Year-End Press Conference with US Correspondents

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First the good news. As you know, ANA signed a 1.7 or 8 billion dollar contract with Boeing yesterday. The prospects are good that JAL will be signing a contract covering approximately half a billion with a Boeing very soon, and when you look at those figures and recognize that airplane sales by American concerns have increased by about 125-130 percent this year over last year without these contracts. That is part of the good news. The second is that for the first time there seems to be pretty strong indications there will be some kind of a breakthrough in the lumber and wood products area, especially as it applies to the plywood types of wood, in the light with the announcement in yesterday's paper, which sounds pretty good and I think may well stand up. Of reductions in tariffs from somewhere to 20 to 30 percent below the present rates. I think they start next year. We have also reached an agreement after a good deal of struggle on the leather issue and in so far as the moss negotiations are concerned we have been making very good progress. In telecommunications we think things are looking very bright. In electronics, outside of semi-conductors, because of the suit brought under section 301 of the 1974 Trade Act, looks pretty good. Number three, pharmaceuticals and medical devices looks excellent and as I've indicated, number four, lumber and wood products, for the first time, some visible signs are apparent indicating a breakthrough.
On the other side, we have difficulties covering the salmon and ground fish issue in negotiations between the two countries at the present time. Apparently at a deadlock. We hope that we'll be able to break through it. As far as other commodities are concerned, they will be treated with in turn but I would hope we can get away from negotiating on a commodity to commodity basis and embark on a more widespread overall trade program. I'd like to, for example, see what the possibilities are for a reduction to zero in tariffs and quotas on the part of the Japanese. Of course that would call for a similar reduction on our part. One way to face up to the whole problem, and arrive at a more wholesome conclusion than operating on a bit by bit basis. Perhaps in that area might lie something like a free trade treaty, compared with the one which we've signed with Israel and which we are in the process of negotiating with Canada at the present time. Those are just ideas off the top of my head as to how the situation might be broadened out and made more all embracing and less specific which seems to be an interminable process.

The dollar has declined gradually and quite well, all things considered, since the announcement by the G5 at the Plaza Hotel last September. Incidentally, the genesis for that announcement came in a June or July meeting in Tokyo between Takeshida and Baker. It reached fruition in the Plaza in September, and has worked quite well since. One of the big difficulties, which has been hindering our trade relationship, the over valued dollar, is beginning to be taken care of. How
long it will last remains to be seen but down around 200 has been a fairly steady rate over the past several weeks if not a month or so.

Interest rates at home are still too high. There is a tremendous outflow of capital into the U.S. It's needed to pay the interest on our debt which last year amounted to 111 billion dollars, just the interest alone not reducing the debt, and this year the best estimates I can find indicating about 135 to 140 billion dollar interest rate cost on the debt. The deficit is still too high, it's too big, it's too deep and it's too strong, and we can't avoid it. We have to face up to it. Once we do and do it in the right fashion I think we can begin to cope in better fashion with the trade imbalance, not just with Japan, we've placed too much emphasis on the bilateral imbalance and not enough on the global imbalance, because on the one hand you've got a 37 billion dollar deficit last year, somewhere around a 50 billion dollar deficit this year coming up and last year the global deficit was 123.3 billion dollars. So it is not a bilateral, it's a global problem it should be pursued more on that basis.

When I was in Washington I met with a very sizable number of my former colleagues from the Senate and a few new ones, about 26 or 27 all together plus a somewhat smaller number from the House including the joint leadership in both Houses and what a sensed there was a recognition of the difficulties which confront us, but a frustration as how to face up to them and
some cases being reelected. But that is a matter which any Congress has at any time it's just more difficult at the moment and that's enough I think as far as I'm concerned and now for your questions.

QUESTIONS & ANSWERS

Q: Can you comment on the Graham- (..?..) to reduce the deficit.

A: Well, I really shouldn't comment on it because it is outside my jurisdiction, but it appears to me that something in that order had to be done. Some way had to be found to reduce the deficit and in time, if possible, bring about a balance. But as I look at it from 9,000 miles away it appears to me the Congress has got itself in a box, because what they've done is to lay down or rather agree to a certain number of very definitive strictures, very strict limitations, the President will be bound by law now to observe that and the result will be that the ball will be thrown back into the court of the Congress and the Congress which created it will have to cope with it, and believe me that's going to me some job.

