

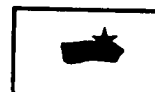
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SPEAKING FRANKLY: The Japanese-American Partnership

Yoshio Okawara



Selections and Excerpts from Addresses
to American Audiences by Japan's Ambassador to
The United States of America, 1980-1985



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SPEAKING FRANKLY: The Japanese-American Partnership

Yoshio Okawara

Ambassador of Japan
to The United States of America
April 1980–March 1985

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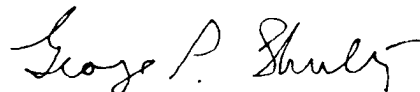
THE SECRETARY OF STATE
WASHINGTON

In his distinguished tenure as Japanese Ambassador to the United States, Yoshio Okawara has admirably succeeded in two essential tasks: he has been an extraordinarily successful representative of his country, not just in Washington but throughout the country, and he has been a good and deeply respected friend of the United States.

When Ambassador Okawara came to Washington in April, 1980, the United States and Japan enjoyed good relations. Since that time, the relationship has flourished and expanded enormously. Ambassador Okawara has played an important role in that process, as has his counterpart in Tokyo, Ambassador Mike Mansfield.

This collection of Ambassador Okawara's speeches over the past four years tells the story of the emergence of today's US-Japan relationship, which is stronger, more dynamic and broader than it has ever been before. It is a unique record, because it is the voice of Japan in conversation with America.

I am confident that America will continue to hear from Ambassador Okawara in the future. His knowledge of this country, his long experience, and his popularity here will ensure his continued role as a major participant in US-Japan relations.



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Economic Partners

Calvin Bullock Forum, New York, New York, December 2, 1980

Let me begin by commenting briefly on the current state of Japanese-American economic relations. They are, in a word, excellent, and I see no clouds on the horizon that threaten to alter this happy state.

Are there problems we need to be careful in managing? Of course there are. There always will be problems in so vast, complex and dynamic an economic relationship, between the world's two largest economies—and greatest trading nations—who are also each other's largest overseas trading partners.

The point is, we have learned a great deal on both sides, in the past decade or so, about how to manage our differences equitably, without allowing them to become politicized or get out of control. This process has matured rapidly under the last several American Presidents and Japanese Prime Ministers, and I am confident that when President-elect Reagan takes office next January, he will continue to proceed on the path of this matured relationship.

As you know, there were three main topics on our bilateral trade agenda this past year. These were the problems of reciprocity in government procurement, tobacco tariffs, and the Japanese automobile imports into the United States. In all three areas, the principal concerns have been disposed of on reasonable and fair terms, or at least grounds have been prepared for this.

Government procurement was an extremely complicated topic. How could we define reciprocity when the target in the Japanese market is the autonomous government corporation, Nippon Telegraph and Telephone, or NTT, whose American counterpart, AT&T is one of the world's largest private corporations? Yet, with a great deal of patience and goodwill on both sides, workable formulas have been developed, leading to a final resolution of the issue, hopefully in time for the year-end deadline we set for ourselves.

The tobacco problem was somewhat simpler. Japanese tariffs on imports of tobacco have been slashed drastically, and the price differential between American and Japanese brands of cigarettes has been narrowed, making the Japanese market much more attractive to the American tobacco industry.

The third topic, automobile imports, aroused the greatest public interest and concern. The reasons for this concern are understandable. In July of this year, the Japanese share of the domestic American car market had reached 23.8 percent. Sales of U.S.-made models had plummeted, two of the Big Four American automakers were reported to be in financial trouble, and the industry had laid off over 300,000 workers.

The big question was whether imports were *causing* Detroit's problems—and if so, whether those problems could be solved by imposing restrictions on imports. It was a classic trade problem, ripe for political exploitation, especially in the middle of a national election campaign. But it did not happen that way. Much credit is due American political leadership; the basic sense of fairness of the American people; and in the final analysis, the thoughtful and fair way in which the International Trade Commission of the U.S. Government dealt with the problem.

As you will recall, the ITC ruling was that shifts in American car and truck demand—on top of declining overall automotive demand—had a greater impact

on the U.S. industry's performance since 1978 than did stepped-up shipments from Japan and Europe. Detroit's problems, in other words, were caused primarily by the sudden shift in U.S. consumer demand for fuel-efficient compacts and light-weight trucks. The proper solution, obviously, has been to accelerate the production of Detroit's new "world class" cars, which it has been doing.

Minister Tanaka of International Trade and Industry expressed my Government's appreciation of the ITC ruling in the following words:

We respect the fairness of the ITC's judgment that imported vehicles are not a substantial cause of injury to the U.S. auto industry, and do not constitute a future threat of such injury.

We have a deep sympathy for the problems which the U.S. auto industry is facing, and fully recognize that the sound development of that industry is indispensable to the U.S. economy. We therefore welcome the industry's recent trend toward recovery.

The ITC's decision notwithstanding, the Japanese Government expects Japanese automakers to exercise prudence in their future exports to the U.S., taking into account the current situation of the U.S. auto industry.

You are aware, I am sure, that the situation is already beginning to right itself. July was the peak month for imports. By October, Japan's share of the U.S. market had declined to 16.8 percent, almost exactly the same level as the year before. In fact, MITI predicts that fourth-quarter Japanese shipments to this country will be below fourth quarter 1979.

By allowing the free market to resolve this problem, we have gained several important benefits. Throughout the adjustment period, the American consumer has had access to the gas economy it demands, and U.S. consumption of gasoline—and as a by-product, U.S. oil imports—actually declined.

At the same time, the American auto industry was challenged to speed up a model changeover and modernize its assembly lines. When retooling is completed, the American auto industry will be more efficient, more productive and more competitive in world markets, as well as in the domestic U.S. market. Since Japanese tariffs on imported cars are exactly zero, I can assure you that no obstacles will be put in their way if American automakers should decide to go after that market.

This, I believe, is the most important benefit over the long term of relying on free market forces: the further integration of the world economy, through the development of more productive and innovative world-class industries and products. It is a process that has been under way for some time, but it is gaining momentum, and it is clearly the pattern for the future.

It is well enough to talk about "integrated world markets" for such basic industries as steel, chemicals, automobiles, computers and other applications of the electronics revolution. It is quite another matter to have to face, in our respective domestic economies, the enormous management costs and, in many cases, the human hardships of gearing ourselves up to world-class competition. Yet "reindustrialization," as it is often referred to in this country, is the cost that all the advanced industrial economies have to pay, on a continuing basis, as the price of staying in the race.

We Japanese are not unfamiliar with these pains and costs. During the past 30 years, the Japanese people have repeatedly undergone industrial modernizing and

restructuring comparable to what is now taking place in the American steel and automotive industries. This has been a necessary part of our constant striving, throughout the postwar era, to build a modern, world-class industrial economy, improve our international competitiveness, and enhance the quality of life of our people.

Take, for example, the Japanese shipbuilding industry, which 10 years ago was launching half the world's new tonnage. When world demand for new ships declined sharply after the 1973 oil crisis, Japan's annual production dropped from 19 million gross tons capacity to 9.6 million tons actually launched in 1977. The following year, the Japanese Government intervened to distribute the reductions in capacity as fairly as possible among the most efficient large and small shipyards. It also encouraged diversification into other product lines and general engineering.

Japan's shipbuilding industry is now stabilizing itself at about one quarter of its peak in ship tons launched, with one half its 1975 labor force. The most promising new development has been diversification into engineering projects such as sea-water desalinization plants, which are packaged in ship hulls. This packaging simplifies the transporting of the plants to overseas customers, and insures quick installation dockside at the final destination.

Or take Japan's steel industry, which is recognized as the world's most efficient. Because of its efficiency, it has managed to remain profitable despite rising energy and raw-materials costs, temporary world overcapacity, growing competition from modern steel mills in the developing countries—and protectionist pressures in overseas markets.

Japanese steel is attempting to meet these problems without public assistance. It is closing down its least-efficient plants. New investment is concentrated in streamlining existing facilities, reducing energy consumption, and improving both material-input costs and production efficiency. Interestingly, it is accomplishing these gains without laying off a single worker. This is important because steel is one of those Japanese industries committed to lifetime employment—a commitment which affects nearly one third of Japan's labor force. The work force in Japanese steel has been reduced by 16 percent since 1975, but solely through attrition.

The most promising new direction for Japanese steel—like shipbuilding—has been diversification into general engineering or value-added manufacturing, and the export of technology. To give you an idea of the range of these new projects, they include construction of a steel plant in China, a pelletizing plant in the Philippines, an integrated steel mill in Qatar, and a full-scale steel mill in Brazil. Technical assistance in computerizing a steel plant in Texas and modernizing a blast furnace in Indiana are other examples.

I might add that the restructuring of Japan's steel industry has been possible only because of sustained heavy investment, throughout the 1970s, in modernizing capacity and improving efficiency. New investment by Japanese steel outpaced American steel investments every year in the last decade except 1979, when American steel investment rose steeply. The cumulative effect of continuing high investment has been a 30 percent increase in the productivity of Japanese steel since 1973.

There are many reasons why the idea of continuing industrial restructuring—long familiar in Europe and Japan—is treated in this country as novel. Throughout

the postwar period, the U.S. economy was not only absolutely dominant in the world economy; it was also the most self-sufficient industrial economy in the world—in energy and raw materials, and in the affluence and purchasing power of its continent-size domestic market. True, the United States had long depended on certain critical raw-materials imports, such as rare metals, but that dependence was scarcely noticed in an era when U.S. preeminence in the world was based on unquestioned military as well as economic superiority.

That era seemed to have faded during the decade of the 1970s. The oil crisis of 1973-74, the global recession and inflation which followed, forced recognition by all the great industrial democracies—including even the United States—that we share common vulnerabilities, and that our collective economic security has become indivisible. This sense of shared vulnerability has been deepened by the steady build-up of Soviet military power during the 1970s, and by the spread of political instability and threat of conflict in strategically vital regions, such as the Middle East.

The new era we have entered is also marked by the catching up of Japan and Western Europe with the United States, in industrial efficiency and innovation, and a narrowing of the gaps between us in per capita GNP. It is not that the U.S. economy has declined; it certainly has not. Rather it is that the industrial democracies have become much stronger company for each other in meeting our shared challenges and advancing our common interests.

An inevitable by-product of this development is the rapid integration of our economies with each other, and the rapid expansion of our trade and investment relations with the high-growth developing economies of Asia, Latin America, Africa and the Middle East. The shape and character of the world economy is changing around us and because of us. It is the very successes of the advanced market economies of the Atlantic and the Pacific that insure our ability, together, to cope with the difficult challenges we face together.

This is the new environment in which this great country is now launching a revitalization of important sectors of its industrial structure. I assure you this process is welcome, and will be watched with wonder by all of America's friends. The prospect of an increasingly productive and competitive U.S. economy, higher growth in American exports, and a restoration of equilibrium in America's trade with the world will not be regarded as a cause for apprehension by Japan or any of your other great trading partners. On the contrary, a vigorous and self-confident American leadership is essential to the maintenance of world peace and stability and the realization of our common goal of a more open and more prosperous world order.

In this enterprise you may continue to count on Japan, your unshakable ally and your permanent friend. Japan has grown and prospered with U.S. leadership, and has now achieved second rank among the world's industrial powers. For that reason alone, Japan is now a more powerful ally and a more effective friend.

I am confident this will always be so for the very good reason that we need each other.

The Security Relationship

International Conference on Cooperative Security and Defense Assistance
Washington, D.C., June 18, 1981

Security and defense issues are certain to be major subjects for discussion between our two countries for some time to come. These discussions will increasingly focus on how best the two nations can carry out their international responsibilities and advance their own security and that of the world, in light of their respective resources and political realities.

These discussions are taking place against the background of the determination on the part of the United States, under the Reagan Administration, to continue to play an active role for ensuring peace and security of the whole world. This steadfast posture of the United States, including its willingness to take on the burden of defending the Persian Gulf, which is of vital importance to the security of the West as a whole, is indeed laudable and will continue to be an important factor in stimulating the thinking in Japan on what it should do for its own security.

At the same time, I am well aware that increasing attention is paid in Congress and elsewhere in the United States to the question of what the allies are doing to contribute to their own security and to that of the West as a whole. It is in this context that I consider it highly important to present as accurate a picture as possible of Japan's political, psychological and fiscal realities concerning this matter.

The basic issue before our two countries has been defined succinctly, I believe, by the Japan-United States Economic Relations Group or "The Wisemen's Group," led respectively by former Deputy Secretary of State Ingersoll and former Minister of State for External Economic Affairs Ushiba. I quote from the Group's report:

The new U.S.-Japan partnership should contribute to international security in the broadest terms for the benefit of both countries.... The provision of security requires the use of various kinds of resources — political, economic, military and even cultural. It is not necessary that Japan and the United States use the same mix of resources in carrying out their respective roles in a new and comprehensive partnership. Clearly each country's role needs to be backed by its respective society at large, and it is a political fact of life that some societies find it more difficult to provide one kind of resource than another. The important point is not that the contributions to overall international security by the United States and Japan need to be identical, but that they be complementary in nature and more equitable. Japan and the United States should consider the most efficient means of dividing their international responsibilities in accordance with their respective capabilities.

