Mr. Hasegawa, Their Excellencies the Governors of Florida, North Carolina, Virginia, Tennessee, Alabama, and who have I missed -- Georgia, that's what I thought, and the Lieutenant Governor of South Carolina:

I can't begin to tell you, ladies and gentlemen, how happy and honored I am to have the opportunity to once again meet with you to discuss matters of mutual interest and concern and to congratulate you as a region on the tremendous efforts you have made to achieve Japanese investments in the states you represent.

At the present time, there is a good deal of frustration in the Congress, and that frustration in all too many instances is directed at Japan. A lot of attention is being made of the 37 billion dollar deficit we had with Japan last year, but not enough attention is being paid to the 20 billion dollar deficit we had with Canada, the 18 billion dollar deficit we had with Latin America, the 17 billion dollar deficit we had with Western Europe -- four years ago with that area we had a 20.5 billion dollar surplus -- the 11 billion dollar deficit we have with Taiwan, and so on and so on.

What I'm getting at is that our trade problem is not a bilateral one. It is a global one. It's not just 37 billion dollars with Japan; it's 123.3 billion dollars with the whole world.

So I think that we ought to look at our trade deficit in a global sense, cope with it in a global sense, and recognize there are things which other countries, including Japan, must do to rectify the imbalance which exists today. Thirty-seven billion dollars in deficit with Japan is entirely too much but, ladies and gentlemen, we face a possible 50 billion dollar deficit with Japan by the end of this calendar year.

What Japan has to do is to open up its markets much, much more than it has to date. What it has to do is to give us the same opportunities in entering the Japanese market that, generally speaking, we give Japan in entering our market. And our market is Japan's biggest market. And Japan is our second biggest market after Canada.
The key word is ACCESS. The Prime Minister, whom many of you had a chance to meet yesterday, an impressive figure, has been doing his utmost to achieve through Action Programs and trade proposals the opening up of the Japanese market, and has achieved a degree of success.

But, as with most questions, there are at least two sides to our trade difficulties at the present time. There are things Japan must do in its own self-interest. To repeat, the key word is ACCESS, ACCESS, ACCESS.

Japan has been the chief beneficiary of the international trading system, and if that system goes down the drain, Japan will be the biggest loser of all. Why? Because Japan is an extremely vulnerable country -- strategically in defense, to the forces of nature and economically in trade.

I like to use a very parochial illustration to make a contrast which I think we Americans should be fully aware of. It just happens that my own State of Montana is the closest in size to Japan. We are 4,000 square miles bigger. The last official census showed we had 787,000 people in my state. Some of us thought that was too much! But last March Japan passed the 120 million mark. Japan has practically nothing in the way of natural resources: a little coal, decreasing in quantity and quality, increasing in cost; hydropower developed to the utmost. Together coal and hydro may furnish 4 percent of Japan's energy needs from domestic sources. Nuclear energy: 23 plants in operation, 10 in the process of construction. By 1992 they will have 53 nuclear energy plants operating. But combining coal, hydro and nuclear energy, together they will not suffice to supply Japan more than 15 percent of its energy needs from domestic sources.

In my state we have middling amounts of oil and gas -- we'll find lots more -- and the biggest coal reserves in the United States, still large amounts of copper, lead, zinc, tungsten, manganese. One state in 50, a developing state; one nation fully developed. What a contrast to compare with what the Japanese do not have but make work with what we have and not always make work.

That indicates just how vulnerable this nation is. But Japan has been trying to bring about a rectification through investment in the United States, and no region has been more benefited than the seven states represented here this afternoon, and no region, in my opinion, will be more benefited in the years ahead.

You have created a conducive climate. You have welcomed investment with open arms. You've gone out seeking it. And the proof is in all your Governors here today -- and this isn't the first time that they have all attended -- and 570 Americans travelling 8-9,000 miles across the continent and the Pacific
Ocean to indicate to this country and its people how interested in them you are. And they are just as interested in you.

I congratulate you for what you have done because there isn't a finer regional economic organization than the one represented in this room this afternoon.