Q: What effect will all this good news have on next year's trade balance between the United States and Japan?

A: Very little effect, because the good news as far as the planes is concerned is stretched out over a period of five to
seven years. But psychologically it means something, factually it means a great deal, and at least in one area we can point with pride as long as we can in the fisheries areas, and other areas as well but few in number, as to where Japan is our number one customer and in those areas we have a sizable surplus but it is only a part of the whole and the whole is much much bigger than the parts all together if you delete these which I've mentioned.

Q: Mr. Ambassador, people seem now to be focusing on February when the trade statistics come out as the next flash point. The Japanese that I've talked to seem to say that September represented to them a crisis point and that February will, whatever comes in the opening months of 1986 will not worry them quite as much. Do you think they are being a little optimistic and underestimating the mood of the Congress.

A: Possibly, because when the 50 billion dollar approximate figure hits the front page you are going to hear a lot of grumbling. And there will be a pointing of the finger again not at the world but at Japan. It is easy, it stands out by itself and it will have again this year the biggest single surplus compared to any other country in the world. But I think what we have to look at is a bipartisan bill introduced in the waning days of the first session of this Congress which was, I think, sponsored by 24 Republicans and 12 Democrats (let me see what the figures are) no, 21 Republicans and 12 Democrats, headed by Doe and having some prestigious figures,
figures with clout on both sides. It's a bipartisan bill, for one thing it can't be labeled a Democratic bill as the (...)–Benson–(...) bill was. That as you know called for a surcharge of 20 to 25 percent over a three year period if certain things weren't accomplished. But this is bill you've got to watch because it's bipartisan, it's a lot more reasonable at least in tone, but basically it is protectionist too. So next year with a 50 billion dollar deficit being announced, with an election year in affect, I think, things will be quite difficult and the more that Japan will or can open its markets in the meantime the better of its possibilities will be to establish a greater rapport in the field of understanding in economic trade matters. So I would expect it to be a very difficult year next year.

Q: What do you think the prospects are next year for Japan falling in line with President Reagan's SDI program.

A: Well, I can't say. All I can say is that there are giving it a good deal of study at the present time and is going to dispatch if they haven't already a mission to Washington to discuss SDI in more detail.

Q: Looking back on this year, are you satisfied with the progress that has been made, Japanese efforts in trade problems?

A: I appreciate very much the efforts that the Japanese under the leadership of Nakasone have made not only in opening
markets, not enough, but good progress, in defense expenditures and in bringing about a strengthening of the close personal relationship between Ron and (Yasu?) which has played such an important part in affairs between our two countries. Incidentally, I look at the situation in the Congress as being so difficult that I have come to the conclusion that there is only one person standing between the enactment of protectionist legislation and that is the President of the United States, Mr. Reagan. But as the outcome in Congress increases, it's just being muted for the time being, and as the strength of those who are advocating protectionist legislation at least on paper develops it means that his position becomes weakened accordingly. Hence in September, shortly after the announcement by the G5 group in New York, he made a speech to a group of business men in the White House in which he said that he would strictly enforce the Trade Act of 1974 and mentioned without equivocation sections 337 and 331, and I think by implication section 2012. In doing that he was able to soften the demands which had been made in the Congress that the administration wasn't paying enough attention to the bringing into effect of laws on the book. Because of that speech and statement made by the President some of the difficulties which faced in Congress had evaporated because he has met the complaint that enough wasn't being done administratively in enforcing local law, national law really, in the trade area. But he's got to have some support and it is going to become more difficult for him. But he has done an outstanding job in stemming the tide for the last five years. He has had to dip
and dodge, swerve and pivot now and again but in the process he has maintained the line very strongly, and I think deserves a great deal of credit because Republicans are not noted or haven't been in the past for being free traders and what we have is a shift here which I think is in the best interest of the country and the international trading system which I think is one of the pivots on which the free enterprise system of capitalism works.

Q: Mr. Ambassador, the Japanese have always maintained that exchange rates are the real issue. I wonder now that we have the Yen-Dollar rate down to the 200 level which is where U.S. officials have always said it should be whether there will be less pressure in Tokyo to produce on the market opening side? In the coming year will the Japanese basically view the problem as more or less solved?