Let me take this as a point of departure and give you some of my own thoughts on the current state of Japan-U.S. security relations and the Japanese public perception of defense and security issues.

I wish, first of all, to state my firm belief that the partnership between our two countries which now has developed a trade of \$51 billion will be further expanded and enriched, benefiting from the reservoir of goodwill that exists on both sides of the Pacific. Our security relationship, which forms an increasingly important component of this valuable partnership, will from time to time present us with some problems, but there is no reason to doubt that we will be able to manage these prob-

lems as long as we each approach them with care and understanding about the position of the other, as we have done over the decades.

For the purpose of helping you understand the policy stance of Japan on this matter, I should like next to touch on what I regard as the significant, discernible trends in Japan's public perceptions.

First, there is a growing awareness in Japan that what is at stake is not simply its bilateral relationship with the United States but the whole question of how Japan, as one of the industrialized democracies and a U.S. ally, can and should discharge its responsibilities in meeting the challenges to the Western world. This question was posed starkly with the hostage-taking in Iran and the Soviet military intervention into Afghanistan. Japanese leadership responded to these challenges with political courage, calling for certain sacrifices on the part of the Japanese people, as Japan joined in the economic sanctions against Iran, boycotted the Moscow Olympics, and was second to none in scrupulously implementing the economic measures against the Soviet Union.

At the same time, these events served to stimulate discussion in Japan on a wide range of issues—political, economic and military—which have a bearing on the security of the West in the broad sense of the term.

As a part of the effort to broaden the national consensus on these issues, it was decided at the end of last year by my Government to hold meetings of Cabinet ministers concerned to discuss comprehensive security. Four such meetings have been held to examine such diverse topics as the situation in the Middle East, the 26th Communist Party Congress of the Soviet Union, the Economic Revitalization Program of the United States, and the situation in Poland.

Secondly, with respect to defense and security per se, there is an ongoing process in Japan of positive reappraisal of the Japan-U.S. Security Treaty and the Self-Defense Forces against the background of an upsurge in the debate about defense and security issues. This has come about as a result of a variety of domestic as well as international developments over the 1970s, of which an important element was the maturing of the Japanese economy, now ranked second in the world after the United States, and a growing recognition by the Japanese people of the increased responsibilities Japan must be prepared to accept in the international community.

More recently, traumatic events from the hostage-taking in Iran and the Soviet military intervention into Afghanistan to the outbreak of the Iran-Iraq war have greatly sharpened Japanese perception of the increasingly challenging nature of the international security environment. Coupled with this has been the growing national concern over the Soviet Union's military build-up in our part of the world, especially on our Northern Territories.

Reflecting such concerns, there have been active debates in the past year in the Japanese Diet and mass media about our defense spending and our basic defense policy, the future course of the Japan-U.S. security relationship, etc.

So the stage has been gradually set for a substantive and fruitful dialogue on security issues between Japan and the United States. And the meetings between Prime Minister Suzuki and President Reagan last month were an important landmark in reaffirming our common perceptions on the important issues confronting the international community today and setting forth the framework for our future efforts and discussions.

Following the Summit meeting between Prime Minister Suzuki and President Reagan, I participated last week in the working-level discussions on defense issues between our two governments, which took place in Honolulu. At the end of this month, Mr. Omura, Director-General of the Defense Agency, will be visiting Washington to meet with his counterpart, Defense Secretary Weinberger.

While the dialogue between our two countries has been going on, recent events in the security relationship between Japan and the United States, namely, the collision between an American nuclear submarine and a Japanese merchant vessel, the controversy in Japan about some parts of the Joint Communique, the statement by former Ambassador Reischauer about the issue of introduction of nuclear weapons into Japan, etc., have received intense media coverage in Japan and also, to some extent, here in the United States. I do not intend to go into each of these here, but would like to address myself to some of the basic points about Japan's defense policy which the sharpened media focus has brought into light.

The first point I would stress is that the changes in Japanese public perception about defense and security issues should neither be underestimated nor overestimated.

They should not be underestimated because they represent genuine changes in public attitudes on defense and security. A poll taken in 1972 indicated that only about 40 percent of the public approved of our basic policy of maintaining both the Security Treaty with the United States and the Self-Defense Forces. Today, similar polls indicate that about 60 percent of the public support this policy, of which about one third are in favor of some strengthening of the Self-Defense Forces. Thus there has been a pretty remarkable change over time. It is also a fact that Japan's defense spending was increased steadily in the decade of 1970-79 at the annual average rate of about 7 percent in real terms, the highest of all U.S. allies. There has also been a very substantial increase in our contributions to alleviate the financial burdens of the United States Forces in Japan, namely, from \$580 million in FY77 to \$1 billion in FY81.

I also stress that these changes should not be overestimated because they are still very far from allowing spectacular increases in our defense capabilities. Japan remains constitutionally committed to a purely self-defense mission for its defense forces. Among the Japanese people, there persists an aversion to warfare based on the painful memories of destruction and deprivation in World War II. The intense public reaction to the statement by former Ambassador Reischauer testifies to the very strong feeling against nuclear weapons, often described as "nuclear allergy," on the part of the Japanese people. There continues to be a strong inhibition against restoring Japan's military power, reinforced by a recognition that none of Japan's neighbors would tolerate a rearmed Japan.

The second point I would make is that many Japanese, while increasingly convinced of the need for steady expansion of the country's defense capabilities, have considerable reservations about the pace of such expansion on constitutional, political and fiscal grounds. They also feel that the problem of improving Japan's defense capabilities is something they should think about and work out for themselves, and not something they would do at the behest of the United States or any other country.

The Japanese Government is faced with an unprecedented challenge to its fiscal policies and the urgent need to restore health to its government finance, which de-

pends for 26.5 percent of its expenditures on deficit financing in the form of national bonds. Against this severe background, the FY81 defense budget reflects a shift of government priorities in favor of defense spending, which was increased by 7.61 percent to \$11.1 billion, whereas general expenditures rose by only 4.3 percent. This was achieved despite intense political pressure in the Diet and elsewhere to give a higher increase rate to social welfare, as had been the case in the past. In the FY82 budget-making process which will begin this summer, it has been decided that defense spending will again be accorded priority treatment, while most other government expenditures will be held down to zero increase in principle. Within the defense budget, emphasis has been placed on procurement of front-line equipment, which will expand 13 percent in real terms in FY81 and includes such sophisticated U.S. weapons as P-3Cs and E-2Cs.

We are well aware that such efforts on our part will not rapidly close the gap between the present capability of the Self-Defense Forces and what is desired as a credible self-defense capability. But we are addressing ourselves seriously to the task of closing such a gap, and are trying to move ahead as fast as we can while nurturing the national consensus which supports such efforts.

The third point I would make is that Japan attaches high importance to nonmilitary contributions to international peace and security, especially economic aid to developing countries as a means of ensuring political as well as economic security. Japan's Official Development Assistance more than doubled in the last three years to \$3.3 billion in 1980, and we have set a new target to more than double the aggregate ODA in the next five years over the previous five years. Further, we have been taking particular care to strengthen our aid to those areas which are important to the maintenance of peace and stability of the world. Thus, in the three-year period of 1978-80, Japan's aid commitments to Pakistan totalled \$367 million, those to Egypt exceeded \$227 million, to Turkey \$101 million, with another \$543 million to Thailand.

As you may have gathered from my remarks, Japan's defense and security policy for the coming decade is still in the making. Whatever positive and encouraging trends there may be now need to be nurtured and developed carefully. At the same time, our cooperative relationship with the United States will continue to be of utmost importance to us as we try to chart the future of our defense and security policy. We have embarked on the course of meaningful and substantive dialogue with the United States, where we will be discussing the specifics of our defense capabilities. For our efforts in this regard to be successful, we will continue to need the understanding and cooperation of the United States. I hope that what I have told you today will be of some value in helping you gain a better appreciation of the Japanese perspective on the issues of defense and security.

Strengths of the Partnership

The Governor's International Symposium, Nashville, Tennessee, February 13, 1982

When Governor Alexander invited me to address this distinguished forum, he suggested I might wish to talk with you about the importance Japan attaches to the Japanese-American partnership. His thought is, as I interpret it, that you might be interested in the Japanese perspective on our alliance—how we view it from the

other side of the Pacific.

I am certain that no one is better informed on this topic than your remarkably effective envoy to my country, Ambassador Mike Mansfield. On behalf of two succeeding Administrations in Washington, Ambassador Mansfield has interpreted with candor and clarity to the Japanese Government and people the policies and concerns of America. We Japanese appreciate that he has also been highly effective in conveying to the United States Government and people *our* policies and *our* concerns.

A succession of Japanese Prime Ministers over the past three decades has described the Japanese-American partnership as the "cornerstone" of Japan's foreign policy. The world has changed a great deal in those 30-odd years. So have our two societies changed and, in important ways, the scope and intensity of the relationship between us. Yet our mutual commitments have never wavered.

Why is this so? How is it that two such distant and different peoples, half a world apart, and distinctive in their traditions and cultures, should forge such durable bonds?

There are certain obvious, pragmatic considerations. We are each other's largest overseas trading partners. Our two-way trade of \$60 billion and mutual investment have produced a high degree of economic interdependence, giving each of us high stakes in the other's prosperity. America has been Japan's most important foreign market during the most of Japan's modern history.

Our economic ties have certainly grown and diversified, especially in the post-war era, as the fast-growing Japanese economy rose to second rank among all the world's industrial powers. Yet, as we all know, trade cooperation is also trade competition, and that sometimes leads to frictions. Japanese-American trade is no exception. In the past decade we have had temporary problems in various trade sectors — textiles, TVs and steel, for example, and last year, automobiles.

Currently, we are grappling with a broader and more complex problem in our economic relations: a chronic trade imbalance that derives from structural differences in our two economies. In 1981, our bilateral trade registered \$18 billion imbalance in favor of Japan. Both sides recognize the urgency of dealing with this problem for two reasons — first because of the high degree of interdependence our economies have achieved, and second because of the leading roles the American and Japanese economies now play in world trade and investment.

Our extensive economic ties, in other words, are a powerful factor in sustaining our close partnership. Economic ties alone, however, do not explain the importance to Japan of the United States, or the depth of Japan's commitment to this partnership. For a fuller answer we need to look as well at our shared political purposes, and the complementary roles each partner is actually playing in today's world.

I believe it is fair to say that there is no difference in Japanese and American visions of the kind of world we hope our children will inherit. It will be an open and plural world in which all our cherished freedoms will flourish, in peace and a shared global prosperity.

The differences in our perceptions have to do primarily with how our two peoples see their respective roles as partner democracies enlisted in a common cause. Different perceptions reflect differences in national power and capacity, as well as geography and history.

The unique combination of powers and qualities, economic and technological leadership, military capabilities, and political influence throughout the world endows the United States with responsibilities that are beyond the reach of any other nation: the responsibility to lead the free world, and the responsibility to ensure world peace by maintaining the global power balance. These are the tasks that American people have willingly accepted and successfully carried out for many generations.

Japan, although second only to the United States in economic power, is in no sense one of the superpowers. Yet the Japanese people recognize that their economic and political interests are global in scope. With virtually no natural resources of its own, Japan must have access to food, raw materials and markets throughout the globe if it is to survive as a modern industrial economy.

Similarly, the Japanese people recognize that their survival depends on world peace, and that Japan has a responsibility to help build a more stable and more peaceful world.

In recent years the world has paid a great deal of attention to the rapid and steady progress the Japanese people have made in building a strong and internationally competitive economy. I fear that much less attention has been paid to the equally rapid and steady progress the Japanese people have made in taking on broader international responsibilities, commensurate with Japan's economic strengths.

Only a few years ago, the great majority of the people of Japan were preoccupied, not with their country's strengths, but with its weaknesses and vulnerabilities. The oil crisis of 1973-74, followed by soaring energy prices, produced near panic in a Japan that relied on oil for 70 percent of its energy, and had to import virtually every drop of that oil. In the worldwide recession and inflationary spiral that followed, many feared that Japan's growth era was at an end. Yet in very short order, energy consumption was sharply reduced, inflationary pressures were contained by higher productivity, and Japan resumed economic growth—at a slower rate than other advanced industrial economies.

Japan accepted this challenge, adopting reflationary budget deficits that were financed by government bonds covering more than one third of the entire budget. Unfortunately, the Japanese and German locomotives were not strong enough to pull the entire world train. Japan's current austerity budget, including severe cut-backs in administrative, social and other government spending, is a necessary follow-up to that failed experiment. Even so, the two areas where Japan today is significantly increasing rather than cutting government spending are foreign aid and defense build-up for its self-defense.

In fact, Japan is now redoubling the level of its Official Development Assistance in our effort to contribute to peace-building and the prosperity of developing countries. Moreover, this increased aid is being channeled, not only to Japan's traditional economic-cooperation partners, such as Southeast Asia, but also to countries bordering on conflict areas such as Egypt, Sudan, Turkey and Pakistan.

In the defense area, as well, Japan has in recent years been increasing its outlays at a higher rate, in real terms, than any other U.S. ally. The Japanese Government recently increased the defense budget by 7.75% over the previous year, when there was almost no increase in other budget items. Japan is also contributing over \$1 billion a year toward the maintenance of U.S. military forces in Japan.

