Atlantic Council/Keidanren

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Mr. Chairman, ladies and gentlemen: First, let me say that I am privileged to have the opportunity to address this particular group because I think, in comparison, we have much to consider in the relations between this part of the world and yours.

May I say that at the present time we also face a difficult situation in our relations with Japan, centering on trade. It is the gravest period that I can recall, and it is one which will become increasingly difficult -- in my opinion -- in the months and years ahead.

Last year we had roughly a $37 billion deficit in our trade with Japan. The year before it was a $19.6 billion deficit, and this year all the indications are that it will increase considerably.

This has caused a certain amount of concern in the Congress of the United States, and the result is that we have had a lot of legislation introduced within a short period of time in both
bodies of Congress. And the votes that have occurred on that legislation indicate that the feeling there is quite strong.

I am concerned because I think that we are paying too much attention to Japan as a country, and not enough attention to our deficits with other countries and other parts of the world as well.

For example, hardly anyone mentions the fact that last year we had a $20 billion deficit with Canada, a $17 billion deficit with Western Europe, and very sizeable deficits with South America, Mexico and elsewhere. So whereas the Japanese deficit amounts to somewhere between one-quarter and one-third (of our total deficit), we must remember that the total $123 billion deficit is spread worldwide.

We want the Japanese to open their markets more. And when (we say) we want them to do so, we want them to do it not just for the United States alone, but for all other countries in the world as well. That's a factor which I think the Europeans should keep in mind, because too many of you have the idea that we are working on a bilateral basis all the time, rather than on a worldwide basis.

But the Japanese -- who have been the chief beneficiaries of the international trading system -- are the ones who will suffer the most, without question, if the trading system falters, declines or stops, because Japan is an extremely
vulnerable country. It just happens, for example, to be the closest in size (among) the states in the Union, to my own State of Montana. And my state is 4,000 square miles larger than Japan, but the population there, according to the last official census, was 787,000. The population in Japan has gone beyond 120 million people. Sixty percent of the Japanese live on 2 percent of the land -- a beautiful country but hardly anything in the way of natural resources to fall back on.

My state has tremendous natural resources. It is still a developing state -- lots of minerals, copper, lead, zinc, tungsten, manganese, middling amounts of oil and gas, the largest coal reserves in the United States. You name it, we just about have it.

But here is a country (Japan) with so many people, with nothing in the way of resources. And that indicates its vulnerability, its dependence upon the rest of the world. The result is that they have to import raw materials to manufacture, to export, to survive.

That may be a little too strong, but it is not too far off the mark. But it does indicate how extremely dependent Japan is on the rest of the world for its livelihood. Japan, I repeat, has been the chief beneficiary of the international trading system. To repeat again, if they allow it to falter, through not opening their markets as much as possible -- entirely if possible -- they will be the chief losers.
But it's not a case of just scapegoating one country and blaming that country for all our ills because, like everything else, there are at least two sides to every question.

There are things which we must do at home. The dollar is way too strong. Over the past five years it has increased 60 percent in strength. It's killing us in international trade. Our interest rates are still too high, though they are a far cry from the 21 percent, roughly, that was in effect at the time President Reagan took office in 1981, but still too high. And our deficit is too big, way too big. Of course, in the meantime, a lot of Japanese and European and Latin American money is coming into the United States to take advantage of the high interest rates, treasury notes, bonds and what not.

Some Japanese seem to have the idea that they are doing us a favor and in a sense they are. Because it is on that borrowed money that we are finding the wherewithal to pay the interest on the debt -- which amounted to $111 billion last year and is estimated to increase somewhere to around $130 billion this year.

But when that inflow of money comes into my country to buy these bonds and treasury notes, they get in return a very good interest rate, making it a profitable investment.

But we can't go on like that forever, and if my information is correct, and I think it is -- and if it isn't it soon will
be -- it is my understanding that we are a debtor nation for the first time since 1915. If that's true, and I think it is, we're going to make Argentina, Brazil, Mexico and other countries pikers in comparison -- unless we face up to our own difficulties which have been largely of our own making and do what has to be done to make the necessary corrections.

The Japanese, the Europeans, the Latin Americans can't help us correct that (high) dollar except in an indirect sense. They can't help us on interest rates, and they can't help us on our deficit because they are of our making and they will be of our resolution.