A: No, and the shouldn't. I don't think they will. We don't know what the figure is but perhaps a little below 200 might be more effect in strengthening the yen and bringing the dollar into a better position of parody. All those things take time but what you have said as applying to the Japanese has been said previously by Gil Brock when he was the U.S. trade Ambassador, has been said afterwards by Yater who succeeded him, was stated by Secretary Baker as being responsible for about 50 percent of our difficulties when he addressed the governors conference in Boise, Idaho last June or July I believe (sometime in the Summer). But it has only been one.
The biggest emphasis has been on the dollar and should have been. But I think now the biggest emphasis should be on the deficit. Something has got to be done to control that otherwise interest rates are going to remain high, interest payments are going to increase and we are going to find ourselves on a merry-go-round with no end in sight. So it is not one, though that is the primary one, it's a combination of factors, an over valued dollar, now declining in a nice way, gradual. Interest rates are going down except for the benchmark figure of the prime which is still and 9.5 percent. And deficits which seem to be increasing and the Congress unwilling to face up to the job which must be done to bring about a decrease in the deficit.

Q: Hasn't though Japanese will been lacking as well to stimulate domestic demand which is one of the things that in the G5 agreement has to be done before the inbalance can be solved?

A: I agree. I think that the opening up of the domestic market leaves much to be desired. I think that Nakasone is trying to move in that direction, he's finding it a little difficult. I am very happy to note the liberalizing and opening up more of the financial markets. I look upon Tokyo if it isn't already will very soon be the second financial center in the world. My feeling is that is past London but that if hasn't it will shortly. And because of that you're seeing developing a high concentration of U.S. and other foreign
financial institutions of various kinds. And I think they are making the right moves in the right directions at the right time.

Q: I am sorry Sir, my question was about domestic demand they seem to be waffling on an interest rate cut and some other things that would bust consumer spending in the country.

A: That is right. They haven't done enough in that field. They seem loathe to face up to it. It's one of the weak spots in the recovery overall. But they are certainly aware of how we feel about it's responsibility after all Japan is a sovereign power.

Q: On Soviet relations in the coming year, Japan like the European countries, seems in the past generally more comfortable with detente. And if there is a strengthening of the Soviet defensive in the coming year do you see any friction with the U.S. in regards to this issue?

A: No. I think that the Japanese occupation of the Northern territories of Hokkaido is the uppermost factor in the minds of the Japanese oil groups, oil parties. I see no indication that the Soviet Union has any desire or wish to return any of the islands off Hokkaido and as long as they illegally occupy them, as they have since five days after the end of the Pacific War, it will be most difficult to bring about any real change in relations between the two countries. I am delighted that the
Russian Foreign Minister is coming here in January. I am interested to note that Nakasone seems to be interested in annual visits with the Russian Chief of State. Maybe it is just newspaper speculation but it has appeared in the press from time to time. I would assume that Russia's interest in Japan is primarily of an economic nation and would be tied in large part to the development of Siberia. But frankly despite the unusual visit of a Russian Foreign Minister after so many years, I just can't see any change in the immediate future in the relationship between the two countries. I wouldn't project that too far ahead but in the immediate future.

Q: Mr. Ambassador, is there a chance that the relationship that is now enjoyed, the Ron-Yasu? relationship, could in fact if anything deteriorate especially as the LDP election draws near? And drawing on his question in the fact that there might be a sense of easement in the Japanese mind saying O.K. the yen is down this should eventually solve itself, combination of those two factors could in fact lead to a deteriorating relationship over the next year or two.

A: I wouldn't think so. It's an especially strong personal relationship. It's one that I don't think exist between our President and any other chief of state on the same basis and has the same strength. They are in constant communication with each other. Nakasone has placed all his cards as his predecessors did more strongly on his relationship with the United States. The President has been the first one in that
office that I know of who has shown a primary and personal interest in the Pacific and East Asia and the same can be said Secretary of State Shultz. No I would expect that personal relationship would continue whether or not Nakasone continues in office. And that is a question which is still up in the air because if Nakasone does not continue in office he will be one of the king makers behind the throne and have a great deal to say in the future. And if does continue in office, problematical at this time because of LDP party rules, it will be a continuation of a policy which has been responsible for the first time in the history of Japan, pre-war included, in bringing Japan front and center on the world stage. Do in part, because it is one of the two super powers economically and because of that it is generally speaking a great power. So he has done that. It took the Japanese people a day or so to get used to it and now they like it. In the process of course Nakasone is up there front and center too. It doesn't hurt him and it doesn't displease Nakasone but after all he is the Prime Minister of Japan and he is the symbol of his country while he is abroad and that is as it should be.