The Japanese have been investing more and more money in our country. As of March 31, 1985, the Japanese worldwide had invested in direct investment, something on the order of 71.5 billion dollars. Just under 20 billion dollars of that was invested in our country, and most of it came in during the last year and a half because at the end of 1983 the total Japanese direct investment in the United States amounted to about 11.1 billion dollars, but as of March 31, 1985, just under 20 billion dollars.

I think that is the way things must be worked out. I think that what we need is more Japanese investment in our country. It maintains a tax base. Sometimes it increases it. It furnishes employment. And it brings about a better degree of understanding. And what works in our country can work in this country as well, so what we would like to see, or at least I would like to see, is a cross-current of investment so that the relationship between Japan and the United States -- in my opinion the most important bilateral relationship in the world, bar none -- can be strengthened and the future of both our countries ensured.

As far as the economic difficulties we have with Japan are concerned, I think I mentioned in the beginning that they comprised a two-way street. I have indicated what Japan should and must do. I think also our own country has a great responsibility in rectifying some of the economic difficulties which have been of our own making. I refer to the highly overvalued dollar which is killing us in the international marketplace because we are being underpriced. I refer to the high interest rates -- 9.5 percent is the prime rate today, much better than the almost 21 percent prime rate in 1981 -- still too high -- and I am referring to our huge deficit. The Congress has made a move in the right direction but hasn't gone far enough, fast enough, or deep enough.

Those are things which we are responsible for. Those factors are matters which only we can, in large part, attend to. And I am happy to note that the five Treasury Secretaries or Finance Ministers, headed by our own Jim Baker, which met in New York in the last week of September, came up with a proposal to which all agreed that under certain circumstances intervention in the exchange system should take place and that the dollar should be brought down to manageable proportions.

That was an excellent move, and there has been a move downward as far as the dollar is concerned and upward as far as
the yen is concerned. And out of that over a period of time, if it continues, will come a stabilization and equalization, in fact, as far as our currencies are concerned.

Interest rates, I think, are still too high. The result is that a lot of foreign capital, including Japanese, is flowing into our country. It's a short-term investment. But they are coming in to take advantage of these high interest rates, and they are needed. The money is needed. Why? Because it is needed to pay off the interest on our debt. The interest on our debt, which last year amounted to 111 billion dollars, and this year, according to the best estimates I can find, will amount to somewhere between 135 and 140 billion dollars -- just for the interest on the debt -- not reducing it, and that sum will comprise about 13.7 percent of the federal budget. And we've got to do something about the deficit.

The only man, in my opinion, standing between the enactment of protectionist legislation in the U.S. Congress is the President of the United States. About the same time that the Finance Ministers issued their statement bringing about a devaluation in the dollar -- a slight one -- the President the next day made a speech to a group of businessmen, and, I believe, some legislators, in Washington. At that time, he assured the business community, and, I think, indirectly the Congress, that he intended to enforce Section 301, Section 337 and, indirectly, Section 201 of the Fair Trade Act of 1977. That's what many in the Congress had been asking for. Some had been accused of being Japan bashers when they introduced a resolution which would have been inimical to the best interests of the relationship between our two countries.

But when broached on that question, they said they were not guilty, that what they wanted was something more done by the Administration to put into operation the laws already on the books.

The President has promised that. The President will do it. That is the way to face up to our difficulties. By and large, of course, there will be exceptions, and I think that the speech by the President and the action by the five Finance Ministers had a very beneficial effect, for the time being, because our deficits are going to increase if we don't face up to what are, in effect, our responsibilities, and we cannot afford to continue on that basis because if we do we're just passing it on to our children and grandchildren, and how are they going to handle that difficulty?

In the field of agriculture, getting away from overall trade, Japan is far and away our best customer. Last year it bought 6.9 billion dollars' worth of American agricultural produce -- soybeans from the South, cotton from the South. They are gradually increasing their tobacco shipments. At the present time they are the biggest buyer of American tobacco.
leaf. The figure this year will reach somewhere around 550 to 600 million dollars. They are increasing their imports of cigarettes, not enough, but at least an increase is taking place, and while the increase so far has only been from 1 percent to 2.1 percent, I would anticipate that that increase would drastically go up in the not too distant future.

Agriculture has been the one bright spot in the trade picture year in and year out. No other nation even comes close to Japan as far as agricultural products purchases are concerned and, ladies and gentlemen, if there is one sector of our economy today which is in deep trouble, it is the agricultural sector.