In the field of international trade, primarily because of joint American and Japanese leadership, the Tokyo Round of multilateral trade negotiations were successfully concluded. As one result of those agreements, tariff and nontariff barriers to trade have been sharply reduced around the world, although much remains to be done, especially to ease the trade in services. As another result, Japan's economy is now one of the most open, least-protected import markets of all the world's industrialized economies. In fact, my Government decided last month to accelerate by two years Japan's scheduled incremental reductions of duties covering 1653 items.

I know you may raise a question, "what about many criticisms regarding the so called nontariff trade barriers, NTBs, that have been used to close the Japanese market to foreign goods?" In a serious effort to answer these criticisms, my Government made an announcement on January 30 about measures to improve and streamline import procedures and requirements on testing and standards. This announcement is none other than a clear demonstration of my Government's efforts to open up the Japanese market, and I can assure you that we will continue to look into the matter in a positive manner. We share Ambassador Mansfield's belief when he said in Tokyo early in January that "both of us bear a responsibility for ensuring that the current trade problem does not reach proportions whereby it causes even more severe strains in our overall relationship."

These expanding Japanese commitments are significant because they would have been inconceivable ten years ago when, as I indicated, the Japanese people considered their national condition to be much too fragile for such risky exposure.

What brought about this evolution in Japanese attitudes and policies?

One factor has been a growing recognition, as an aftermath of the oil crisis, that the Japanese economy, although still very vulnerable, is not alone in its vulnerability. Western Europe, and even the American colossus, have also been buffeted and bruised by the energy crunch, inflationary pressures, international monetary instability, and the discrepancies in trade balance that are in part the result of differences in industrial structure.

Moreover, the Japanese economy has in some respects showed greater resilience than other advanced industrial economies in coping with these adverse pressures. Japan for example has done much better than the OECD average in keeping inflation and unemployment under control, in maintaining productivity growth, and in restructuring industry to meet world competition. I must admit that these successes—especially the continuing competitiveness of Japanese exports—have sometimes been unwelcome to Japan's trading partners. Nonetheless, it would be difficult to make a case that the international community would be better served by the failure, rather than the success, of any members of that community.

As seen through Japanese eyes, the real challenge is for the community as a whole to cope more effectively with our common problems. This means first of all that each of the great industrial democracies needs to pursue appropriate domestic policies and disciplines to restore price-stable economic growth. Internationally, it also means that the domestic policies each of us pursues must be reasonably in harmony with the policies of the rest of the community. Restoring the vitality of the world economy will not be accomplished by beggar-thy-neighbor policies of protectionism, or the contraction of world trade and investment. If all of us are to succeed, we must grow together.

As I have mentioned above, we in Japan have been seriously concerned with the trade imbalance question. This may have been caused by differences of industrial structure and may also be accounted for, to some significant extent, by undervaluing of the Japanese yen vis-a-vis the U.S. dollar, reflecting the level of interest rates. Whatever the reasons, we have been making efforts to open up our market. We strongly hope that American companies would make stepped-up and patient efforts to take advantage of this open market.

In this connection, I wish to touch on a subject that has been receiving growing attention in this country as well as in Japan: These days, we hear much about moves in the U.S. Congress to introduce legislation aiming at reciprocity in U.S. trade with its trading partners. On this subject, the Washington Post recently editorialized, "Since there can be no clear and objective definition of reciprocity in world trade, it would inevitably be administered in response to the political impulses and necessities of the moment," and "it would become a mere weapon for holding down all sorts of imports, and protecting American producers at a huge cost to consumers."

The same point was made by the recent Wall Street Journal's editorial which said "the biggest danger of reciprocity legislation is that it would put on automatic pilot a weapon that protectionists could use at will" and "it will most likely boomerang and wreak havoc on our economy as well as the delicate balance of international trade."

After the war, international trade developed in the framework of the GATT system. I believe we are today at a crossroads where all the industrial democracies should work together in upholding the principle of free trade, so the world can avoid the dangerous path of protectionism. I trust that in taking a position on the question of "reciprocity," the United States administration will give the most careful consideration to its ramification for the established international trading system. In this regard, I cannot emphasize too much that the coming Economic Summit in Paris in June and the GATT ministerial meeting in November will play a crucial role.

As I am sure you are aware, the rest of the world is watching with strong interest and expectations the extraordinary efforts the United States has now launched, under President Reagan, to renew and revitalize the powerful American economy. If there is one single story that can transform the outlook for worldwide recovery and growth, it will be the successful revitalization of the U.S. economy.

Attitudes of the Japanese people have evolved in one other respect. This is a growing recognition that the world political situation, like the world economic situation, requires closer cooperation among the great industrial democracies, and that Japan has the responsibility to join with the United States and its other allies in developing constructive common policies.

In the face of the Soviet invasion of Afghanistan, the Japanese Government maintained close consultations with the Western allies, and gave fullest support to the sanctions the United States imposed on the Soviet Union. Japan also joined other nations in condemnation of the military takeover and repression in Poland and of Soviet involvement in that repression. My Government has announced its position that the primary importance for the Western allies in coping with the Polish situation is to maintain unity among them. Japan will not undermine measures taken by the U.S.

To summarize, I would say that the Japanese Government and people have

taken great strides in the past several years toward expanded and more effective participation in international economic and political affairs. The internationalizing of Japan has been, to an important extent, a result of growing awareness of the Japanese people that they have the capacity and the obligation to play a larger role in world affairs. What has not changed in 30-odd years is Japan's reliance on its treaty ties with the United States, as the cornerstone of Japan's foreign policy. The only change that has occurred is the maturing of that relationship into a fuller and more active partnership, in which Japan is eager to carry its share of community responsibilities.

Our Agricultural Trade

National Governors Conference, 75th Annual Meeting, Portland, Maine, July 31, 1983

It was a little over 30 years ago that I came to this country for the first time, along with 479 other wide-eyed Japanese students. After a brief stopover in the San Francisco Bay Area, we all journeyed across this vast continent by train—through California's fertile valleys, over the deserts and mountains, across the vast wheat and corn fields of the Midwest. It was an extraordinary experience that I am sure none of us has ever forgotten. The endless bounty and abundance of American agriculture was a different world from the narrow plots we were familiar with, where Japanese farmers struggled to produce rice and other crops at high cost.

I can understand it, therefore, when American friends say to me, "What sense does it make for Japan to try to maintain any commercial agriculture at all? Wouldn't Japanese consumers be better served if Japan relied instead on America's virtually unlimited supplies of cheaper food and feed? Japan could then concentrate its resources in what it does best, industrial production and services."

This is, of course, a classic argument, based on the principle of comparative economic advantage. But it overlooks deeply felt traditions that are, I assume, common to every society that has a long history of agriculture. It is a tradition you Americans also share. A Japan converted into a huge, industrial city-state without rural villages, farms and orchards nestled at the foot of our mountains, would not be Japan. Surely Americans also understand that rural life is a tradition to be cherished, a nourisher of values and attitudes that enrich the national culture.

There are other considerations in Japan's case. The Japanese people were on the verge of starvation in the closing years of the Pacific War, and for several years after the war. This memory will not be easily erased. The fear of food shortage persists. A series of oil shocks in the 1970s also renewed this memory. Some level of domestic agricultural production is a necessary assurance, and Japanese consumers are willing to pay the costs.

At the same time, Japan does in fact depend heavily on the United States for food security. More than half the calories Japan consumes are imported, and America supplies 40 percent of those imports. Japan is by far the best customer in the world for the American farmer. The principle of comparative advantage is indeed working in this large and growing trade, and both Japan and America benefit. The question to be explored is how to balance this dependence on overseas supply with the maintenance of a small but important domestic agriculture. Since the 1960s,

when postwar reconstruction was accomplished and the period of rapid industrial expansion was under way, Japanese farm policy has focused on three categories of food supply:

1. Commodities to be produced mainly domestically;
2. Commodities to be mainly imported; and
3. Commodities to be both domestically produced and imported, with appropriate adjustments from time to time.

From the outset, domestically produced commodities have included rice, the historical national staple, and perishables such as dairy products and vegetables. This aspect of our farm policy has been understood by our farm-trading partners, and has never been an issue in Japan-U.S. trade.

Commodities to be imported have been chosen on the basis of two criteria: first, we must have stable and reliable sources of supply; and second, prices must be relatively stable in world markets. Feed grains and soybeans were included in this category, and imports were liberalized accordingly. As a result, Japan's self-sufficiency for feed grains and soybeans has now dwindled to less than 5 percent. This aspect of our farm policy has also been free of contention.

Finally, the commodities to be raised domestically *and* to be imported have included, first and foremost, beef and oranges, and the balance has been maintained through import quotas that have been expanded gradually over the years. It is this aspect of our farm policy that has been contentious in our relations with the United States.

The issue needs to be seen in perspective. As I indicated, the United States has been a stable and reliable supplier for those agricultural products to be supplied primarily by imports. Consequently, Japan's food self-sufficiency declined from 80 percent in the early 1960s to less than 50 percent today. Last year Japan imported \$6.4 billion of U.S. farm products, which equaled 15 percent of America's farm exports to the world. Japan's imports of grains and soybeans last year totaled 28 million tons, of which 20 million tons, or more than 70 percent, were imported from the United States. These imports were more than double Japan's domestic production of rice, wheat, barley and soybeans put together.

Over the long term, this trade has grown at a phenomenal rate, from \$1 billion a decade ago to nearly \$7 billion today. It is true that U.S. farm exports to Japan were down slightly last year, primarily because of decreased prices for American agricultural products and appreciation of the dollar, but there can be no question that Japan has long been and will continue to be a reliable and expanding market for American agriculture.

Despite this unique record, Japan continues to be criticized as a "closed market" to American exports, especially to beef and citrus. There are two inferences to this complaint. One is that, if the quotas were removed, the U.S. deficit in its trade with Japan would be significantly reduced. The other inference is that Japan's remaining agricultural import quotas are singularly unfair and even peculiar to Japan.

However, the effect of these import quotas on the enormous volume of Japan-U.S. trade is marginal. The American Embassy in Tokyo has estimated that removal of the quotas would increase U.S. exports by no more than \$500 million a year.

Nor is it fair to imply that Japan is a maverick because of its farm import quo-

tas. The United States, despite its unmatched competitiveness in world agricultural trade, maintains import restrictions similar to those of Japan and many other countries. The practice of regulating agricultural trade, to some degree, is universal and for the same reasons: to maintain some level of national food security, to preserve rural life, and to protect farm incomes.

The United States, for example, under a GATT waiver, maintains import restrictions on 13 agricultural items, including milk powder, cream, butter, cheese, peanuts and cotton. Moreover, U.S. sugar imports are regulated without a GATT waiver. American beef and other meat products are protected under the Meat Import Act, which provides a trigger for limiting imports.

The waivers under the GATT which the United States enjoys, I might point out, were obtained in the early stage of GATT history, when American agriculture and industry were literally carrying the world economy. Since then, the change of international circumstances has not allowed the other industrialized nations to obtain such a privilege. Yet, with or without waiver, U.S. agricultural protection is no different in effect from the practices of other trading nations, including Japan.

I should also point out that there is no great difference between us in the scale of domestic farm supports and subsidies. Price supports cover 50 percent of U.S. agricultural production, 65 percent of the European Community's, and 55 percent of Japan's farm output. Japan is in no way subsidizing its farm exports, nor is it in any way threatening America's overseas farm markets.

My point is that we are unlikely to find fair and realistic solutions to our differences over farm trade if one side insists that it alone comes to the negotiating table with clean hands. The complexities of world farm trade are great because of the nature of the industry and because we are all involved in some degree of trade regulation. Our goal should be to continue to expand this trade for mutual benefit, not to denounce one another or to make demands on each other that are unreasonable and, in domestic social and political terms, impractical. This is a mutual problem, calling for mutual accommodation.

In all fairness, I should also like to call attention to the fact that Japan, at the cost of considerable domestic stress, has over the years made substantial accommodations that have benefited U.S. farm interests. For example, in 1960 Japan's domestic soybean production totaled 410,000 tons, while imports amounted to one million tons. The following year, soybean import quotas were eliminated. Today Japan produces only 4 percent of the soybeans it consumes, and 96 percent of its soybean imports are grown in the United States. Feed grain imports were liberalized in the early 1950s, and today domestic production accounts for a mere 2 percent of consumption. Ninety percent of our feed grain imports come from the United States.

Remaining agricultural import quotas have also been expanded over the years, in conjunction with expanding demand. Today, roughly 30 percent of Japanese beef consumption is imported, and about 10 percent of our citrus consumption is imported. To turn the picture around, 60 percent of America's beef exports and 40 percent of your citrus exports are shipped to Japan.

In accordance with the Tokyo Round MTN agreements, Japan has been further expanding its beef imports, which reached 139,000 tons in fiscal 1982, including 36,000 tons imported from the United States, mainly high quality beef. Beef imports from the United States have doubled over the past four years. I would like to add that

a substantial part of our growth in consumption is covered by growth in imports.

At the same time, I have to point out that 70 percent of Japanese beef production is from milk-producing cows, and Japan cannot abandon its domestic supply of fresh milk. We also consider the production of beef cattle to be essential for the development of otherwise underutilized agricultural land, on mountain slopes, and for the purpose of land conservation. Japan's beef industry also provides an alternative source of farm income in the continuing shift out of rice production.