Q: Do you find Mr. Ambassador in your long trips back to the States this year that beyond the government relationship and the personal relationship between these two men that this long amberous trade situation is beginning to eat away at people's attitudes about Japan? Do people feel less kindly to the point of even hostile?
A: I think that the members of the Congress that I saw as I've indicated were frustrated, uncertain and gradually becoming aware of the fact that it was not just Japan and a bilateral problem but the rest of the world and a global problem and in the process recognizing that there are things which they have to do if this matter is to be put to rights. They seemed uncertain as to how to do it. So my feeling is that while the push for protectionism will continue perhaps on a reduced scale but a more effective legislation being introduced as the bipartisan Dole bill I have mentioned is concerned that there is developing a better feeling of what the relationship between our two countries means. I think the fact that the Japanese with the latest announcement by Toyota that they are going to invest 800 million dollars in a plant in Georgetown, Kentucky is indicative of a trend which can't help but have beneficial results. And that 800 million dollars lifted the total overall figure to about 3 billion 640 million dollars invested by various Japanese auto concerns in the United States. Mitsubishi down in Illinois, Mazda up in Flat Rock, Michigan, Tokota in with GM in California, Honda expanding, Nissan expanding. That's a big investment employs a lot of people. Brings about a greater degree of understanding and when it comes to buying Japanese products you know none of us have to buy them. Nobody forces us to, we buy them because we like them. And those are the kind of products we have to develop in our own country and we can and we will if all work together to do so. A return to the old time spirit when hurt us at all. Cooperation would mean a great deal and in the process a better
relationship between labor and industry and government, all too
often adversarial could be quite beneficial and could be quite
effective in reducing cost and increasing quality and
productivity.

Q: At beginning of this year you were concerned that this
trade issue might develop into something that would have a bad
effect on the overall relations between the United States and
Japan but now you sound as though you feel the relations are
being strengthened as a result of all these troubles.

A: Yes. It's a paradox but I think that is what is
happening. That is my personal opinion that the people are
becoming more appreciative, that a greater degree of
understanding is achieved, that appreciative recognition of
Japanese investments is becoming quite a factor in the economy
of the States. Since I've been out here I've visited
personally with 45 governors. I missed the 46th when I went
back to the States, the governor of Vermont, but since then the
governor of Puerto Rico, so I suppose including the territories
and what not the number would be 46. They are coming over here
for a purpose. They want investment in their state. Most of
them are getting it in some or other. Some to a considerable
degree. And that I think is a factor which has to be
considered on a state compared to a national basis. And I
think that what the states will be able to accomplish will have
an effect in time on their representatives in the national
Congress. We have many minuses here but we do have some
outstanding pluses as I have indicated two of them in planes, in fisheries, in agriculture overall, and the Lord knows that our agriculture industry is depressed and needs all the help it can get. And last year 6.9 billion dollars worth of American agriculture products was I think a great deal of help. It applies pretty close to 20 percent of all foreign sales.

Q: Mr. Ambassador, you mentioned the free trade concept...

A: Just a personal suggestion...

Q: That means the elimination of all quotas and tariffs? Do you think there is any possibility that the two questions will actually sit down in the near future and discuss this?

A: No. It's not a bad idea though worth considering.

Q: A new defense budget is do out in a few days. I wonder has the U.S. conveyed anything to Japan political about what it would like to see in this new budget coming out?

A: No. Not specifically but I'm sure the Japanese know generally, after all Japan is a sovereign nation, will have to make it's own decisions. I think it's done quite well down through the years and I expect them to do well this year. And the figure for Japan is not less that one percent but based on calculations used by NATO and us explosive to 1.6 percent a year. And on averages I would say that for the last 14 years
including this year their overall their average increase straightened out over 14 years would come around seven percent per year. That is a nominal increase. Not bad comparatively speaking and much better I would say than what NATO has been able to do percentage wise over the same period. So they can do more we would like them to more. It's their business. We'd like them to do more in their own self-defense period. We don't want Japan to become a regional military power. Japan doesn't want to. It's neighbors certainly don't want it to. But the progress as been steady, significant and I for one am very appreciative of what they have done in the defense area down through the years.

