President Matsuda, Chairman Fujimoto and Members of the Board of Regents, Chancellor Anderson, Members of the Faculty, Ladies and Gentlemen of the Class of 1983, parents, relatives and friends.

During my assignment as the American Ambassador in Japan, I have frequently expressed my firm belief in two interrelated propositions: namely, that the U.S. - Japan partnership is the most important bilateral relationship in the world, bar none, and that the next century will be the century of the Pacific.

I say that these two propositions are related because I believe that our bond with Japan, developed over 30 years of close and meaningful contact, is not an isolated phenomenon but
only the most dramatic example of the direction in which American relations with the countries of the Pacific Basin can and must go. As the most important relationship we have in the region, the strength and durability of our partnership with Japan is the vital ingredient in creating the strong and healthy relationship we hope to enjoy with other Asian and Pacific nations. Over a hundred years ago, Walt Whitman said, "Westward to Oregon," to indicate his vision of America's future. Today, were he alive, he would probably say, "Westward to the Orient," for that is where America's future is, where most of the opportunities lie and where we intend to stay.

This interpretation of the promise which the Pacific Basin holds is not unique. The concept of a Pacific Basin Community has been a vision long held by many distinguished individuals. The idea is the natural product of both geographical affinity and economic reality. The democratic nations of the region hold many common ideals and already enjoy a level of economic interdependence which makes further association practicable.

Most of the nations of the region depend upon regional markets for more than 50 percent of their exports, and the development plans of many of these nations are premised upon increased trade. It would make sense to try to organize the creative energies and economic potential of all nations in the region in a cooperative union to achieve common ends.
Interestingly enough, Japan, our most important bilateral partner, has been the most thoughtful proponent of the concept of a Pacific Basin Community, having produced the most comprehensive plan to date.

I need not emphasize the dynamism and the importance of the Pacific region to citizens of Hawaii. These islands have been referred to as a bridge between East and West, and the crossroads of the Pacific for so long that the phrases have become cliches. The beauty of your state and its many attractions have brought many people from both ends of the Pacific for short visits; the multiracial and multiethnic complexion of your population is testimony to the fact that many of these people have decided to remain for the long term.

Hawaii is the most dramatic evidence that the U.S. is a Pacific nation. While historically and culturally we have directed most of our attention to the Atlantic Ocean and to Europe, developments in recent years have demonstrated that we are more and more a part of this region.

First of all, the nations of the region are all becoming more important as trading partners for the U.S. Secondly, our own population is moving, away from the Northeastern United States on the Atlantic seaboard, and toward the west and south to the sunbelt, much of which fronts on the Pacific Ocean. Next, there has been dissatisfaction with previous American
policy toward Asia and the Pacific, having often been perceived as based on a Europe first orientation. Finally, the economic growth of all the nations in the region has been so dramatic as to defy neglect.

Look at the region and you see some of the most imaginative entrepreneurs and the most dynamic economies in the world. Japan's successes have been well known for several years, but what is less known is that other nations of the area have been moving ahead with growth rates far above the world average.

In the eight year period ending in 1981, ten entities of the region, namely Japan, Taiwan, South Korea, Hong Kong, Burma, and the ASEAN Five, have enjoyed, as a group, an average growth rate of almost eight percent per annum. This is contrasted to our own growth rate over the same period of only 2.7 percent, and an average growth rate among the ten nations of the European Community of only 1.9 percent.

Again, in the same period, they have increased their trade with each other and with nations beyond the region to a point where together they account for almost 15 percent of total world trade. And their growth is higher than that of both the U.S. and the European Community.

The U.S. has been participating in this growth. Our total trade with the East Asian region has increased by almost 200 percent during the period under discussion while our trade with
the European Community increased by 120 percent. These countries of Asia now account for 25 percent of our total trade having gone up from only 20 percent in 1974. With the European Community, the opposite is happening. Their share of our total trade has gone down from 21 percent in 1974 to 20 percent in 1981. In 1974, our total trade with East Asia amounted to only 42 billion dollars. It now is valued at almost 120 billion dollars. Contrast that to our trade with the EC Ten which is today valued at 90 billion dollars.

We see the same trends in our overseas investment figures. Our investments in East Asia have grown steadily. Total investment in that area is now worth almost 18 billion dollars. More significantly, our returns on investment are highest in Asia.

All of these indices I have cited of dramatic growth and progress in the Pacific region are most visible in Japan, our most important bilateral partner. Our relationship has been, until recently, most prominent in the area of trade and economics. However, slowly but surely, as Japan assumes more and more of the political responsibilities and attributes commensurate with her economic status, a more even balance will be achieved between trade and the other aspects of our relationship.

