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OFFICE OF THE SECRETARY OF THE TREASURY

WASHINGTON, D.C. 20220

December 20, 1984

MEMORANDUM FOR ROBERT M. KIMMITT
DEPUTY ASSISTANT TO THE PRESIDENT
FOR NATIONAL SECURITY AFFAIRS
THE WHITE HOUSE

FROM: CHRISTOPHER HICKS
EXECUTIVE SECRETARY AND
EXECUTIVE ASSISTANT TO THE SECRETARY

Attached is Secretary Regan's Report to the President on Deliberations of the SIG-IEP on U.S.-Japan Trade Policy Problems for use at tomorrow's NSC meeting.

Classified Attachment

cc: Roger Robinson

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THE SECRETARY OF THE TREASURY

WASHINGTON

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MEMORANDUM FOR THE PRESIDENT

FROM: Donald T. Regan DTR

SUBJECT: Report on Deliberations of the SIG-IEP on U.S.-Japan Trade Policy Problems

The SIG-IEP has met on three occasions in the past two weeks (after a series of other high level interagency meetings) to discuss our recommended position for you to take with Prime Minister Nakasone on U.S.-Japan trade issues. The SIG-IEP has reached a consensus on the following points:

-- The Prime Minister needs to be informed in strong terms that a severe problem exists and that it can be solved only through active and substantial changes in Japanese policy. Changes are needed which radically increase Japan's receptivity to imports of manufactured goods.

-- At the conclusion of this meeting Prime Minister Nakasone should understand that if no movement in these directions has occurred within a relatively short time, then you will find yourself faced with severe domestic pressures for retaliatory and discriminatory measures against Japan, which you would prefer to avoid but may not be able to.

-- The follow-up to your meeting in Los Angeles should involve intensive U.S.-Japan negotiations on opening the Japanese market to more imports of manufactured goods in a number of sectors in which U.S. exporters are competitive. These negotiations would be more comprehensive, more intensive, and conducted at a higher level than any such negotiations in the past.

-- We recommend that you seek Prime Minister Nakasone's firm agreement to conduct market-opening negotiations on at least four sectors in particular: telecommunications, electronics, forest products, and medical equipment and pharmaceuticals. We suggest that he be

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given to understand that this list is not exclusive and would expand at a later date.

A key question on which the SIG-IEP could not reach consensus was whether we should give the Japanese an overall numerical goal or target for imports of manufactured goods, and attempt to seek Prime Minister Nakasone's agreement to it during your meetings. Agencies in favor of this approach were the Department of Agriculture, the Treasury, the USTR, and the Department of Commerce. Opposed were State, OMB, OPD, CEA, and the Department of Defense. Those in favor of such a target believe that it is essential for tactical reasons to extract a firm commitment from the Japanese and that it is the only way to produce quick and meaningful results. Those opposed believe it economically unsound and fear that it could be politically unhelpful, perhaps counter-productive for the Prime Minister.

In connection with the sector-specific negotiations on which the SIG-IEP agreed, some agencies which opposed an overall target would accept asking the Japanese to set their own import goals for the specific sectors, subject to an agreed monitoring mechanism.

If we were to decide to seek Prime Minister Nakasone's agreement on an overall target, we will need to decide what it should be. Views on this issue ranged upward in severity from a Treasury proposal to seek a Japanese commitment to increase the share of manufactured goods imports in Japan's GNP by one-third over three years. Based on conservative projections, this would produce a 50 percent increase in the nominal dollar level of such imports by 1986, compared to that of 1983. This proposal was meant to be relatively modest but still significant and, most importantly, achievable. USTR favored a goal patterned on GNP shares like the Treasury goal but tougher -- so that Japanese manufactured imports would rise from 2.8 percent of GNP (1983) to the U.S. level (5.2 percent in 1983); this would produce roughly a doubling of such imports in absolute terms. Commerce preferred an outright doubling of the dollar volume (from $32 billion in 1983 to $64 billion in 1986) without reference to GNP shares.