Q: There seems to be though, the signals that are coming out of Washington seem to indicate that while we want them to do more, the things we want them to do could conceivable make them into a regional military power, patrolling 1000 miles out and...

A: On their initiative.

Q: Right but then that begin about five or six years ago or something?

A: It began when Sazuki as Prime Minister visited Washington and he made a speech at the National Press Club and that was the first time he advocated the idea of Japan undertaking the defense of its waterways out to a distance of a 1000 miles, southeast from the Bay of Tokyo to somewhere in the vicinity of
Guam. A lot of Japanese islands along the way so you get the home territory in there. And then beginning in the Bay of Osaka a 1000 miles southwest which would bring you pretty close to the Basu? channel which separates Taiwan from the Philippines. A lot of Japanese territory on the way down there too. So it's a policy which was entirely a Japanese initiative which they've found it hard to implement because they haven't got the naval power or the money appropriated to undertake the responsibility which they shouldered. So there has been some delay there but I think in time they'll be able to do that and it will be completely within the limits of the defense of its home islands.

Q: Recently, for example, there was a couple reports out of Washington and I think a report of Congress saying that Japan should foot more of the bill for the cost of American troops there. I believe the figure is about 2.4 billion dollars a years it cost to maintain 62,000 troops. And of that amount Japan pays about billion dollars or close to it. What are the prospects of that happening?

A: I can't say but last year the Japanese contributed 1 billion 124 million dollars for the upkeep of U.S. forces in Japan. Now that's about one third of what would be the total if cost us 2.4 billion to maintain what military personnel we have here. And that is a sizable contribution. I haven't got any figures for NATO for Germany, for example, except for the year 1982 and in that year the Germans spent 1.3 billion dollars for
the upkeep of U.S. forces there which numbered in excess of 250,000. Quite a contrast, 60,000 1 billion 124 million an excess of 250,000 1.3 billion. I think they are making a sizable contribution. We would like them to make more because as the dollar depreciates our cost increase and in some areas in the military in Japan, U.S. military, they've increased to the extent of about 18 percent. But we'll see what the Japanese have done. I think the figure I said last year was 1 billion 124 million and the figure for this year is 1 billion 116 million. Pretty sizable.

Q: Mr. Ambassador, isn't true that while the perception exists that Japanese industry is responsible for the loss of American jobs that nothing they do will ever be satisfactory some people in Washington?

A: Yes there's a good deal of truth in what you say. I don't know that I'd agree with you entirely, but it is true that we are losing some jobs because of Japanese competition, steel, autos, machine tools, and the like but by the same token we're are gaining a lot of new jobs by Japanese investment in the United States and the best figure I can recall, I wouldn't want to be held to closely to it, is that these direct investment which amount to pretty close to 20 billion dollars (just under) out of about 71 billion which the Japanese have invested worldwide. Employs about 100 thousand people. By the same token though you've got a lot of American concerns investing overseas to avoid the high cost in our country and they are
joining up with other companies or investing in other areas where the cost factor is much cheaper. I believe Ford, for example, one of our auto companies has a plant in Monterey, Mexico which assembles parts and the wages there are quite low in comparison. There have been tie ups here although the wages in Japan are not quite low in comparison in the auto industry as far as the average industrial wage is concerned. It is about 12.50 an hour which is about the average industrial wage in our country. But in the auto industry of course it's much higher and it comes to somewhere in the 22 or 23 dollars an hour range. But what you've got is a change occurring in the auto industry. You've got robotization taking place, necessary. Better productivity, not enough. Better quality, not enough. Prices seeming to me to go pretty high pretty fast and not much in the way of follow through serves. I saw an interesting document issued by the Department of Labor about three months ago which indicated that American productivity had increased by 3.5 percent last year. Great. And a shift a way from the almost steady decline or slight increase in increased productivity that had been the norm for so many years. But the same statement indicated that last year the increase in Japanese productivity increased 9.5 percent. Something to think about. But what you have here is Ford with a 25 percent tie-up with Mazda, Chrysler with a 25 tie-up with Mitsubishi, it used to have just a 15 percent interest, G.M. is tie-up with Isuzu to the amount about 45 to 46 percent with an option to buy about 8 percent more and they've tied-up with Suzuki which turns out a small split down high mileage per gallon of
gasoline car, cheap, and they've entered into a partnership with Toyota. G.M. has entered into a partnership with some Korean company so has Ford and Chrysler is trying to. So what you are seeing is a shift of a large part of our industry. Overseas it's going to create problems. What they are, I don't know. But it certainly indicates a shift in the outlook of the auto industry area itself.