The new administration of Prime Minister Nakasone has
gotten off to a very positive start. A new dialogue with South Korea and the nations of Asean has been established through his visits to those two areas. His trip to Washington and his meetings with our own political leadership were among the most successful, if not the most successful, of those conducted between our two countries. He made a very positive impression on all he met. The dialogues he had were very forthright, useful, and augur well for our relationship. The Prime Minister will soon be traveling to Williamsburg, Virginia, to attend the annual summit of the seven major industrial nations. He will also have private discussions with President Reagan on May 27. This will further the dialogue which has been established.

No one denies that we have many outstanding issues which need our attention. I have often said that this year is the most critical year facing us in our bilateral relationship. However, with the good beginning Prime Minister Nakasone has made I believe that he has gained some time, which we all need, to work on the issues which confront us, and I feel that we will be able, as we always have, to reach mutually satisfactory solutions to our various problems.

As our leaders and government representatives carry on their negotiations and dialogue, citizens on both sides of the Pacific would do well to remember what the Japanese-American partnership has accomplished these many years and keep in mind the enormous benefits we all reap from the preservation of our
deep and broad ties. Let me recite some of these accomplishments and benefits.

Our bilateral relationship is of importance not only to our two nations alone but serves as a source of stability for the entire region. While the economic dimensions of the relationship provide the foundation for protecting our political and security interests in East Asia and the world, our two peoples also share common ideals which make the business and security relationship not merely a marriage of convenience but a bond of natural affinities.

For the U.S., Japan is a vital market, taking more of our goods each year than any other overseas customer. One out of every ten dollars of U.S. export goes to Japan. Japan receives from the U.S. nearly 18 percent of all its imports, and this includes 33 percent of its manufactured imports and 55 percent of its machinery and equipment imports. In 1981, Japan imported more from the U.S. on a per capita basis than we Americans imported from Japan. In the ten years ending last year, American exports to Japan twice doubled in value.

Japan is also our best customer for agricultural products. In 1981, they purchased more than 6.7 billion dollars worth of goods or 15 percent of our total agricultural exports. This is twice as much as any other individual nation. Within specific commodities, Japan purchased 60 percent of all our beef exports
and 40 percent of all our citrus. Even more symbolic of the importance of Japan to our agricultural sector is the fact that there is more acreage in the U.S. devoted to the Japanese market than there is in Japan itself.

Investment relations between the U.S. and Japan are also strong and growing. At the end of 1981, U.S. direct investment in Japan amounted to about 6.8 billion dollars with special concentration in petroleum, chemical, and the non-electrical manufacturing sectors. The return on this investment is almost 15 percent, more than the returns we receive on our investments in other developed nations. As more American entrepreneurs become aware these realities, more investment dollars should flow in the Japanese direction.

We should remind ourselves of the fact that more investment dollars are also finding their way from Japan to the U.S. In 1981, Japan had 6.9 billion dollars directly invested in our country, or an amount just a bit more than our total investment in Japan. Dramatic examples can be found such as the recently established ventures in automobile plants in Ohio by Honda and Tennessee by Nissan. More examples which do not necessarily make the headlines are becoming reality.

All of this means more jobs for Americans, improved skills and training -- and the Japanese have many things to teach us there -- and finally, a further deepening of the bilateral
partnership. We should keep this fact in mind as we discuss Japanese-American trade relations, because naturally, it is the problems and the frictions between our two nations which make the headlines. The simple fact is that if trade were less important to both countries, the U.S. economic relationship with Japan would present few problems.

It is true that the enormous successes which Japan and her economy have enjoyed these many years, when combined with a period of severe economic recession, have heightened the concern that many Americans have had about the impact Japanese exports are having on our economy. It has raised more objections to the continuing existence of perceived impediments to the entry of foreign goods into the Japanese market. While the Japanese have taken many steps to respond to these American concerns, we nevertheless believe that Japan can do more. However, we should remember that the Japanese market is not as closed as we assume, nor is the American market as open as we like to believe.

Tariff barriers have been greatly reduced so that when the agreements from the 1979 Tokyo Rounds are fully implemented, Japan will have the lowest average tariffs of any of the advanced OECD member nations, including our own. On non-tariff barriers to trade, the Japanese government has announced several packages of liberalizing measures to limit or remove quotas which restrict entry of imports. They have also
simplified many complicated custom procedures, and have agreed to bring their regulations concerning standards and certifications into line with international practice.