So we face difficult times. We find the bill calling for reciprocity in simple terms, the Danforth Bill, a Sense of the Senate resolution passing the Senate 92-0 last month. I was in Washington a few weeks ago. I talked to some of my old colleagues on the Hill. Many of them are still free traders at heart. Many of them are concerned at the emotionalism in Congress and are concerned that if something isn't done, permanent legislation will be placed on the books and in the Sense of the Senate resolutions. And if that happens, then I think we're all in trouble.

Protectionism is not an answer to any of our difficulties. But I think with this situation that confronts us at the present time -- a very grave situation -- we have to wake up to the realities and do what must be done each in its own way but,
hopefully in a cooperative manner, so that together we can bring ourselves out of the morass that faces us at the present time -- despite the outward signs of prosperity in certain parts of the world.

We have no choice. If we fall into the trap of protectionism we are laying the groundwork for the same kind of events that occurred in the early 1930s, at which time my country passed the Smoot-Hawley Act which I think was in part responsible for the Second World War. I don't see that happening again, but other grave consequences can take place.

I'm concerned when a bank like the Morgan Guaranty Trust Company announced earlier this week that it was in favor of tariffs against Japan. I am concerned when David Packard, the Chairman of Hewlett-Packard, a free trader and one of America's outstanding businessmen, comes out and publicly declares that we should impose quotas on Japanese goods. I am concerned when one country is selected, picked on, or scapegoated. Because it's not just a two-country situation but, to repeat, a worldwide situation which affects other countries and other areas as well.

I am concerned when I pick up the paper and find out that Senator Slade Gorton of Washington has introduced legislation calling for a 20 percent surcharge. I am so concerned that I think we had better face up to what is in the making in Washington. If we do not, I think we can expect protectionist
legislation and that, I repeat, is not the answer.

I believe it was Ambassador Brock a few weeks ago who made the declaration that about somewhere between two-thirds and three-quarters of the trade deficits that we suffered last year were due to the overvalued dollar, the high interest rates, and the huge deficits. That means of course -- again, to repeat and I can't emphasize it too much -- that we in America have a responsibility, as well as those of you who live in other countries.

But the key word as far as Japan is concerned is access, access, access. It is in Japan's best interest to open its markets as fully as possible.

At the present time we have negotiations going on covering telecommunications, electronics, pharmaceuticals and medical equipment, and lumber products. We haven't had too many meetings yet, except in the field of telecommunications, but we do hope that something definitive in all four areas will come out before the Summit meeting in Bonn next month.

Turning to another subject -- defense -- I would say that the defense relationship between Japan and the United States at the present time is satisfactory. As far as I'm concerned personally, I appreciate the significant advances and the steady advances which have been made by the Japanese over the past 14 years.
There have been allegations in my country -- and I'm sure in many of yours -- that the Japanese, because they spend less than 1 percent of their GNP on defense, have had a free ride. Well, in a certain sense, there is a certain amount of truth to that allegation. But I think we had better look again at the whole picture and not just a segment of it.

If the Japanese calculated their defense expenditures on the same factors that we and NATO do, the figures would be around 1.6 percent at the present time. Not enough. We'd like them to do more, but certainly (1.6 percent is) a great deal more than less than 1 percent.

Furthermore, the Japanese have had to accomplish this in spite of tremendous obstacles:

One, MacArthur, as chief of the Occupation, imposed -- in effect -- on the Japanese, Article 9 of the Constitution under which they renounced war and the creation of any kind of an armed force.

Secondly, the Japanese have had to keep in mind the reaction of their Asian neighbors, all of whom they occupied wholly or in part during the Second World War, the Pacific War.

Third, we have to remember that the Japanese are basically anti-military minded and blame the military for involving them in the Pacific War.
Fourth, there is the need to develop a consensus on the part of the people so that what the government does legislatively will meet with majority approval; and

Five, despite Japan's prosperity, it has had to do what it has done on a very austere financial basis.

As a matter of fact, for the past seven or eight years if you averaged it out, you would find that the Japanese have had a (budget) deficit each year somewhere in the vicinity of 25 to 28 percent (of expenditures) long before the deficits which have come into being in the last two, three and four years.

