Prosperity and the Pacific Basin

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Prime Minister Nakasone (unconfirmed), Dr. Hu, Mr. Gotoh, Mr. Morita, distinguished fellow participants:

First let me congratulate the Nihon Keizai Shimbun on its 110th year of publication, and thank it -- along with its co-sponsors (The Asian Wall Street Journal, Australian Financial Review, The Globe and Mail, Joong-ang Daily News, Singapore Straits Times, and The New Straits Times of Malaysia) -- for organizing this symposium.

As some of you may know, I have said for many years that the next century will be the "Century of the Pacific". It is a major theme of discussion in my many meetings with U.S. business leaders and U.S. government officials who visit Japan. I am not a fan of the narrow, parochial view; I believe we must look at the whole picture. And while I would never retreat from my statement that the U.S.-Japan relationship is the most important bilateral relationship in the world -- bar none, I would never consider that statement to be a limitation.
For Japan and America are integral parts of the Pacific Basin, a region of magnificent promise, and we have responsibilities to fulfill.

The Pacific Basin encompasses over half of the world's population -- all of ASEAN, all of North America, Central America, four nations of South America, Northeast Asia, Australia, New Zealand, and the island republics of Oceania. It is fast growing, maturing both economically and politically, taking strength from the diversity of its peoples, and playing an increasingly significant role in world affairs. This is where it all is, what it's all about, and where the future lies. There is no doubt in my mind about this.

U.S. interest in the Pacific Basin is the natural outgrowth of both domestic trends and external realities. For several years now the focus of the United States, as the largest economy in the region, has been shifting rapidly westward across our country toward this part of the world.

To illustrate: Ten years ago the U.S. had only $42 billion in total two-way trade with East Asia. Last year, in 1985, our two-way trade with East Asia came to nearly $189 billion -- a 350 percent increase in only a decade. The western and northwestern states of California, Washington, and Oregon, for example, have had two-way
trade with East Asia worth $58 billion, $10 billion, and $5 billion, respectively, in 1985. In recent years, U.S. trade with East Asia has surpassed our trade with Western Europe, historically and traditionally our largest trading partner as a region. The Pacific Basin also takes on more geographic importance to us as our own population shifts to the South and to the West.

We are also well aware that on the average, the nations of East Asia have the fastest growing economies of any region in the world. The rates of return on U.S. direct investment here are for the most part the highest anywhere, and although our direct investment position here accounts for only about 10 percent of our total direct investment abroad, it is increasing, and I expect these increases will continue.

The economic future also looks very promising for the Pacific Basin nations, if an open, healthy international trading system -- which has contributed so much to the growth of the region -- can be maintained. Trade imbalances among the nations of the region have been causing considerable friction recently, but I am confident that these frictions can be resolved. There will be some short-term sacrifices required, to be sure, but the long-term benefits should far outweigh them.
Essentially what is needed to resolve present trade problems is **more trade, not less trade**. The Reagan Administration continues to oppose protectionism as a means of settling trade imbalances. Trade protectionism simply will not work. We need further market openings, further market opportunities, in all areas of the Pacific Basin. Protectionism -- the closing of markets, and the suspicion and retaliation it breeds -- is a collective step backward for the nations affected, and that we do not need.

Japan, as the second largest economy in the region and the free world, also recognizes the vital importance of the Pacific Basin. Japan's two-way trade with East Asia and North America last year amounted to nearly $200 billion. There has been increasing Japanese private investment and official development assistance in the region, and no doubt Japan will continue to play an active role in the Pacific Basin economy.

As the two largest economies, the United States and Japan share the realization that each can especially contribute to the growth and stability of the Pacific region. The Maekawa Report on Economic Structural Adjustment provides excellent suggestions for how Japan can make an even greater contribution to world prosperity as an economic leader.
As that Report --issued this past April -- noted, it is now time for Japan to adjust its economy away from its over-dependence on exports, to an economy based on domestic-led growth. This is imperative if Japan is to make a contribution to world economic growth -- through increased Japanese imports -- commensurate with its economic strength, and commensurate with the economic benefits it derives from international trade. Japan's $61.6 billion global trade surplus in fiscal 1985 is unfortunately ample evidence that the actual contribution to net growth is far from being a reality.

In commenting on the Maekawa Report, Prime Minister Nakasone expressed the Japanese Government's awareness of the necessity to initiate and carry through structural adjustment in Japan's economy. He committed Japan to that task.