We still have several areas in which we look for Japanese action. On tariffs, we believe that there are still certain products, both manufactured goods and agricultural commodities -- leather and tobacco for instance -- which bear inordinately high tariff rates. On non-tariff barriers, we hope for the further reduction and eventual elimination of remaining quotas, for instance on beef and citrus imports, and we look to the Japanese to fully flesh out and implement the commitments they have made in their series of liberalization packages.

Japan, as the foremost beneficiary of the free trade system, has the most to gain from the continuing existence of the system, and it is in her own best interest to participate in the process of keeping the system healthy by doing her part to see to it that residual protectionism in her own markets does not become an excuse for her trading partners to implement protectionist measures themselves.

We Americans, too, should come to the realization that we will not help ourselves by pointing the finger at others for our own ills. We should see the motes in our own eyes and understand that many of the economic problems we presently are experiencing are largely of our own creation. And raising walls of protection against foreign competition will not solve
our problems. There is much we have to do so that we can compete vigorously with the other trading nations in the system. Only with a return to the old American values of pride, productivity, diligence, concern for quality, and competitive pricing, will we be able to bring back our economic health. It will take the cooperative efforts of labor, industry, and government to achieve this goal.

We Americans, too, need the free trading system. I am old enough to remember the period of the thirties when a similar situation of world economic recession contributed to the rise of protectionist tendencies and the imposition of the Smoot-Hawley Tariff. It ultimately, and in part, led to world-wide conflict, for when people and nations are unable to obtain their needs through normal commercial transactions, they will resort to other means.

The situation today is no different. A healthy and free trading system which keeps nations bound together is the best guarantee that there will be political stability and a commitment to maintaining the system in which we all have so much in common.

This brings me back full circle to my opening remarks on the efficacy and desirability of a Pacific Basin Community. The U.S. and Japan have demonstrated what cooperation together can achieve. Japan has taken the lead with the first
comprehensive plan, offered in 1980 during the administration of the late Prime Minister, Mr. Ohira, for a Pacific Basin Community. The institutional arrangements for further development of that proposal are already in place in private sector groups such as the Pacific Basin Economic Council (PBEC), and the Pacific Trade and Development Conference (PTDC). Through these fora, we can discuss our mutual concerns of trade, development, and economic cooperation.

We Americans, on our own, can do much to solidify the foundations on which any concept of a Community will be established. We can come to a better appreciation of the nations which make up the Pacific Basin. We can start by trying to better understand and appreciate, our most important Pacific partner, Japan, which has for a very long time been learning about us. You may be surprised to know that there are more than 81,000 Asian students studying in the United States under a variety of programs at various educational levels. Of these, more than 12,000 are from Japan. On the other hand, the most frequently heard estimate as to the number of American students studying in Japan is 800. No doubt the number of American students studying in other Asian nations is even smaller.

We are at a disadvantage in our relationship with our partners when they know more about us than we of them. Misunderstandings arise which in turn affect both the private
perceptions of our citizens and the public policies of our governments. Before we can hope to realize the vision of a Pacific Basin Community, we must involve as much as possible, all of the private resources at our disposal, to develop a better understanding of our various partners and of their needs.

Private organizations, such as PBEC and PTDC, and public institutions such as the University of Hawaii and the East-West Center have done the greatest work up to now in defining the problems and goals of such a Community. They are the appropriate venues for the continuing discussions and the refinement of designs which are needed. In the meantime, it is up to all of us, and especially those of you who will come to professional maturity during the 21st century, to take the lead with a vigorous presentation of ideas and to begin the process of self-education which will be the most fundamental requirements for the attainment of the vision of a Pacific Basin Community.

To sum up, and in part to repeat, the most important bilateral relationship in the world, bar none, is that between Japan and the United States. The next century will be the century of the Pacific and the development of that huge basin, comprising four South American nations, all of Central America, all of North America, Australia and New Zealand, and all of East Asia including Japan and the islands between, an area which holds most of the world's people, tremendous resources,
friendly governments and peoples -- the development of the
Pacific Basin will depend upon the strength and durability of
the Japanese-American relationship, a relationship which must
be based on mutual trust and mutual understanding. It is out
here in the Pacific and Asia where the great potential for
American overseas development will take place. The figures
tell the story. Not only on the basis of ever-increasing
two-way trade but also on the basis of returns on investments.
It is out here in the Pacific and East Asia where it all is,
what it's all about and where, in my opinion, our future lies.

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