Q: Mr. Ambassador, what is your assessment or outlook for the May Tokyo summit? Will it be a Japan bashing session? And I have to ask on a personal level will you plan to be around to see it through?

A: I certainly will. You can quote me. No. For one thing Japan will be the host country. And the second factor is that despite the criticism coming out of the EC and our own country, the rest of the world, I think is becoming more recognizable of the fact that it isn't just Japan. Sometimes as they say Charlie Shultz Peanut strip "the enemy is us." The EC has to do plenty of things. We have to do plenty of things. Japan has to do very many things. But if the Japanese did everything we wanted them to do they would still have a sizable surplus with us. And I think every American economist of what ever stripe would agree to that because the best figures I can get is that if the Japanese did everything we wanted them to do or would like them to do it would be somewhere between a ten to fifteen billion dollar reduction in the deficit. So I don't think that the agenda has been worked out but trade will be
high up on it at the Tokyo summit. I have an idea that Nakasone will concentrate on parody in exchange depending upon how events work out at the time. He will mention interest rates, he will mention the deficit, and he will try to point out what other countries should do and we in turn will continue to point out to Japan what we think it should do. But I look for the summit to be a courteous one, a highly secured one and frankly I don't expect too much to come out of it, but I do think that psychologically and politically it's a shot in the arm that these summits take place each year. And incidentally I would like to see the Pacific more highly represented in these conferences, because what you have is a preponderance of Europeans, the United Kingdom, France, Germany, Italy and the EC where as the only Pacific countries you have are the United States and Canada, half and half, half Atlantic and half Pacific, and the only truly Pacific country you have Japan and this is where the action is and this is where the future lies. And I would hope that some consideration would be given to the possibility of a country like Australia being admitted to give more zip and standing to the Pacific section of the summit. Again my personal opinion.

Q: Mr. Ambassador, there has been and continues to be a great deal of alarm expressed in Washington, Congress, the State Department, the White House and the Defense Department, about rising instability in the Philippines specifically this security of the U.S. bases their. Now given the importance of those bases to securing the sea lanes that feed Japan among
other things do you anticipate for one thing that that situation might hasten Japanese growth in self-defense particularly 1000 miles control of their own sea lane? And secondly, is there any discussion about the possibility of moving part or all of the bases to Japanese territory?

A: The answer to both questions is no. Japan will not in the indetermined future go beyond the self concept, nor should it, for reasons I have already announced. And secondly, the loss of the Philippine bases would be a great catastrophe for us because we are out here not just to defend the Philippines if attacked and Japan if it's attacked, but we are out here in our own defense as well. And the bases in the Philippines and Japan constitute our own defense perimeter. And we have the use of those bases based on mutual security agreements. And the best bases we have are in Japan which we occupy as the guest of the Japanese government and people and to which the Japanese contribute as I've said in excess of a million dollars last year and this year for the upkeep, housing, utilities, labor costs sharing, and the like. The important element in the two country structure is Japan because you've got stability, solidity, and insurance here. We occupy the bases rent free. In the Philippines they cost a pretty penny. In the Philippines unfortunately are in a difficult situation at the present time, economically, socially, politically and it is having its troubles. There has been some talk in the papers about a pull back but never a pull up to Japan from the Philippines. But a pull back to an area covering Palawan at
the southern end, Guam and Saipan. But if that ever happens you'd have to ask yourselves a number of questions which I think emphasize the importance of this relationship, the tremendous importance of this relationship, the important bilateral relationship in the world bar none. The questions are if we lost these bases out here how far back would we have to withdraw? To (Tennian?), Guam and Palawan or further east. Secondly how much in the tens of billions of dollars would it cost us to create a new defense perimeter and I mean tens of billions of dollars. And third, how effective would that new defense perimeter be. We are out here where we should be and we have a mutual security treaty with Japan which is totally mutual in all respects. It's an excellent relationship. It's a vital relationship. And when we talk of Japan's defenses and our being out here please keep in mind that it is these bases and the bases in the Philippines which form the outer most perimeter of our own defense. Very important factor. I don't think to many people at home are aware of it.