The private sector is in excellent shape, but the government is in bad shape and, furthermore, it has an internal debt of somewhere close to $600 billion. But in spite of that, they have been able to achieve the creation of Self Defense Forces -- land, sea and air -- numbering roughly 245,000.

The Japanese have undertaken more and more of their own self defense. That's all we asked them to do, because we do not want Japan to become a regional military power. The Japanese don't want to, and their neighbors do not want them to become one.

But we'd like them to do more in their own defense so that we could have a little more flexibility for our forces out here -- to undertake a more appropriate conduct of our responsibilities.
For example, the Seventh Fleet, our main arm in this part of the world, numbers roughly at the present time somewhere between 75 and 80 ships. When I came out eight years ago it was 51 -- most of them old, on their way to obsolescence. Now they are modern, first rate, up to date, but in my opinion they still aren't enough. The Seventh Fleet isn't strong enough to cope with its responsibilities.

Hence, in this part of the world as in Europe, we are calling on our friends and allies to undertake a bit more in sharing the burden so that we can have a bit more freedom of movement and flexibility.

But the Seventh Fleet's area of responsibility covers 70 percent of the water surface of the globe: extending from the North Pacific to the Antarctic, 50 percent of the combined land and water surface of the globe. Too big an area but not enough ships, so we would like Japan to do more.

We have a Treaty of Mutual (Cooperation and) Security with Japan, just as we in effect have one with NATO, but this is one country compared to a number. Under that Treaty we have agreed to come to the defense of Japan if it is attacked -- and we will. We are out here not just to defend Japan if it is attacked, but we're out here in our own defense as well. And these bases that we occupy as guests of the Japanese Government and people are very vital to our security, as are the bases in the Philippines. We occupy them (Japanese bases) rent free.
The Japanese in 1983--I haven't got the 1984 figures yet--furnished, appropriated about $1 billion 124 million for the upkeep of approximately 60,000 U.S. military personnel on the archipelago. The figures I got for 1982 -- from what I consider to be reliable sources -- indicated that the Federal Republic (of Germany) contributed something on the order of $1.3 billion for the upkeep of in excess of 250,000 U.S. military personnel in Western Germany. Quite a contrast!

Furthermore, if we didn't have these bases in the Western Pacific, especially in Japan and in the Philippines, we would have to ask ourselves a few questions:

One, how far back would we have to withdraw?

Two, how much in the tens of billions of dollars would we have to spend to create a new line (of defense)?; and

Three, how effective would it be?

Something to think about from the American point of view and something to appreciate, because this Treaty we have with Japan is a Mutual Security Treaty and it is in the interests of both countries.

I mentioned the importance of the relationship between Japan and the United States in trade. I can make the same assertion as far as defense is concerned, and I can go further than that.
In my opinion, the most important bilateral relationship in the world is that between Japan and the United States, and the next century will be the Century of the Pacific. The development of that huge basin on which four continents front, four nations of South America, all of Central and North America, Australia, New Zealand, East Asia, where 58 percent of the peoples of the world live, an area of tremendous natural resources, on the whole friendly peoples and governments, great potential markets. That area is going to be developed not by the relationship or the partnership between Japan and my country, but with both our countries playing a very important part in that development.

We don't want to lead it. We want to be a partner, and if you look at the facts and figures -- in 1983, our trade with East Asia, two-way trade, amounted to $133 billion. Last year the figure was about $177 billion, and the trend is up.

If you look at our investments in this part of the world compared to other regions, you have the best and the steadiest returns.

If you look at the population trends in my country, to the Southwest and the West; if you consider the fact that one state alone, California, has a two-way trade from all sources with East Asia amounting to a little in excess of $40 billion, Washington State a little under $10 billion, and Oregon, the third Pacific Coast state exclusive of Alaska, coming up
rapidly and playing a significant part, you begin to understand how the development of this trade, these returns, these figures, these patterns, these demographic trends, are all beginning to intersect and fit in together to mark the opening of a new era, the resurrection of old civilizations in modern form, the coming into being of diverse cultures and customs and mores, and you become aware of the fact -- at least I do, and it is unquestionable in my mind -- that we are on the verge of that century, the Century of the Pacific, because it's in that area where it all is, what it's all about, and where our future lies.

Thank you.

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