong Kong 5%, Taiwan 12.1%, and South Korea 2.5%.

The Committee also notes that the recent sharp depreciation of the Japanese yen against the dollar could prolong and even contribute to a second wave of the Asian financial crisis. Leaders from China, Hong Kong, Taiwan, Thailand and Singapore have called on Japan to reverse the yen's fall, which they say is damaging their own currencies. Concerns about Japan's recession and potential depression have caused United States stock markets to precipitously decline. The committee further notes that a weak Japanese yen threatens to undermine the ability of Indonesia, Thailand, and Korea to export their way back to health from the Asian financial crisis.

COMMITTEE ACTION

H. Res. 392 was introduced by Representative Bereuter on March 24, 1998. The Subcommittee on Asia and the Pacific marked up the bill up on May 14, 1998, and ordered it reported favorably to the Full Committee. The Full Committee marked up the bill in open session, pursuant to notice, on June 5.

At that time, an amendment in the nature of a substitute was offered by Mr. Bereuter. It was adopted by voice vote. The Committee then ordered the resolution reported by voice vote.

ROLLCALL VOTES ON AMENDMENTS

In Compliance with clause (2)(l)(2)(B) of rule XI of the Rules of the House of Representatives, the record of committee rollcall votes on final passage or amendments during the committee's consideration of H. Con. Res. 392 is set out below: No rollcall votes were taken during the consideration of this measure or on the question of reporting it out.

COMMITTEE OVERSIGHT FINDINGS

In compliance with clause 2(l)(3)(A) of rule XI of the Rules of the House of Representatives, the Committee reports the findings and recommendations of the Committee, based on oversight activities under clause 2(b)(1) of rule X on the Rules of the House of Representatives, are incorporated in the descriptive portions of this report.

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT FINDINGS

No findings or recommendations of the Committee on Government Reform and Oversight were received as referred to in clause 2(l)(3)(D) of rule XI of the Rules of the House of Representatives.

JURISDICTIONAL ISSUES

On introduction, the bill was referred by the Speaker to the Committee on International Relations, and in addition to the Committees on Banking and Financial Services, and Ways and Means, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned.

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