Q: Mr. Ambassador, I guess in the nine years since you have been Ambassador here you've I'm sure seen a lot of changes in the way people in the United States perceive this country. How would you describe those, how would you characterize those changing perceptions of Japan in American in the nine years you've been here?

A: That has been a developing and a continuing interest in things Japanese. When I came out here Japan was hardly
mentioned in the papers now it is mentioned quite often mostly in trade but in other areas, culture and the like. And what we are seeing is developing a better understanding between our two countries especially on our own part because we've had a long way to come and a continuing interest in our country on the part of the Japanese who have shown much more interest down through the years since the end of the Pacific War than we have. What you've got coming into effect is a recognition on the part of the American businessman that there are opportunities in Japan. But that it is going to take time, hard work, understanding and appreciation of what just the Japanese are, what they stand for and what this country is all about. Just as the Japanese have had to learn those factors about us. And American business is aware of the fact despite their small investment in this part of the world, approximately 7 billion dollars in Japan (just a little under), 18 or 19 in the rest of East Asia, about 25 or 26 billion out of 223 billion dollars invested worldwide. But they look at the returns and the see that on the average it is the best among all the developed regions and some of the developing regions year in and year out. They look at this area and they note the cheap labor and the skilled labor and the productivity of the people. And they are beginning to invest more out here. Of course, there are ups and downs as in Singapore at the present time and to a lesser degree Korea. They look at a country like Australia which is a storehouse for Asia in minerals and natural resources of various kinds. They look at the trade figures and they see an area which in 1975 had a total two way
trade of 42 billion dollars including Japan, ten years ago, and last year they see an area, East Asia, including Japan which had 181 billion dollar two way trade, of which 84 billion was with Japan. So these facts are sinking home. You've got more and more American industrialists, businessmen of various coming out here. More recognition is being achieved. More understanding is forthcoming and while as long as we have figures amounting to 37 billion dollars and 50 billion dollars in the areas of deficits we are going to have problems with the Congress. I think that's to be expected. The important thing is I think a deeper and better penetration is being made among the people and out of it is coming a greater degree of appreciation and mutual interest. It's a good trend I hope it continues. It will.

Q: Mr. Ambassador, talking about the SBI for a moment do you see any contradiction between the American request for Japan's participation in a strategic military program and what you've spoken about today, our desire that Japan remain a power limited to self-defense and not outside of Japan?

A: Not really because what they are interested on the SBI as I understand it is research and development. That's going to take a long time. Not deployment. And the Japanese are studying it, they've been studying it for quite a while. They are sending a mission back to Washington for more details. What their ultimate decision will be who knows.
Q: Has the United States suggested a time limited but which it might be wise for Japan to make decision?

A: No. It didn't to the European countries. They are recognizing the sovereignty of the nations concerned including Canada which I think has turned it down, France, Greenland I think has accepted or well better get a way from that...

Q: Mr. Ambassador, given the relationship of Prime Minister Nakasone and President Reagan and the perception that Nakasone is attempting to do things to open up trade, will a change in Japanese leadership have any impact on the Congress and its willingness to pass effective legislation?

A: Well the names mentioned Obe, Takeshida, Niisawa(...tape ends abruptly...) Congress is made up of pretty smart people and they can read trends, they can understand facts, sometimes they become frustrated and uncertain but its not the usual norm despite all the criticism gets. They make excellent contributions and incidentally since I've been out here there has never been a congressional group that hasn't worked and tried to learn something about this country and what makes it tick. And it is a pleasure to have them because they go back better informed and more understanding of just what the relationship means. So I think in answering your question that no matter what happens the Congress will take it in stride.

Q: Mr. Ambassador, when (...) originally left the White
House there are reports saying that he was very interested in
Ambassadorship of Japan. Do you have any comments on that?