I want to see our farm sales increase. I don't want to see this market lost under any circumstances. I want our people to recognize that the next country, next to Japan, in the purchase of agricultural produce and to repeat, Japan bought 6.9 billion dollars' worth of our goods last year, the second country is Amsterdam which, of course, is the entrepot for all of Western Europe, and there the figure is less than 3 billion dollars. Quite a contrast!

So there is an importance to this country which we ought to recognize because our futures are interwoven. It is a country which still has a lot to do, still has something to learn but, then, so do we. It is a country which has learned a great deal from us. It's a country from which we can learn, too.

We introduced quality control councils in Japan and then forgot about them. We introduced robots into Japan and then forgot about them.

What we ought to do is to pool our energies and do the things which we can do as free enterprise economies, and we're both shining examples of the capitalistic system. So is this region out here because it shows that the free enterprise system can work, does work, and will work, and it will work not only in industrial economics but in the agricultural field as well.

In the area of defense, we have an excellent relationship with Japan. Military to military, it is unexcelled anywhere in the world. The Japanese have been accused of spending less than one percent of their gross national product on defense, and some of our people say because of that the Japanese should buy more from us, should pay for the economic miracle which they have been able to accomplish. A certain amount of truth to it, but that one percent and the figure, the exact figure, for this year amounts to 0.999 percent, just under one percent of the GNP, but that just under one percent has to be tied to a gradually increasing gross national product. And for the last 14 years the Japanese have increased their defense expenditure, each and every year at an estimated rate of 7.5 percent a year,
for 14 years. In real dollars that might amount to 5.3 or 5.4 percent, but it’s a pretty healthy and a pretty hefty and, certainly, a continuous increase.

Furthermore, if the Japanese calculated their defense budgets on the same factors that we and NATO do and included pensions and survivors' benefits, the figure would be closer to 1.6 percent rather than just below 1 percent. But even 1.6 percent in defense expenditures, in my opinion, is not enough. We would like the Japanese to do more, but Japan is a sovereign nation and must make its own judgments and arrive at its own decisions.

I appreciate what they've done. I wish they could do more, but only in their own self-defense, and do more not that we will do less. Quite the contrary, but because we need to call on our friends and neighbors and allies to undertake a greater degree of responsibility so that we can have a greater degree of flexibility and independence of movement.

This is a tremendously important part of the world. The North Pacific is one of the most strategic areas on the face of the globe. The Soviet Union at the present time has 49 divisions along the Sino-Soviet border, and 4 more north of Vladivostok; 29 percent of the Soviet ground forces, modern, first rate, up to date; 31 percent of the air force, the Soviet Air Force, is in the same region; and operating out of Vladivostok is the biggest and best of the 4 Soviet fleets, and getting bigger and better all the time.

In the Northern Territories off Hokkaido, illegally held by the Soviet Union, they took the Southern Kurils over five days after the end of the Pacific War. There is no question but that it's Japanese territory. They have increased their strength from five years ago from 2,000 to somewhere around 14 to 15,000. They have at least one squadron of MIG-23s. We think maybe a second, but we're not sure.

What for? Furthermore, they have gone down into Southeast Asia. Following the Vietnamese invasion of Cambodia, which was followed by the Chinese invasion of Vietnam, the treaty between the Soviet Union and Vietnam was called into operation. The Russians honored their part of the agreement and dispatched ships and planes, occupying, to a large extent, places such as Cam Ranh Bay, the best anchorage in all Asia. And that penetration has increased so that today, instead of going in intermittently, they are located there on a semi-permanent basis. How long they'll stay nobody knows, but at least for the time being the Soviet Union has achieved an objective first laid out by Catherine the Great of Russia in the middle half of the 18th Century, at which time she announced that one of the goals of Russia, Czarist Russia at that time, was to achieve warm open-water ports the year round. That's what they have in Vietnam at the present time. That's what they didn't have when they were operating out of Vladivostok.
Our main defensive arm out here is the Seventh Fleet. When I came out eight years ago, it averaged about 51 in number of ships, most of them old, obsolescent, on the way out. Today the average number of ships of the Seventh Fleet numbers somewhere between 75 and 80. Not enough, but much better, more effective, newer, much better than in 1977. But not enough. Why? Because its area of responsibility extends from the Arctic through the Pacific, across the Indian Ocean, down into Antarctica. Seventy percent of the water surface of the globe, 50 percent of the combined land and water surface of the globe is the responsibility of the Seventh Fleet. That's why in part we're asking our friends and neighbors and allies to do a little more so that we can carry out our global responsibilities more effectively.