Japan's citrus imports have also expanded substantially over the years. Citrus imports have increased six times in the past decade, and citrus juice imports ten times. Lemon and grapefruit imports were liberalized in 1964 and 1971, respectively, when many growers were encouraged to switch to mandarin oranges, or *mikan*. As the shift took place, the supply of *mikan* outpaced demand and production costs exceeded market prices. A 20 percent reduction in land devoted to mandarin production is now under way. These are the economic facts of life facing Japanese citrus growers at a time when we are also attempting to expand our citrus imports.

In short, Japan is energetically pursuing realistic accommodations to U.S. interests, in the form of expanding import quotas. It is our basic policy to continue these efforts.

Let me summarize the points I hope you will take away with you.

Japan is a stable and growing market for U.S. agricultural exports, and both our nations have benefited greatly from this interdependent agricultural partnership. This is one of the strongest economic bonds between our two peoples, and it is a bond we should treasure. We must not allow misperceptions and disputes over trade in a few individual products to damage our huge and richly diversified partnership in agriculture.

Every nation is required to pay special attention to its agricultural problems, because agriculture is bound to undergo a very difficult adjustment process as industrial developments proceed. If we are to solve international trade frictions arising against this background, we have to take pragmatic approaches.

Japan is making steady efforts to improve import access to its agricultural markets, while trying to maintain a fair balance between the sound development of Japanese agriculture and the stable growth of our international agricultural trade. We shall continue these efforts.

Finally, we Japanese recognize and appreciate the fact that a strong and efficient U.S. agriculture enables the United States to play an indispensable role as secure food supplier to the world. We also recognize that in the United States, as in Japan, a sound agricultural sector contributes directly to social and political stability, reinforcing our vitality as democratic societies, and strengthening our international role as leading democracies.

We Japanese welcome our partnership with American agriculture, and with the farm states you gentlemen lead. We are also very proud to be the dependable partner and ally of the United States on the broader agenda our peoples share in the world—the pursuit of a more stable, peaceful and prosperous world in which the values of freedom and democracy may continue to flourish.

The Emerging Pacific Economy

Committees on East Asian Studies, Lehigh University–Lafayette College,
Bethlehem, Pennsylvania, February 14, 1984

We have entered an age in which the frontiers of science and technology are expanding faster than in any previous period in history. At the same time, the boundaries of our world economy are rapidly shrinking, as we move toward a closely-knit, interdependent, global system.

A new breed of innovators and entrepreneurs is emerging around the world. Among them are scientists and engineers who are equally at home in the laboratory, in the application of new technology and the creation of new products, and in the design of more efficient manufacturing systems to meet world-class competition. Also among them are managers who have learned to make plans and decisions in terms of world-scale strategies. We have indeed begun the post-industrial revolution, and it is worldwide in scale.

The decision at Lehigh University five years ago to build an East Asian Studies program, a goal in which your sister institutions are now participating, was a timely anticipation of one important dimension of this global economic revolution. I refer to the recent emergence, on the far side of the Pacific, of a dynamic and expanding regional economy that is altering the shape of international competition.

My own country, Japan, is of course a key force to be reckoned with in the Asian–Pacific economy. It was the first Asian nation to build an advanced industrial economy, capable of competing in world markets with the older industrial economies, the United States and Western Europe. I need hardly remind you that Japan's emergence, over the past two decades, as the free world's second-largest economy and as America's largest and fastest-growing overseas trading partner, has created great mutual benefits and at the same time periodic trade frictions.

It is perhaps a law of nature that the rapid expansion of any existing system raises new issues and requires adjustments. In the long run, however, the entry of a dynamic Japan into the "club" of advanced industrial societies has strengthened the club and introduced new vigor into the world economy.

Suddenly that cycle is being repeated, as a growing list of vigorous new economies bid for entry into the world-trading club. Japan and the rest of the industrialized world are having to make room for East Asia's newly industrializing countries, or NICs, including the Republic of Korea, Taiwan and the ASEAN states—as well as the NICs in other parts of the world, such as Brazil and Mexico. Common characteristics of all these NICs include some of the world's highest sustained rates of real economic growth, over the past decade, and the development of fully competitive manufacturing industries, from steel and shipbuilding to consumer electronics and high-technology components.

In the wings, I should add, is the world's most populous developing country, China, which is now bent on a modernization effort. China is developing its relationship with Japan, the United States and other industrial democracies for development capital, new technologies, managerial know-how—and open markets for *its* expanding list of manufactured exports. China is already competing with our older industries in the more labor-intensive fields, such as textiles and apparel. Sometime in the future, China will upscale its exports in fields where the NICs are already tough competitors.

Participants in your East Asian Studies programs, in other words, will have a full agenda to consider in coming years. The most critical question on that agenda is how the older industrial economies can accommodate the high-growth and increasingly competitive newer economies. It is once again a question of assimilating new members into the community of industrial traders, and strengthening the world economy by doing so.

The stakes are very high, and they are political as well as economic. The emergence of the East Asian NICs and China in an expanding regional economy has had a powerfully stabilizing effect on the politics of the region. All of the East Asian NICs have opted for free enterprise as the basis for their economic development, and have identified their long-term growth with their participation in the free-world trading system. Even China is making room for limited private investment, and has joined the Multi-Fiber Agreement.

All these developments are testimony to the wisdom of postwar U.S. leadership in liberalizing the world trading system and providing aid and investment capital to the developing nations. The record expansion of world trade, over the past 30 years, and the emergence of the NICs, owe much to those far-sighted policies.

Japan, for example, has long been an active partner in the economic development of East Asian NICs. About 70 percent of Japan's bilateral Official Development Assistance is now channeled to East and Southeast Asia. Incidentally, Japan's ODA budget for FY 1984 will be 9.7 percent larger than that of FY 1983. Japan is also the principal trading partner of these countries, and their principal source of imported investment capital, technology transfers, and managerial training.

In effect, Japan is helping to build up its own competition, just as the United States and Western European countries have been doing through their aid, trade and investment in the developing regions. In the process, we are promoting higher incomes, greater prosperity and social stability in these countries, and expanding markets for our own capital and consumer goods. In return we are having to make sometimes painful adjustments to the new competition.

Let me use as an example the primary industry of the Lehigh Valley, steel. In the past, the American steel industry has been concerned about Japanese competition, largely because the Japanese steel industry is the world's most efficient producer. Japan has long since closed its inefficient open-hearth furnaces, and 80 percent of Japan's mills use continuous casting, compared with 29 percent in this country. A few years ago, Japan was exporting up to 42 million tons of steel a year. Imports were under a quarter million tons a year.

Today, the picture is very different. Japan's steel industry, like America's, is operating at only about 60 percent of capacity and making efforts to trim operational costs. Exports are down because of world steel overcapacity in relation to sluggish world demand; because NICs such as the Republic of Korea and Brazil are now producing steel in modern and efficient plants; and because they are successfully competing with us in third markets, both because they are efficient producers and because their labor costs are lower.

Consider this comparative wage scale: unionized steelworkers in the United States earn \$23 an hour, including benefits; in Japan the rate is \$12; in the Republic of Korea it is \$6 and in Taiwan, \$4. These comparisons help explain why Japanese steel imports have increased sixfold the last few years, and why major American steel companies are now importing crude steel slabs for processing.

How are the American and Japanese steel industries dealing with the challenge of low-cost competition, especially from the NICs? In both countries the least efficient plants are being closed down. In American companies, redundant workers are simply laid off. In Japan, they are kept on the payroll, but are assigned to new tasks in the same or related companies.

Mergers and restructuring are also taking place in both countries, to lower costs, increase efficiency, and provide resources for investment in better technology. Both American and Japanese mills are striving to improve productivity, reduce energy consumption, cut other costs, and improve quality to make the product more competitive.

All major American steel companies now have access to production technologies developed or improved in Japan, and they are using these technologies to modernize American plants and production processes. The Japanese steel industry has, in fact, become a major net exporter of technology in the last 10 years.

Both countries are shifting production to new products, such as high-strength, low- and high-temperature, and special-alloy steels that meet new needs. Both American and Japanese steel companies are also diversifying into other fields, such as engineering, chemicals and energy.

A strictly American phenomenon is the rapid growth of minimills, which operate modern mills with nonunion labor, and 90 percent of whose production is by continuous casting. These operations appear to be profitable, and are continuing to grow.

In summary, there are a number of options open to Japanese, American and European steel industries to *adjust* to low-cost foreign competition, but none of these options will *eliminate* the competition or restore our steel industries to the comfortable world market shares they enjoyed some years ago. Nor will the world steel industry regain real prosperity until the world economy is fully recovered from the recent series of recessions, and world steel demand comes closer to world capacity.

• Other traditional and so-called smokestack industries face, or will soon face, similar adjustment challenges. In all these cases we can be sure that the adjustments — if they are to work at all for the benefit of the world economy — will involve new international divisions of labor. The older industrial economies will have to give up some of their low-technology, labor-intensive economic activities to the newcomers, and will even have to divide up some of their advanced technology component manufacturing in which labor costs are a significant factor. These transfers are already taking place as Japanese, American and European automotive and electronics manufacturers export some of their component manufacturing to Taiwan, Singapore, Mexico and other NICs.

Adjustment to tough competition, even in smokestack industries, is not the same as abandoning those industries. As the upgrading of industrial structure proceeds in developed countries, demand increases for more sophisticated steel products. And this changing demand gives the steel industry in developed countries an opportunity to maintain the lead over the emerging industries of the NICs. However, in doing so, it is essential to make an innovating investment, cut excess capacity and raise productivity.

It is encouraging to see the recent trend of increasing U.S. investment in steel

equipment and facilities.

Strong U.S. industries, and a strong U.S. steel industry, are essential for world economic vitality. The Japanese, both government and industry, earnestly wish for a revitalized U.S. steel industry. From this viewpoint, we welcome the recent announcement on industrial cooperation between Nisshin-Seiko and Wheeling Pittsburgh Steel. This is a very encouraging step which symbolizes the cooperation and friendship now developing between the industries of our two nations.

In discussing our options for meeting the trade challenges of the newly industrialized countries, there is one option I have not yet mentioned—protectionism. There are, I believe, three reasons why protecting our markets from NIC competition by artificial means is the worst possible solution.

First, protecting an uncompetitive industry simply protects the inefficient and wasteful use of valuable resources. It imposes unwarranted costs on the end user of the product, and it prevents valuable human and capital resources from being used more creatively for innovation and progress.

Second, protectionism disrupts the normal and efficient operation of market forces, invites retaliation, and inevitably leads to shrinking world trade and general economic stagnation or decline. The classic test of protectionism was the 1930s, when a cycle of retaliatory tariff increases led straight into the Great Depression.

Third, protecting our older industrial economies from the competitive challenges of the emerging new economies would undermine and possibly destroy all the progress of the last 30 years, when these less-developed nations—with our help—learned how to become self-reliant, productive and relatively prosperous societies, that are now beginning to earn their own way in the world economy. The political consequences, as well as the economic ones, could be extremely damaging to the interests of the free world.

Turning the subject, I should now like to offer a few observations about the bilateral economic relationship between Japan and the United States, the world's two most productive economies and each other's fastest-growing economic partners. As I mentioned earlier, we have had our own frictions over trade competition in the past, particularly in the 1960s and early 70s, when Japan was still struggling hard to achieve postwar reconstruction through high economic growth, and only beginning to be competitive in areas where, today, it ranks among world leaders.

The Japanese market today, both sides agree, is in every formal sense at least as open and unprotected as the United States and more open than Western Europe. Yet neither Japan nor the United States is 100 percent open to imports. No market in the world is. There are still quite a few divergent views between our two governments over certain tariffs, import quotas, and buying practices. Nonetheless, we have made remarkable progress in recent years in negotiating these differences and resolving many of them. In the last three years, Japan has taken extraordinary unilateral steps to reduce or eliminate specific tariffs, simplify import procedures, internationalize standards and testing requirements, and expand import opportunities of particular interest to the United States.

I am happy to tell you that after long and extensive negotiations, an agreement was signed between our Foreign Minister Abe and your Ambassador Brock of USTR on January 30 for a three-year extension of the agreement on government procurement by NTT, providing good opportunities for the U.S. to sell high technology

equipment to Japan. Our negotiations and discussions are continuing in a friendly atmosphere, and further progress is being made.

As you know, there has been a strong argument about the size of the trade imbalance in favor of Japan. But in fact, American exports to Japan have, in the last year or so, outperformed American exports to other regions of the world. Japan is not the major cause of America's deteriorating trade balance with the world. A much more serious problem is the artificially high value of the U.S. dollar, which overprices U.S. exports, making them uncompetitive in world markets.

It seems to me that there are some very important aspects of the Japanese-American economic relationship that receive too little attention. One is the positive and creative value of our trade competition. Twenty or 30 years ago, the United States, almost alone, set the standards of product quality and manufacturing efficiencies that Japan and the rest of the world aspired to. America was the ultimate competitor to try to match.

Today, in a relatively small number of industries, which are nonetheless highly visible—automobiles and consumer electronics, for example—Japan has become a standard-setter, a competitor to be matched. There is nothing unfair about this development, and it is even healthy. Japan is actually cooperating with U.S. automakers, as well as steelmakers, to produce better products more efficiently. Japan is repaying an old debt, and making a contribution to American industrial progress.