A: No, except those reports come out on the average of ten or
twelve a year.

Q: Are you expecting anything from the (....?....) and the
initiative (....?....) congressional group which is coming?

A: We are looking forward with anticipation and we are
delighted the Jack Danforth? is coming out with Alan Simpson,
J. Rockefeller and Max Baucus?, and one or two others. We
think that it will be good for both sides, we are delighted
that they are going to be received by the Prime Minister and we
think that more of these visits by people with different views
is better for both our countries. We have others coming out
too. We have a group headed by Congressman Fukuwa?, a science
and technology group. We have a group know as the
Midwest/Northeast Coalition, five or six Congressmen coming
out. We have (....?....) and his family coming out for a day
or so. And then some individual Senators like Barry Goldwater
and one or two others who will be stopping at Yokota for
refueling purposes. And we may have more because the Congress
doesn't go back into session until the 21st of January you
know. Laughing at it? No joke. It gives them a lot of time
to travel around.

Q: Mr. Ambassador, just getting back to trade for a second,
what do you expect from Moss talks in the coming year and how long do you expect them to last?

A: Well I would anticipate that by the time Abe and Shultz should (...?...), I believe on the seventh or eighth of January that the telecommunications will be excellent shape. That number two, electronics will be in very good shape. I don't know what the situation will be vis a vis semiconductors which of course form a separate case under 301 of the trade act even that may not prove to be an impediment. Pharmaceutical and medical devices excellent. In those three areas I expect agreement by the time Shultz and Abe meet. In the fourth area, lumber and wood products, no. Maybe something next year but the only thing we'll have to show for it this years is a promise that changes will occur in 1987. We are trying to shift it up to 1986. It is quite a job redistributing (...?..) industries. And the newspaper announcement which I think could be considered valid although I wouldn't bet my life on it of the 20 to 30 percent reductions in various types of fiber wood, plywood and the like which will go into effect next year. And it is only those four items which cover Moss.

Q: Mr. Ambassador, over the past year or two we have been with lost to what the financial, what is called the dollar (...?...). We have had some very specific negotiating on the part of the American side rather than the general market opening approach? In widening up would you expect the U.S. to identify further specific target areas in which it has specific wishes or desires?
A: We never lack areas to bring out. That why I would like to see the whole thing considered as one. Because this is an expansive, we've gotten away from signal issues, like beef and citrus, and now we take them in fours, but I wish we'd take them in wholes.

Q: Mr. Ambassador what is your prediction for the U.S. trade deficit with Japan in 1986 and 1987?

A: The best estimate we have indicates on an annualized basis somewhere around 50 billion dollars for this year, 1986. Next year I couldn't answer the question not until we begin to look at the monthly figures which we look at on a monthly basis and brings us up to date. But 50 billion dollars is so much I would hate even to guess beyond that.

Q: How long do you think it might take before the trade deficit starts to decline?

A: Some economist seem to think that it might start to decline in the last half of 1986. Does anybody recall that statement by Baxldridge? in the last year or so.

Q: That the deficit itself will decline or the growth rate will decline?

A: The trade deficit will decline. The growth rate I don't know the best figure I can recall I'd have to check on this is
three percent or so for next year and for Japan around four percent may be a little bit more.

Q: This between the deficit with Japan only will start to decline or with the rest of the world?

A: I would imagine with the rest of the world because the problem is not bilateral it is global.

Q: On the point sir, I understand that the United States is not the only country to have red figure with Japan trade. Do you see the Japanese deciding to buy at (...?...) invoice in the next year?

A: Yes. I do and I think the initiative shown by Nakasone and interested 120 or 130 Japanese company is beginning to bear results. Small but increasing and I should point out that if you want get a clear picture of the Japanese relationship and dependence upon the United States as a market all you've got to do is remember Japan acquired a 44 billion dollar surplus in 1985 and 37 billion dollars of that was with us so that left 7 billion dollars for the rest of the world. That figure will be changed I think considerably and in the mean time country's like the PRC are beginning to protest about the strength of the Japanese surplus in relation to their deficit. They are beginning to sound like us in certain respects.

Well folks I wish you all a happy and a peaceful New Year, many of them, and good luck. Thank you.

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