We have a Mutual Security Treaty with Japan. We occupy a number of bases in Japan under that treaty as the guests of the Japanese Government and people. We pay no rent on those bases. As a matter of fact, we have less than 60,000 U.S. military personnel in Japan, including the 3rd Marine Division on Okinawa. Last year, calendar '84, Japan contributed 1.12 billion dollars for the upkeep of less than 60,000 U.S. military personnel. This year the figure will be 1.116 billion dollars. And if they didn't contribute that money, we'd have to put it up ourselves. And what's that money used for? Housing for our troops and their dependents. Utilities, labor cost-sharing and the like.

The last figures I've been able to acquire for the Federal Republic of Germany were tied to the year 1982. In that year the Federal Republic contributed 1.3 billion dollars for the upkeep of in excess of 250,000 U.S. military personnel in that country. Quite a contrast and something to think about.

Under the Mutual Security Treaty, we're out here to defend Japan if it's attacked, and we will! But we're out here also in our own defense, and these bases in Japan, rent-free, plus the bases in the Philippines, very expensive, a precarious situation down there but these two countries furnish the bases which comprise the outermost limits of our own defense perimeter. That's something to think about, too, in this relationship.

If we didn't have these bases in these two countries, we'd have to ask ourselves a couple of questions: One, how far back would we have to withdraw?

Two, how much in the tens of billions of dollars would it cost us?

And, three, how effective would our new defense line be?

Again, something to think about.
The Mutual Security Treaty is mutual. It is in the interest of both our countries, and it bodes well for the relationship which exists between us.

I have said many times, and I will never tire of saying it, that the next century will be the Century of the Pacific. I make that statement based on facts and figures and trends and patterns which are developing at this time.

In 1975, for example, our two-way trade with all of East Asia, including Japan, amounted to 42 billion dollars. Last year it was 181 billion dollars, and for the sixth year in a row our trade with East Asia exceeded our trade with Western Europe. And that differential is going to continue to grow. Whereas the amount last year of our two-way trade with all of East Asia amounted to 181 billion dollars, our two-way trade with Japan alone amounted to 84 billion dollars. And it's going to continue to grow.

We have at the present time about 8.9 billion dollars of American industrial investment in Japan. In the rest of East Asia around 17 to 18 billion dollars. In other words, about 26 billion dollars approximately of American overseas investment is in East Asia. And that is out of a total of 226 billion dollars American business has invested overseas globalwise. But the returns on American investment in Japan and East Asia are the best of any developed region of the world, and better than some developing regions as well.

On the other side of the Pacific, what you have been seeing is a demographic trend, a population shift to the south, to the southwest, and to the West Coast. What you have seen is the development of states like California, with a two-way trade with East Asia in excess of 50 billion dollars a year, Washington State, 10 billion dollars a year and growing and Oregon, 4.5 to 5 billion dollars a year.

What I'm trying to say is that this juxtaposition of events, of trends and patterns, of facts and figures from the East and from the West are coming together, and they are coming together in what is known as the Pacific Basin -- an area on which four continents impinge, four South American states front, all of Central and North America, Australia, New Zealand, the islands of the pacific, all of East Asia, including Japan. You're looking at an area where 58 percent of the peoples of the world live, an area with tremendous natural resources, great market potentials, and, on the whole, friendly peoples and governments.

I'm delighted that this group from the southeast U.S. has seen fit to come this far to keep alive a relationship which should and must thrive in the years and the decades ahead, that you're getting an idea of what the Pacific means, that even if you live in the Southeast, far from the Basin, you are
recognizing the fact that you, too, have an interest in this part of the world and you're becoming aware with this interchange and exchange, between goods and between people, that this juxtaposition of events is inevitable, inexorable and will mark the next century, the Century of the Pacific, because it's in that basin where it all is, what it's all about, and where our futures lie.

Any questions?

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