Another aspect of our relationship that is too often overlooked is the extraordinary expansion of our investments in each other's economies. Japanese cars, televisions, motorcycles, food products—and, yes, steel—are now being manufactured in this country, using Japanese technology and management methods, but employing American managers and workers. And these plants are profitable, and are good corporate citizens of the United States, many of them contributing to U.S. exports to the world. A growing number of American corporations are performing a comparable creative role in the Japanese economy, including companies that have dominant shares of market in their product lines, and other companies that are teaching Japanese businessmen entirely new marketing and merchandising techniques that are revolutionizing Japanese business.

Yes, we are entering a challenging new era of technology-driven progress, of global markets, and of growing interdependence among developed and developing. In this revolutionary era, Japan and the United States are not adversaries; we are, and we should be, leaders of the revolution, using our combined talents and resources to ensure that the world that emerges will be open, free, and just as accessible to the newcomers as it has been to us old-timers.

Caribbean Cooperation

Chamber of Commerce of Puerto Rico, San Juan, Puerto Rico, March 15, 1984

In a sense, this week might be considered a family affair, as your Chamber hosts commercial delegations from all parts of the Caribbean. Yet we Japanese do not consider ourselves total outsiders. We have had a long and deep interest in this region, and important stakes in its progress. Indeed, the oldest Japanese manufacturing investment under the American flag is right here in Puerto Rico—the Matsushita project, which now consists of four plants in an \$18 million investment, employing over

600 workers.

Total Japanese investments in the Commonwealth have now reached \$90 million, sustaining 2,300 local jobs. These plants are widely dispersed throughout the Island, and are fully integrated into their respective communities. As a matter of mutual interest, these Japanese industries consider themselves partners in the development of the Puerto Rican economy.

For a number of years the Japanese Government has extended various forms of economic cooperation to nations of Latin America and the Caribbean, and is one of the largest contributors to the Inter-American Development Bank, which has proved to be a vital capital resource for regional development. In recent years, over 40 percent of Japan's bilateral economic assistance in the Hemisphere has been channeled to the Caribbean Basin.

This emphasis reflects our recognition of the great economic potential of the Caribbean; its strategic importance to our ally, the United States; and the contribution to peace and stability in the Hemisphere of a dynamic and resilient community of Caribbean democracies, working together for the material well-being and the social and political progress of their peoples. For these reasons, my Government has welcomed the regional initiative of the Caribbean Group for Cooperation in Economic Development as well as the U.S.-sponsored Caribbean Basin Initiative. We are collaborating with this Caribbean consultative group to identify and support priority development projects of potential benefit to the regional economy.

During the past two years, for example, we provided loans totaling 25 billion yen for the Blue Mountain Coffee Project and a barge-mounted electric power plant in Jamaica, and for agricultural development in the Dominican Republic. Since 1976, Japan has been extending grant aid to the Caribbean Basin nations including Haiti, Jamaica, Dominica and the Dominican Republic. This grant aid, valued at 5.2 billion yen, is used for projects which include development of the fisheries industry and expanded food production. Also since 1976, over 200 people from this region have been invited for study in Japan, under our technical assistance program.

Currently we are exploring ways we can assist—with grant aid and technical cooperation—the expansion of the fisheries industry along the Caribbean Coast of South America. Obviously there is great potential for onshore processing and canning industries that will create new local jobs.

Japan is also a major customer for Caribbean sugar, coffee and bauxite, purchasing around \$100 million a year in regional exports. Moreover, Japanese direct investment is following this trade. As of a year ago, Japanese investment in the region totaled \$735 million, and is still growing.

The economic challenges facing this region are considerable. World demand for your exports dropped off during the recent, prolonged global recession. Recovery has at last begun in the United States, with Japan and the other advanced industrial economies following at a somewhat slower pace. Meanwhile, however, your terms of trade continue to be unfavorable; your foreign debt burdens have become more difficult to manage; and in some cases you have had to stretch out your development plans. The next few years will continue to be a critical time for you.

You are not alone in facing these difficulties. Developing economies throughout the world face similar problems. Yet in some respects the nations of the Caribbean have a head start in managing recovery, and in projecting long-term economic modernization. Average per capita incomes for this region are higher than for other de-

veloping regions, although I recognize that there are pockets of underdevelopment in the region. With few exceptions, your literacy rates and educational levels are also higher than in other parts of the developing world.

Your greatest strength may lie in the fact that, at both governmental and private-sector levels, the nations of the Caribbean have begun working together to solve common problems. You are marshalling your human resources and pooling your talents to construct an integrated regional economy, based on free enterprise, and linked to the economic strengths of the great industrialized democracies of the world.

In turn, the great democracies of North America, Western Europe and Japan are committed to lend you support and assistance, and to open our markets to your exports, so you can earn your own way fairly in the world economy. As your infrastructures grow stronger, foreign investment will surely flow into your economies, especially for basic manufactures, the assembly of components, and other divisions of labor between "twin plants"—based on comparative advantages in labor skills and costs.

Imaginative approaches such as this will, I am confident, help speed your industrial development and the integration of this region into the mainstream world economy.

Creative Competition in High Technology

World Affairs Council of San Antonio, San Antonio, Texas, October 12, 1984

One of the signal events on your Japan Week calendar was the 1984 San Antonio Technology Conference: A Japan-U.S. Dialogue, conducted here last Wednesday. This initiative of the City of San Antonio brought together a distinguished panel of Japanese and American experts in such advanced technologies as mechatronics, robotics, medical electronics and biotechnology. I am told it was an extremely valuable exchange of ideas.

The convening of such a conference in this community is a timely reminder that San Antonio and the State of Texas have moved very rapidly into the front ranks of this nation's research-based technological revolution—a revolution in which American science and industry have long led the world. Japanese participation in this conference reminds us that Japan, as second-ranking market economy in the world, is both America's closest partner and its keenest competitor in opening up these new frontiers of science and technology.

This is a fairly recent development, and the competitive aspect of our technology trade has raised some fears and misunderstandings. I should like to take a few moments to put the matter in perspective.

The Japanese-American technology dialogue has been going on for some years. Until the last ten or fifteen years, however, the technology exchange was rather lopsided. America was the principal innovator, and Europe was in the number two spot. Japan's very rapid growth in the late 1950s and 60s was based in part on imported technology, which Japan adapted and improved, while making relatively few important original contributions. It was the era when Japan had to live with the image of "copy cat," whose principal assets were a skilled and dedicated work force,

imaginative application of technology to new products, manufacturing efficiency, and strict quality control.

During the last decade in particular, the balance in world technology trade has altered dramatically. Japan is today a net *exporter* of technology to the world. Today the American steel, electronic, automotive, telecommunications and home-entertainment industries are major borrowers of Japanese patents, advanced-design components, and innovative manufacturing processes. In each of these fields, original Japanese technology is contributing to the modernization of American production facilities and the improved competitiveness of American products. This technology cooperation is taking place in various ways, including licensing of Japanese technology to American steel and other manufacturing companies, Japanese-American joint ventures in the automotive and other industries, and direct Japanese investment in U.S. manufacturing facilities in a wide range of consumer products such as televisions.

I believe it is fair to say that this new and remarkably diversified technology *cooperation* is taking place because of the vigorous *competition* between our respective private sectors. Japan's rise to second rank among the world's market economies, and Japan's technological progress in recent years, have served as another powerful stimulus to the industrial renaissance that is now under way in the U.S. economy.

Yet I hasten to add that, contrary to alarmist rumors, the United States is in no danger of losing its overall technological lead to Japan or to anyone else. Japan—and, for that matter, Western Europe—may have an edge in certain specific areas of advanced technology, but this race is never concluded. Through competition and cooperation, all the advanced industrial democracies are advancing on these frontiers together, but across the board the United States remains undisputed leader. American talent devoting itself to pure scientific research, and the American engineering skills engaged in applied science and technology, are unmatched anywhere else in the world. Annual U.S. spending for research and development is more than double the annual investment in R&D of Japan and Western Europe combined.

American momentum in the high technology race is substantial. Competition from Japan and Western Europe may be nudging U.S. industry to try harder to stay in first place, but that is a healthy situation for all of us. Through competition and cooperation, we are building on each other's successes. This, I am confident, was the spirit behind the 1984 San Antonio Conference on Technology.

I might also mention that, in both Japan and the United States, the dominant force behind our respective R&D efforts is the private sector. This was not always the case. In the 1950s and early 60s, the U.S. Federal Government invested about twice as much in research and development as did the private sector, in its own funds. In 1980, for the first time, U.S. private industry surpassed the Federal Government in R&D spending, business support for university research in the United States increased 13 percent, and American computer makers raised their R&D outlays by nearly 20 percent.

For purposes of comparison, government funding of nondefense R&D in 1982 amounted to 30.3 percent in the United States and 25.1 percent in Japan. There is, in other words, no basis for the charge that Japan's competitiveness in high technology depends on larger government subsidies than are available in the United States.

The Japanese and American approaches to high technology are, in fact, more alike than not. In both countries, for example, there is a trend toward cooperative research in basic sciences among companies in the same industry, often with university participation. This is being done in both countries with tacit approval or benignity of antitrust enforcers because the complexity of some research projects is beyond the capacity of individual companies and, in other cases, to avoid costly and time-consuming redundancy in research areas that have a high national priority.

Japan has gone a step further, inviting qualified foreign companies, including American companies operating in Japan, to participate in certain high-technology research consortia that have Japanese Government support. As in this country, foreign high-technology corporations are also being invited to set up research and manufacturing operations in any of a number of Japanese regional technopolises, which are comparable to the high-technology center you envision for San Antonio. Legislation is also before the Diet that would result in the privatization of Nippon Telegraph and Telephone Public Corporation. If the law is enacted, the Japanese domestic telecommunications market will much more closely resemble the domestic American market, and will be more open to international competition than it is today.

In short, what is taking place before our eyes is a rapid internationalizing of our high-technology industries and markets, and a growing interdependence of these industries—especially between the United States and Japan. A similar internationalizing of markets is already far advanced in a number of more traditional industries, including automobiles and consumer electronics. The next great leap is now under way in the new growth industries we call “high tech.” These trends are evident, not only in our dependence on each other’s technologies, but also in our trade and investment flows.

Last year 31 Japanese manufacturing companies established or acquired U.S. facilities. The 334 Japanese manufacturing companies now operating in the United States (25 of which are minority Japanese-owned) provide an estimated 80,000 American jobs. Across the Pacific, major U.S. investments account for 75 percent of all foreign investment in Japan. In this connection I offer my best wishes to the mission the City of San Antonio is planning to send to Japan next May. I hope you are successful in attracting new Japanese investment to this area. I hope also that members of the mission will give some consideration to expanding investment opportunities in Japan. Investment is, and must continue to be, a two-way street.

Our bilateral trade, which exceeds \$60 billion annually, also reflects the integration of our two economies. It is by far the largest and most diversified trade between any two overseas partners on earth. It is also, from the American point of view, the most promising segment of U.S. foreign trade—especially U.S. high-technology exports.

In this period of record U.S. trade deficits with the world, Japan is the one major market where U.S. exports are growing at a significant rate. Over the last two years, U.S. exports to Latin America declined by nearly 40 percent, and U.S. exports to Western Europe fell by more than 16 percent, but U.S. exports to Japan last year rose nearly 5 percent. And, during the first seven months of this year, U.S. exports to Japan were up 15 percent over the same period a year earlier.

Moreover, this current surge in U.S. exports to Japan includes spectacular increases in shipments of American high-technology goods. Specialized machinery

exports are up 49 percent, telecommunications equipment up 48 percent, and computers up 26 percent.

This healthy growth of U.S. exports to Japan leaves little room for the outdated complaint that the Japanese market is "closed" to foreign goods. The fact is that, especially in the last three years, the Japanese Government has made monumental efforts to eliminate or reduce tariffs, to simplify import procedures, to expand the import quotas on beef and citrus, to promote imports, and generally to speed deregulation of the Japanese economy. The expansion of U.S. exports to Japan suggests that these reforms are beginning to work.

Equally important, the Japanese economy has been growing at a steadier rate than any other advanced industrial economy except the United States. The current U.S. economic boom is leading the entire world out of recession, but the Japanese economy is coming up a strong second—7.6 percent in the first quarter of this year, 6.7 percent in the second quarter—and this rebound is also contributing to world recovery by pulling imports into the Japanese market.

The U.S. deficit in its trade with Japan—now running in the neighborhood of \$20 billion a year—is much too large. As I indicated, Japan has already taken a number of measures intended to expand imports into Japan. One important thing Japan can do to encourage imports is to manage a steady recovery of its own domestic economy, while avoiding a resurgence of inflation.

It is important to remember, however, that the huge U.S. trade deficit is not simply a bilateral problem with Japan. It is a *global* trade deficit, caused by such factors as the sluggish recovery from global recession in other regions; drastic reductions in imports by a number of debt-ridden developing nations, especially in Latin America; and the phenomenon of a greatly overvalued dollar which makes U.S. exports too expensive and U.S. imports very cheap.