To quote the Prime Minister, "Japan is now at an historic turning point in its relations with the international economic community....It should be our national goal to steadily reduce the current account imbalance to one consistent with international harmony". We of the Pacific Basin are counting on Japan to make good on this commitment, thereby making a solid contribution to the health of the global trade system.
But structural change in the Japanese economy will of course take time; it will not be an easy task. Nevertheless, it is essential that Japan design and implement policies that will move it toward more domestic-led growth as rapidly as possible. Japan has a major role to play in promoting the economic growth and general stability of the entire Pacific region through increased imports.

But I did not come here to lecture you on what just the Japanese should do. Indeed, there is plenty that the United States should do.

The United States, as the world's largest economy, also has a responsibility to continue contributing to growth in the Pacific Basin. I say "continue", because we have long been the major market for the region's exports in the post-war period. Without the access to the U.S. market that other nations have enjoyed, and the strong growth in the U.S. economy which has pulled in imports from others, it is doubtful the nations of Asia could have recovered as quickly as they have from the devastation of the Pacific war.

Despite the domestic pressure for trade protectionism that has grown along with our expanding trade deficits, we must keep our markets open. We must keep our markets open so that the nations of the Pacific -- especially the
lesser developed nations -- can continue to grow and prosper. As I said, it is the healthy, open international trade system which has been responsible for the rapid growth of this region in the post-war period. It is imperative that we all work together to keep the system open. And the United States will do its part.

There are areas, however, that require cooperative action.

For example, there are challenges before us in the area of scientific advances. More timely technology transfer from the most developed to the newly-developed and lesser-developed nations is needed, if they are to share more fully in the benefits of the scientific age. Technology transfers should be designed to enhance the quality of life, as well as to develop domestic resources, so that the recipient nations can become more competitive in the international marketplace -- and more self-reliant.

But cooperation in the technology field should not be limited to transfers of technology from one nation to another. The nations of the region should assist each other in jointly developing their own technologies. We should see more international cooperation in science and technology research and development. Instead of an importer of technology from the rest of the world, the
Pacific Basin is becoming a source of technology for the rest of the world. This trend should continue.

The natural resources of the Pacific Basin are vast, and we should all work together in their development. As we all front the Pacific Ocean, this is one area of great potential for cooperative ventures. I would also like to see the great resources of our own Alaska -- particularly its energy resources -- made available for development of the Pacific region. I have long advocated lifting congressional restrictions on the sale of Alaskan oil outside the United States, and I continue to do so.

Trade, of course, is another area in which we must cooperate. As I said earlier, we simply must keep trade in the region as free and open as possible. Free trade is the lifeline of the Pacific Basin, and we cannot allow it to be weakened or cut. I would like to see active support for an early start to a new GATT trade round, to address across the board the many trade issues before us. In the absence of positive action to keep the international trade system open, we risk leaving our fates to the deleterious effects of gradual protectionist encroachment and sheer, stagnating inertia.

Let us not forget the vast human resources -- the minds, talents, and skills -- of our countries. Our peoples deserve to have every educational, training, and
professional opportunity open to them. I would urge the Pacific Basin countries, following a program initiative for manpower resource development, to promote regional centers for cultural and educational exchange. Academic scholarships, visiting performing arts groups, apprenticeships or internships, and advanced research grants will go a long way in building the human bridges that any community of nations needs.

The People's Republic of China is the largest nation in the Pacific Basin, and has embarked on a path of pragmatic economic development. We hope that it will more fully integrate its economy into that of the rest of the Pacific Basin, creating constructive economic relationships for the benefit of us all. A cooperative relationship between China and the nations of the Pacific in the 21st century is one of the most exciting and essential elements of a prosperous Asia.

In the meantime we must renew our commitment to continue on the road of economic cooperation and free trade. We are economically interdependent, and it is clearly to our peoples' benefit that quality commodities and products move between trading partners smoothly and promptly -- and at a minimal cost to the consumer. There is no real alternative, other than economic stagnation and hardship.
Let me salute ASEAN as a model of regional cooperation. By working together, the ASEAN nations are achieving new prosperity. By standing together, they are resolutely opposing the occupation of Cambodia by Vietnam. By word and deed, they are demonstrating the vitality of free peoples to those who would deny that freedom.

There will be other problems along the way, but I am confident about the future of the Pacific Basin. It is here that we find the most favorable prospects for continued economic growth and democratic maturation. If we cooperate and work together, the 21st century will indeed be the "Century of the Pacific".

You, as the bankers, financial advisors, business leaders, government administrators, can help make this a reality. And then the image evoked by the words of a well-known American song -- "from sea to shining sea" -- will have a new meaning. It will be the Pacific Basin's shining sea.

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