There are various theories about why the dollar is so strong, including high U.S. real interest rates and the unexpected strength of the U.S. economic recovery, which makes dollars the most attractive investment in the world. There are also various prescriptions of what to do about it, including more vigorous efforts to reduce the U.S. Federal deficit and thus ease the pressure on interest rates. These are questions that must ultimately be resolved by American policy-makers, although the consequences will have an enormous bearing on the vitality and stability of the global economy. One thing is certain. This is that no remedy will work which slows world recovery or restricts the expansion of world trade and investment.

As the most dynamic free-enterprise economies in the world, the United States and Japan offer a model for an increasingly open world-trading system. In this system, the free play of market forces encourages innovation and economic growth for all participants. Our two governments are jointly committed to strengthening this system by lowering trade barriers, rather than raising them—by encouraging creative competition and efficiency, rather than protecting inefficiency. It is our shared hope that our Western European trade partners as well as our LDC trade partners will join us in multilateral negotiations to reduce further the remaining barriers to trade in goods and services, especially the numerous nontariff barriers that have been raised during the last few years of worldwide economic stress.

The time is ripe. The American economic resurgence is surprising the world with its vigor. Japan, which fared better than most in maintaining employment and resisting inflation during the late 70s and early 80s, is also on a steady path to recov-

ery. Western Europe's recovery is still lagging, but the potential is there—in human skills, physical plant, bright spots of technological leadership, and a vast consumer market about equal in size to the United States. In addition, through common sense and cooperation, the staggering debt crisis of several key developing countries in Latin America now appears to be under control. The free world is at the threshold of a new era of expanding trade and investment.

Whether we seize this opportunity depends on how confidently we work together as an open world-trading community, accepting the challenges of creative competition, while building a dynamic and integrated global economy, accessible to all nations, developed and developing.

That, I sincerely believe, is the lesson the world can learn from the remarkably productive Japanese-American partnership—an alliance of the two most successful free-enterprise societies on earth.

Cooperation and Competition

The Chicago Committee, Chicago, Illinois, October 26, 1984

When I last spoke with you, two and a half year ago, our two governments had been locked for some months in especially difficult negotiations. On trade questions in particular, our differences threatened to become politicized. I expressed to you my concern that we were in "danger of forgetting who we are as nations, and what we are to each other."

Since then, I am happy to report, our government-to-government negotiations have shifted to a more sound course. Our differences are being aired, not in headlines on the front pages, but in quiet, businesslike talks. Moreover, through constructive discussions, we have made substantial progress in narrowing our differences and finding mutually acceptable solutions to trade, financial and political-security questions of common concern. In my judgment, our relations have never been smoother, and our cooperation never more productive.

Some have suggested that this may be a temporary improvement in the negotiating atmosphere, perhaps only a moratorium until the current election campaigns are over in both countries. The pessimists point to that sleeping giant of an issue, the very large U.S. deficit in its trade with Japan. If the economy slows down and the trade deficit continues to grow, they warn, American industries and Congress may react out of frustration, insisting on new and tough actions.

Such a warning should not be treated lightly. It behooves us on both sides of the Pacific to continue to address trade-related problems with cool heads, and together with our principal trading partners, to work for reasonable and constructive remedies. Above all, we need to keep the problem of trade and payments imbalances in global context. U.S. trade is in deficit with the world, not just with Japan. Protectionist formulas aimed at the U.S.-Japan trade imbalance would not get at the root causes. Indeed, a reversion to protectionism in this country could provoke a worldwide epidemic of protectionism, with untold damage to the global economic recovery that is now under way.

There is a safer and sounder route, and the quiet Japanese-American diplomacy of the last several years illustrates it. During this time we have made remarkable

progress in resolving a wide range of trade-related issues, and have established vigorous new patterns of economic cooperation through cross investments and technology exchanges, as well as trade expansion. The United States and Japan are thus reinforcing each other's economic recovery, and contributing to the revival of the world economy.

Indeed—and this is most important—Japan is now providing the United States with its fastest-growing export market in the world. The bilateral trade gap is not yet narrowing, and the U.S. global trade deficit is still growing; but Japan, at least, is pulling in American exports much faster than the rest of the world. Despite the unfavorable dollar-yen exchange rate, and all the other factors that have been depressing U.S. export trade, the Japanese market is the brightest spot on the American exporter's horizon—for agricultural products, for consumer goods, and for high-technology manufactures....

You need no reminder that the robust American recovery is setting the pace for revitalization of the world economy. Your strong and sustained domestic demand is, in fact, one of the causes of your record trade deficits. You are drawing in imports faster than the slower-growth economies in the rest of the world can buy your exports. In effect, America is stimulating global economic recovery at the cost of large trade deficits.

Your Japanese trading partner, however, is coming up a strong second to the U.S. recovery. Our GNP grew 7.6 percent in the first quarter of this year, and 6.7 percent in the second quarter. For the current fiscal year, 5.3 percent real growth is forecast. The healthy Japanese rebound has strengthened the demand for imports, not only from the United States, but from the rest of the world as well. Japan's total imports, from all sources, during the first seven months of this year increased 12 percent over the same period a year earlier.

The United States and Japan together, in other words, are contributing powerfully to a revitalized global economy, precisely because our two economies—the first and second largest market economies in the world—are growing at steady and strong rates, pulling in each other's and the world's goods in rising volume. We could ask for no better demonstration that the best and most enduring solution to most of the world's economic problems, including trade imbalances, would be a stable economic growth that is more widely shared among the world's trading nations.

In addition to the stimulus provided by a healthy economic expansion, Japan's rising imports also reflect the very rapid internationalizing of the Japanese economy.

Over the past three years, Japan has unilaterally eliminated or reduced tariffs and nontariff barriers, accelerated the tariff cuts negotiated under the Tokyo Round, expanded the volume of its agricultural imports, and extended preferential tariffs to imports from developing countries. These steps have been taken with the objective of making the Japanese market, in every formal sense, the most open and accessible market of all the advanced industrial economies.

During the same brief period, my Government has systematically simplified import standards and certification procedures, to conform more closely with international practices. The aim has been to dispose of unnecessary regulations and paperwork, to acknowledge the competence of foreign inspection and certification systems, and in all these ways to make it vastly simpler and less costly for foreign manufacturers to export their products to Japan.

Under legislation enacted this summer, the quasi-governmental tobacco monopoly is in the process of being dismantled, and the tobacco market will be opened wide to international competition. We anticipate that by the end of this year, a bill will be enacted that will substantially privatize Nippon Telegraph and Telephone, the domestic telecommunications monopoly. Its effect will be to make the Japanese domestic telecommunications market openly accessible to imported communications equipment.

Earlier this year, following lengthy and constructive discussions between Japanese and American financial authorities, my Government decided on far-reaching measures to deregulate our domestic financial markets, further opening them to foreign competition. As part of the same package, we further liberalized our international capital transactions, especially in the so-called Euroyen market, to facilitate international capital flows and use of the yen at a reserve currency, along with the dollar and the deutschemark.

I believe it is fair to say that no other major trading nation has, in so short a time, taken so many bold initiatives, on such a broad front, for the sole purpose of opening its economy to the full brunt of free-market competition with the world. The long-term effects of internationalizing the Japanese economy should be immensely beneficial to world trade expansion, the availability of capital for investment in world economic growth, more realistic exchange rates and greater monetary stability, and a wider sharing with the developing nations of the benefits of economic growth.

Some positive results can already be seen, not only in rising U.S. exports to Japan, but also in fast-growing two-way investments and technology exchanges, and new patterns of private-sector cooperation in frontier R&D and manufacturing joint ventures. The Japanese and American economies are becoming progressively more integrated with each other, to mutual benefit.

More than 600 U.S.-affiliated companies are now operating in Japan, with combined investments in excess of \$8 billion. Many of these investments involve very advanced technology sharing, in both directions. American computer and electronics manufacturers, for example, have access to frontier technology emerging in Japan's most advanced laboratories in the form of cross-licensing and joint R&D. At the same time, American innovations in pharmaceuticals, telecommunications, and computer software are contributing to Japan's technical progress, and American marketing skills are accomplishing a revolution in Japanese marketing style. The legendary inefficiencies of the Japanese domestic distribution system are being streamlined by the pressures of foreign competition and by American entrepreneurship, inside the Japanese market. I might add that, according to a recent MITI survey, after-tax profits of foreign companies in Japan were about 20 percent higher in fiscal 1982 than for the average Japanese company.

On this side of the Pacific, 334 Japanese companies are now manufacturing in the United States, providing more than 80,000 American jobs, and contributing to the industrial renovation already under way in this country. Imported Japanese technology is helping American steel mills to modernize and regain their international competitiveness. Japanese technology and management practices are helping automate U.S. automobile assembly lines and improve inventory control, quality control, and productivity in a variety of manufacturing industries.

The ultimate beneficiary of Japanese-American competition and cooperation, I

might add, is the consumer, who in both countries enjoys freer choice of a wider range of new and better products at competitive prices. I must also acknowledge, however, that for specific industries, their workers and their communities, the costs of adjusting to rapid economic change are sometimes painful. This is true in both Japan and the United States. We have all seen the effects. In many Japanese and American cities, excess capacity is forcing some plants to close. Obsolete machinery and traditional skills are being displaced by automation. Entire industries are having to adapt to new products and stiff foreign competition, including competition from the high-growth, newly industrializing countries of East and Southeast Asia and Latin America.

Against this turbulent background, it is understandable that some Americans are deeply concerned about the current record deficits in America's foreign trade. As I noted earlier, this is not specifically a bilateral problem, although the U.S. trade deficit with Japan is still large. American trade is in deficit with the world, and the chief cause of that deficit is not foreign trade practices. Rather it is a combination of two factors: first, an overvalued dollar, which makes U.S. exports too expensive and U.S. imports too cheap; and second, your unexpectedly speedy recovery and still sluggish world economic conditions—especially lagging recovery in Western Europe and belt-tightening and reduced imports in Latin America.

Solving the problem of the overvalued dollar is no easy task. It will require, among other measures, a harmonizing of monetary and fiscal policies among all the major currency nations, including of course the United States. The more fundamental challenge, for which all the major trading nations share responsibility, is to restore stable and balanced growth to the global economy, especially to Western Europe and key Latin American economies. The greatest deterioration in the U.S. trade balance during the last two years, for example, was the more than 40 percent decline in U.S. exports to Latin America. Clearly, the biggest imaginable boost to U.S. export growth would involve a long-term resolution of the Latin American debt problem, a restoration of financial stability to those economies, and a revival of Latin American import growth. However, there is a sign of recovery in your exports to Latin America as economic adjustment proceeds in some of those countries. U.S. exports to Latin America have registered a 14 percent increase in the first half of this year over the same period in the previous year.

We are all undergoing together a fundamental and sometimes painful transition in the structure and dynamics of the global economy. A more integrated and interdependent system is emerging, and we are all feeling the growing pains. Our common challenge is not to arrest change, but to learn to accommodate to it and manage it for our common benefit.

Our experience throughout the postwar era provides ample evidence that the most powerful force for economic recovery, modernization, and growth is the expansion of world trade and international investment. These tools are available to us only as long as we progressively open up our markets to each other, accepting the risks as well as the rewards of the free market.

There will always be risks. When competition forces us to automate basic industries, old jobs are lost, but new jobs are created in manufacturing, servicing, and operating the robots. When advanced industrial economies such as ours are faced with competition in good-quality manufactured goods from lower-wage developing countries, some domestic jobs may disappear, but other jobs open up to create the

goods and services those growing new economies will be able to buy in return. The free market offers no guarantee that these adjustments will be easy or perfectly balanced, but the alternative of refusing to make the adjustment is stagnation.

Let us remember also the political dimensions to the choices we must make in trade policy. The advanced industrial democracies of the Atlantic and the Pacific form the vital core of the free-world economy. Our shared prosperity is the foundation for our mutual security. In a similar vein, the dynamic new free-market economies of the developing world are now applying for admission to the mainstream free-world economy. We should welcome them as reinforcements, as high-growth markets for our exports, as reliable sources for quality manufactured products, and as full partners in an expanding free-world community.

In these times of economic transition, we have much to learn from the past, but we must also be guided by a clear vision of the future.

EXCERPTS FROM ADDRESSES

Coming of Age of the Pacific Community

Japan-America Society of Honolulu, Honolulu, Hawaii, July 2, 1980

By the beginning of the 1970s there were literally scores of regional associations and groupings of Asian and Pacific nations, many with overlapping membership. Most of these organizations are concerned with economic questions such as coordinating outside economic assistance, setting regional priorities for industrialization, improving communications within a particular area, adjusting commercial interests such as fishing and the development of other offshore resources, and the expansion of trade among a particular group of nations.

Just for the record, let me say that the average noncommunist Asian nation is currently a member of ten such intergovernmental regional organizations, all of which have come into being in the last few decades, and two thirds of them since 1965. There is, in other words, a momentum toward the concept of regional cooperation in Pacific Asia. The impetus is a recognition of common needs and interests, especially the economic interests of the developing countries of the region. The most remarkable achievement in this regionalism is the formation and development of the five-nation Association of Southeast Asian Nations, or ASEAN—Indonesia, Malaysia, the Philippines, Singapore and Thailand.

ASEAN started as an association of like-minded countries aiming for cooperation in economic development, and has grown over 10 years or so into a regional group demonstrating also its increasingly effective role as a stabilizing force in the region against the turbulent international situation, particularly in Indochina.

It is also important to understand what this Asian-Pacific regionalism is *not*.

It is clearly not a movement toward political integration. In this respect it is quite different from the European Community, which is a common market with supranational economic and political institutions. One can readily imagine a United States of Europe; not so a United States of Asia.

Nor is this Asian-Pacific regionalism the beginnings of a collective-security sys-

tem. Quite the contrary. There is considerable resistance in most of postcolonial Asia to too close an identification with any of the great nuclear powers—the United States, the Soviet Union or China. And there is equal resistance to the idea of a re-armed Japan. Independent Asia is concerned above all with preserving its independence and insulating the region from the big-power struggle.

To say that independent Asia does not want to be caught up in the superpower competition does not mean these peoples are indifferent to the competition, or that they fail to understand on which side their own best interests lie. I need only point out that nearly every one of the independent Asian governments emphatically condemned the Vietnamese military aggression in Cambodia, the Chinese incursion into Vietnam, and the Soviet invasion of Afghanistan.

There is, in fact, deep appreciation throughout independent Asia that the security, stability and peace of Pacific Asia depend, in the final analysis, on the continuing American presence in the area and on American resolve in maintaining a stable balance of power in the Western Pacific.

In concrete terms, the security of the region rests with the bilateral security arrangements the United States has with Japan and other Asian states, including of course the Republic of Korea. The Japan-United States Treaty of Mutual Cooperation and Security, which provides the cornerstone of Japan's foreign policy, is also the linchpin of this Asian-Pacific security system. The essential and defensive nature of this security relationship is accepted openly or tacitly by all of noncommunist Asia—and, I might add, by China. After the Cultural Revolution, the Chinese leadership has publicly expressed its support for and endorsement of this relationship.

As we contemplate future progress in regional cooperation in Pacific Asia or, indeed, in a wider Pacific Basin framework, I believe it is most important to preserve this line between the security system, on the one hand, and the opportunities and attractions for mutually beneficial economic, cultural and perhaps political collaboration among the peoples of the Pacific on the other hand.

Importance of International Education

Institute of International Education, San Francisco, California, October 2, 1981

At a time when technological advances are rapidly expanding man's horizon, when the world is fast becoming a single interdependent community, and when some of man's most basic problems—of pestilence, hunger, poverty and strife—are still unresolved, international education is an absolute necessity.

My countrymen are particularly conscious of the value of educational exchange, for our own national modernization efforts, begun over a century ago, depended on the knowledge Japanese students and scholars brought home from the United States and European nations, and all the wisdom and inspiration of thousands of American and other foreign teachers and advisors, who came to Japan.

Today, our educational exchanges with the outside world have taken on vast new dimensions. Increasing numbers of Japanese are going overseas to study in foreign institutions, in all fields from science and technology to the arts and humanities. Publicly and privately funded exchange programs are being augmented by a growing number of students who are able to travel on their own initiative and at their own expense.

By far the largest proportion of Japanese students going overseas study in the United States, followed by Western Europe and the other industrial democracies. This should surprise no one, for these are the peoples with whom we Japanese share common values and aspirations, as well as the common problems of modern civilization.

Whether it be in public health, where we are seeking answers to the diseases that afflict our peoples; in public transportation, where we are working to find better ways to move more people more efficiently; in energy, where we are trying to rid ourselves of our excessive dependence on oil; or in the arts and sciences, where we seek greater knowledge, fulfillment and self-expression; there is one common truth: we in the industrial democracies have much to share with each other and to learn from each other. Our different cultural traditions and unique social circumstances enrich this exchange, broadening our perspectives, and stimulating us to experiment with fresh solutions.

America, the world's most dynamic, creative and innovative society, has been and continues to be the number-one destination for Japanese students and scholars. But I believe that the peoples of both nations can take satisfaction from the fact that what used to be a heavily lopsided flow of information exchange—from America to Japan—is changing its pattern towards a little more balanced two-way flow. I must add, however, that I am sure all of us would like to see even greater numbers of Americans in Japan, studying in our institutions, learning our language, and enriching our society.

My Government, I am pleased to note, is now funding 50 percent of the Japan Fulbright Scholarship Program, which is administered under the thoughtful guidance of IIE. This year the program is bringing 80 Japanese to America, and 10 Americans to Japan.

My government is acutely conscious of Japan's responsibilities to promote international educational exchanges, not only between Japan and the other advanced countries of the world, but also with the world's developing nations. We feel a keen responsibility, made all the stronger by our own history, to help in the transfer of knowledge, technology and skills that will enable the developing countries to develop themselves, and to participate in the common efforts of bringing about a better world community. And as Asia's only advanced industrial democracy, we feel it is particularly important for Japan to assist our neighbors in the Asian-Pacific region.

Japan is today the single largest contributor of economic assistance to the five ASEAN nations of Southeast Asia, which—as you know—are making remarkable strides toward regional cooperation, and now rank among the world's fastest-growing economies.

In our economic assistance programs, besides industrial plants and infrastructure improvements, we are giving high priority to the development of "human resources," to help transfer the technical and managerial skills so necessary for economic development.

Japan's International Cooperation Agency maintains 27 technical training centers in 19 developing countries. Last year, JICA brought nearly 4,000 foreign nationals from Asia, Oceania, the Middle East, Africa and Latin America to Japan for special training programs. In addition, my government provided scholarships for nearly 1,200 foreign students, from developing and developed countries alike, to

study in Japanese institutions of higher learning. One rather unusual educational program, I might add, is being sponsored by the Japan Foundation and administered by the Institute of International Education: It is bringing several Thai students to the United States this year to pursue graduate work in Japanese studies.

International education is and must always be an unfinished task. For even in a perfect world, a world of universal prosperity and peace, we would need to study each other and to learn from each other.

The American people, through such organizations as the Institute of International Education, have always accepted the challenge of that never-ending task. You have long held open the best of your society, your knowledge and technology to the rest of the world. . . . The Japanese people share with you this enduring commitment to international education and the free trade of ideas.

Japan Is Investing in America

Seventh Annual Joint Meeting, Southeast U.S./Japan Association,
Japan/U.S. Southeast Association, Nashville, Tennessee, September 17, 1982

As you are all well aware, there has been mounting concern, on both sides of the Pacific, about the huge trade gap between our two countries. Yet we seldom talk about a parallel phenomenon, the investment gap, which is rapidly being filled. In 1981, according to the statistics of the U.S. Department of Commerce, cumulative U.S. direct investment in Japan was around \$6.8 billion, while Japan's cumulative investment in the United States stood at \$6.9 billion. This compares to \$6.3 billion for U.S. and \$4.2 billion for Japan in 1980.

There is evidence that these two matters are related—that trade and investment do go hand in hand, and that increased U.S. direct investment in Japan would help promote increased U.S. exports to Japan. It is estimated, for example, that U.S. companies now manufacturing in Japan import from the United States about 40 percent of the value of the products they make and sell in Japan.

I make this point to underscore the fact that the Japanese-American economic partnership is vast and complex, encompassing two-way investment as well as two-way trade, and incorporating the exchange of technology and other services as well as the exchange of commodities and manufactured goods. It is in the totality of this partnership that we can best understand the mutual benefits and future potential. . . .

Japan is a relative newcomer to the field of direct foreign investment, although that investment is now growing rapidly, and the United States has become the largest single market for new foreign investment by Japan. Last year, in fact, a record \$2.7 billion in new Japanese investment entered the United States.

Japan's worldwide investments totaled \$36.5 billion as of March 1981. About 56 percent of this investment was in the developing regions, and 44 percent in the advanced economies. About one third of Japan's worldwide investments are in manufacturing, one quarter in natural resource development, and the balance (about 44 percent) in nonmanufacturing commercial activities—banking, insurance, transportation, etc.

In the United States, Japan's investments have diversified greatly. In addition to service industries they include color-TV manufacturing, stereo equipment, video-

tape and cassette recorders, automobiles and parts, integrated circuits, microwave ovens, fish processing, to name a few. Most of these plants are manufacturing primarily, if not exclusively, for the domestic U.S. market, but a growing number are entering into exporting. One Japanese company is using American soybeans and American labor to produce soy sauce for the U.S. market. Another is using U.S. labor to make motorcycles for a third market.

According to the Japan Economic Institute in Washington, Japanese investments in the United States involve about 300 firms and more than 420 separate plants, in operation or under construction at the end of last year. These plants employ an estimated 60,000 people directly, and contribute indirectly to a much larger number of American jobs.

There are several good reasons for the growth and diversification of Japanese investment in the United States. One, of course, is the now complete deregulation of capital flows both into and out of Japan. In addition, as Japanese goods have achieved a respectable market share in the United States, it makes sense in simple economic terms to move production closer to the market, improve aftersales service, and cultivate closer relations with consumers.

Moreover, there are often cost advantages to manufacturing in the United States. The differential between Japanese and American wages has narrowed considerably, and local manufacturing reduces transportation costs. Industrial land is extremely scarce and costly in Japan, but still quite abundant and reasonable in many parts of the United States. Also, several Japanese manufacturers have found that labor productivity and quality control in their American plants are as good or better than their Japanese plants.

Another obvious reason for manufacturing inside the U.S. market is to preempt any future trend toward U.S. import protection. For example, since the late 1970s, the great majority of Japanese color televisions now being marketed in this country are manufactured here, by American workers using Japanese technology and design. Other Japanese-designed products, manufactured here by Japanese-owned companies, are showing up as U.S. exports. About one quarter of the Japanese companies manufacturing in the United States export an estimated 30 percent of their products to Japan and the world, according to a recent survey by JETRO.

There is another, less obvious reason for the growth and diversification of Japanese investment here. This is the recent entry of many small and medium-size Japanese manufacturing firms into the foreign investment field. Earlier overseas investments were understandably dominated by large Japanese corporations. Today, smaller Japanese firms, employing fewer than 300 workers and capitalized at ¥100 million or less, account for 50 percent of the number of new Japanese overseas investments. In value, these investments are of course relatively small, adding up to about 8 percent of the annual investment flow.

This is an interesting phenomenon for two reasons. First, these smaller Japanese enterprises play an extremely important role in the domestic Japanese economy. They are indispensable as suppliers to Japan's major manufacturing companies. Japan's largest automobile manufacturer, for example, relies on 36,000 subcontractors to provide it with components and accessories on a real-time inventory flow.

It follows, therefore, that the positioning of these smaller Japanese manufac-

turing firms in the United States represents an enlargement and deepening of the U.S. manufacturing base, making Japanese technology and innovative products directly available to large and small U.S. manufacturers. It represents a further internationalizing of the Japanese economy, and a further integrating of the Japanese and American economies with benefits to American industry and consumers. Generally speaking, these investments tend to be at the leading edge of new technologies and innovative manufacturing processes.

Japanese capital is helping modernize American port facilities and promoting increased exports of U.S. coal and other raw materials. Japanese technology is helping improve the productivity and competitiveness of the American steel industry and helping modernize American railroads. Japanese investment is creating U.S. jobs that did not exist before, and is introducing new ways of accomplishing old tasks.

Conversely, growing American investment in Japan is serving the Japanese market as well as exporting products to the U.S. and other markets. Thus, investment in both directions serves the most basic business interests of both countries. It represents that mix of competition and cooperation that is the driving force of both our free enterprise economies. It is a new aspect of our close economic partnership that helps insure the United States and Japan will continue to be each other's greatest overseas economic partners and the world's first and second-ranking industrial powers.

Japan-Soviet Relations in the Pacific

Student Conference on Foreign Affairs, United States Naval Academy,
Annapolis, Maryland, April 11, 1984

How the American people and leaders perceive Soviet capabilities and intentions, and how American policy responds to these perceptions, may well determine whether the precarious peace that has been maintained for nearly forty years will endure to the end of this century.

Yet the United States is not alone in this urgent mission. Although the U.S. role is unique and irreplaceable as the free world's only global superpower, the United States is the leader of an alliance of democracies. Each of the allies also has an important role to play in the common cause....

The Japanese people and government have followed with great concern the rapid Soviet military build-up, during the past decade, and its destabilizing policy in the third world, as represented by the military intervention in Afghanistan, and continuing Soviet support for the Vietnamese military occupation of Cambodia. My Government has maintained a solid front with the United States in condemning these actions.

However, the direct sources of contention in Japan-Soviet relations reach back to the closing weeks of the Pacific War, when the Soviet Union illegally occupied a group of Japanese islands designated as our Northern Territories. Foreign Minister Abe reviewed this dispute in his remarks to the Diet last February 6:

Relations with our important neighbor, the Soviet Union, regrettably continue to be strained, reflecting not only the strained state of East-West relations and the yet-unresolved question of the Northern Territories, but also, among

other things, the recent build-up of Soviet military forces in the Far East, and especially on the Northern Territories.

The depth of feeling held by the Japanese people on the Northern Territories issue, and the refusal of the Soviet Union even to discuss the matter, have created a stumbling block to the development of genuinely constructive relations between Japan and the USSR.

Japan has ample and solid grounds, legally and historically, for its position on the sovereign right to the Northern Territories. The Soviet Union has never been able or dared to challenge us on legal or historic grounds. The Soviet Union has occupied our territories only by virtue of force.

The Soviet Union has been claiming that there is no territorial question to be resolved, and refuses to discuss the matter. Meanwhile, Japanese fishermen are denied their fishing in our traditional fishing waters around these islands, and their fishing vessels are periodically harassed.

There are more ominous developments. Since 1978, the Soviet Union has been carrying out a military build-up on Japan's Northern Territories. Soviet ground troops redeployed on Kunashiri, Etorofu and Shikotan Islands have now reached a strength equivalent to an army division. Most recently, the Soviet Union has stationed a unit of MIG23 fighter aircraft on Etorofu.

Japan has been persistent and patient in pursuing, at every level of diplomatic dialogue, a settlement of the Northern Territories issue and the conclusion of a formal peace treaty with the USSR. Resolution of this problem is fundamental, if there is to be any real progress in Japan-Soviet relations.

The Soviet Union seems never to have been aware of how much their inflexible and negative response over this issue has contributed to antagonizing the entire Japanese people.

The Japanese people are also greatly concerned about the continuing deployment of Soviet SS-20 intermediate-range nuclear missiles in the Asian parts of the USSR. The basing of these 3,000-mile range rockets has increased rapidly, from 99 launchers in February of last year to 135 today and 144 launchers soon to come.

Nor is this regional nuclear build-up solely a regional security concern. These missiles are capable of reaching Japan and other Asian targets, but they can also reach a part of U.S. territory. The regional threat is part of a wider global threat. The leaders of the seven major industrial democracies acknowledged this danger at the Williamsburg summit last May, and President Reagan and Prime Minister Nakasone reaffirmed last November, when the President visited Japan, that the U.S.-Soviet INF negotiations must take account of Asian as well as European security considerations. Given the easy mobility of these missiles, it would make little sense to negotiate a reduction of Soviet INF missiles in Europe, if those missiles were simply transferred to the Far East.

Yet another growing concern of the Japanese people is the relentless build-up of Soviet naval power in the Pacific. About one third of the Soviet Navy is now based in ports on the Sea of Japan, and there are reports that Soviet naval construction plans call for additional major surface ships, including a nuclear-powered aircraft carrier of 60 to 70 thousand tons; new guided-missile cruisers and destroyers; and further enlargement of the Soviet fleet of 371 submarines. An increasing number of backfire bombers is being deployed in the Far East, currently about 80, including

some 40 aircraft assigned to naval aviation.

Yet Japan sincerely desires improved and stable relations with the USSR. A series of official talks covering a broad range of subjects are now under way. Of course, we are prepared at any time to negotiate a resolution of the territorial issue, if only they so decide. We heartily support an early resumption and serious pursuit of the INF and START talks, and actual reductions in the deployment of intimidating weapons.

I would quickly add, however, that in political terms the Soviet military build-up in Pacific Asia has failed to be intimidating. Soviet political influence in the region has not increased. It appears that the USSR's primary political asset in the area is Vietnam, which has made available to the Soviet Navy and Air Force the former U.S. base at Cam Ranh Bay, in return for Soviet military aid and Soviet support for the Vietnamese occupation of Cambodia.

The political fallout from this relationship has not been favorable to Soviet interests. Contrary to the predictions of some observers, following the U.S. withdrawal from Vietnam, the five ASEAN nations of Southeast Asia did not fall like dominoes. On the contrary, they have demonstrated a national resilience and a regional cohesion that have defied external pressures. These proud nations have become a dynamic economic and political force, and a stabilizing factor, of great importance to the Asian-Pacific region. It may be added that Japan's huge economic assistance to these countries has played no small part in bringing about such prosperity and stability.

I believe it is also fair to say that the expansion of Soviet military power in Asia has failed to improve the prospects for Sino-Soviet political accommodation. In fact, the build-up appears to be a major obstacle to Sino-Soviet rapprochement. The highest priority for the People's Republic of China is the drive for modernization of the nation. To speed this process, China is looking to the West for capital, technology, managerial know-how, and export markets.

Mutual Security

President's Dinner, Center for International Security and Strategic Studies,
Mississippi State University, Starkville, Mississippi, April 24, 1984

Our security partnership, which is formalized in our Treaty of Mutual Cooperation and Security, has no purposes other than to enhance the security of both nations by contributing to peace and stability in Pacific Asia and the world.

Our respective roles and missions in this alliance differ because of differences in national perspectives, priorities and capacities, but the commitment to our common purpose is mutual, and our security arrangements are constantly evolving and maturing.

For reasons of geography and history, as well as constitutional constraints, Japan's primary security focus is on the defense of its own people and territory. Indeed, the Constitution of 1947 limits the nation's armed forces to the self-defense mission. Japanese policy also prohibits the acquisition of offensive weapons, including the manufacture, acquisition or introduction into Japanese territory of nuclear weapons. However, even while observing these constraints, the Japanese Government and people recognize that their national security relies on a larger regional

and global framework of power relations.

An immediate and essential condition for Japan's security is a stable balance of power in the Northwestern Pacific, a region where the interests of the three largest nuclear-armed powers—the Soviet Union, China and our ally, the United States—are in convergence. The stability of this power relationship depends, ultimately, on a credible U.S. deterrent and a visible American military presence in the region, including the U.S. armed forces now based in Japan.

In the last few years, the Asian power balance has been threatened by the Soviet military intervention in Afghanistan, continuing Soviet support to Vietnam's military occupation of Cambodia, and the unrelenting build-up of Soviet military power in the Far East.

The global dimensions of the security challenge to the West were explicitly recognized by the leaders of the seven major industrial democracies at last year's Williamsburg Summit. President Reagan and Prime Minister Nakasone reaffirmed this concern last November, during the President's visit to Japan, when the two leaders warned it would be unacceptable for the Soviet Union to reduce the number of intermediate-range missiles deployed in Europe, only to transfer those missiles to the Far East. The security of the democracies is indivisible.

Against this background of interlocking regional and global security concerns... Japan's security policies consist of three basic elements. First, Japan seeks to maintain an effective military capability to provide for the self-defense of its own population and territory. Second, Japan is working tirelessly and consistently to perfect the operation of its security arrangements with the United States, since these arrangements contribute not only to the security of Japan but also to the maintenance of peace and security in the Far East. Third, Japan has long pursued international political and economic policies to strengthen peace and prosperity in Asia and the world.

The Japanese people are determined never again to acquire the military power to wage war, or to threaten the security of neighboring states. This commitment, clearly spelled out in Article 9 of the 1947 Constitution, does not mean, however, that Japan has abandoned its inherent sovereign right to defend its population and territory.

For a number of years, Japan's defense budget has ranked eighth largest in the world—third largest among the non-nuclear powers. In comparison with America's NATO allies, Japan ranks fourth in naval tonnage, fifth in submarines, eighth in combat aircraft, and fifth in armor and artillery. Japan's ground forces are roughly equivalent in size to those of the United Kingdom. And, like the United States, Japan relies entirely on volunteer military service.

In the current fiscal year, which began April 1, Japan's defense budget has been increased 6.55 percent over last year. This increase was accomplished despite severe fiscal pressures that forced a reduction in overall national budget, and reduced spending or zero increases for most domestic programs. When adjusted for inflation, the 6.55 percent increase in defense spending amounts to 4.8 percent in real growth. This means that Japan's defense spending will continue to grow faster than the 3 percent real growth targeted, but hardly achieved, by the NATO countries. For more than a decade, Japan has held to this course of steadily improving its defense capabilities and readiness.

Under Article 5 of the Japan-U.S. Security Treaty, in case of an armed attack against either party in the territories under Japanese jurisdiction, both parties will act to meet the common danger. Under Article 6 of the same treaty, the United States is granted the right to use facilities and areas within Japan, not only to contribute to Japan's security, but also to maintain peace and security in the Far East. These arrangements, and the 119 U.S. bases in Japan, are viewed by the U.S. Department of Defense as essential to the U.S. "forward strategy" in the Western Pacific.

Japan contributes more than \$1 billion a year toward the costs of maintaining U.S. armed forces in Japan, which amounts to more than \$20,000 a year for each member of the U.S. military in Japan. Additional funds are regularly contributed toward the improvement of facilities and to cover portions of local labor costs. Last year, Japanese funds for the improvement of U.S. base facilities were increased 23 percent over 1982, and this year the increase is 25 percent over 1983. The current budget also provides 18.2 billion yen, as requested by our Defense Agency, to support the deployment of U.S. Air Force F-16s at Misawa Air Base....

The division of defense missions between Japan and the United States has evolved over the years through close joint consultation. In a landmark Joint Communique issued in Washington in May 1981 by then Prime Minister Suzuki and President Reagan, the Japan-U.S. relationship was formally described as an "alliance," and references were made to the division of roles. The Communique also stated that Japan, on its own initiative and in accordance with its Constitution and basic defense policy, will take steps to improve its defense capabilities within Japanese territories and in the surrounding sea and air space.

Prime Minister Nakasone reaffirmed this commitment, during the President's visit to Japan last fall, in the following terms:

...Japan will continue her efforts toward further strengthening the credibility of the Japan-U.S. security arrangements. With respect to the improvement of our defense capability, I wish to make further efforts along the lines of the Joint Communique of May 1981.

Joint studies were initiated by our two Governments a year ago on the defense of Japan's principal sealanes, as part of our combined operations planning. Our consultations on defense cooperation continue to broaden, and joint training exercises have become routine, in recognition that our security interests are indivisible.

Yet I must make clear that Japan will not, indeed could not, replace the United States as a regional military power. For us to attempt to do so would not only be politically unacceptable to the Japanese people, but would also be intolerable to neighboring Asian states. The ultimate task of maintaining peace and stability in the Western Pacific, as I have already stated, requires a continuing and highly visible U.S. military presence in the area, linked to the U.S. global deterrent. While Japan cannot substitute for this awesome role of American power, it contributes to and reinforces that power.

Preserving Our Environment

World Environment Day Reception, Washington, D.C., June 4, 1984

Conservation of our environment has become one of the most important objectives of our modern world.... On this special occasion, let me say a few words about our country's experience in battling pollution.

Japan achieved extraordinarily high economic growth in the postwar recovery period, but the pollution and destruction of nature which accompanied it was an extraordinary disaster. Anybody in this room who was in Japan in the late 1950s or 1960s might recall that the sky was filled with dark smoke, rivers turned black, and thousands of people suffered pollution-related diseases. Confronted with this situation, we were forced to face the challenge of pollution. It was a long and severe battle, but at last we reclaimed some of the precious environment we once had lost.

Let me cite some examples. We have succeeded in reducing the level of sulfur dioxide to around one third of what it was in 1970. Today, more than 99% of the air monitoring stations in Japan have achieved the SO₂ Ambient Air Quality Standard, which is recognized as the most stringent in the world. Also, we have reduced the gas emission level from automobiles to one thirteenth the level it was ten years ago. This NOx emission standard is also the most stringent in the world.

If you knew the polluted Japan of 20 years ago, you will be gratified to see the improvements in Japan over the years. We have managed to halve the disastrous effects of pollution that we once suffered. Our success in overcoming pollution is something we can be proud of, but we sincerely wish we had prevented pollution in the first place. Actually, we lost plenty of victims during the battle, and even now, more than 85 thousand people are suffering from diseases caused by severe pollution. They are being compensated with more than \$400 million from industry each year, but it is clear that no amount of money can buy back their good health.

From this point of view, we think it is very important to prevent destruction of our global environment in advance, and we have come to realize that Japan must contribute to this difficult but most important work as a country that once suffered from severe pollution and therefore has some "know how" in battling this problem. This is why we have contributed to and have supported UNEP so strongly and have joined with other countries in advocating establishment of the World Committee on the Environment and Development under the U.N.

The 'Tilt' to the Pacific

Meridian House International Ambassadorial Lecture,
Washington, D.C., September 17, 1984

Since 1978 America's trade with the nations of the Pacific has exceeded America's trade across the Atlantic. Last year the gap was \$26 billion, and it is still growing. Of the 20 largest U.S. trading partners in the world, seven are Asian-Pacific countries, including, of course, Japan, America's largest overseas customer.

A few observers interpret this U.S. economic tilt toward the Pacific as reflecting the decline in Europe's economic importance and heralding the dawning of a new Pacific age. I do not accept this unnecessarily pessimistic view. Despite its current

difficulties, and the slow pace of recovery, Europe remains a rich storehouse of talents, skills and other assets, including top rank in important areas of science and technology. Perhaps more important, Europe as the birthplace of Western political and cultural values is an indispensable partner in our common quest for a freer world community, where these democratic values will be permanently secure.

As Prime Minister Nakasone said to the International Institute for Strategic Studies in London last June:

... we should not think in terms of the Atlantic versus the Pacific, or Europe versus Asia. It is not a question of one against the other. The Asia-Pacific region includes the United States and Japan—two nations that share with Western Europe the values of democracy, freedom and the market economy. And Asia-Pacific economic development is impossible without cooperation and interdependence with Western Europe.

To my mind, the rising importance of the Pacific community foreshadows a convergence of West and East, of the Atlantic and the Pacific, into a more cohesive community of shared economic and political interests. It reflects the fact that the Pacific Basin contains 60 percent of the world's population, a rich diversity of ancient cultures and heritage that are on the road to modernization, and a vast store of scarcely tapped human and natural resources. On these foundations, several Asian-Pacific states have scored the highest economic growth rates in the world during the last decade, and have become the fastest-growing markets in the world for the combined exports of Japan, the United States and Western Europe.

These same free nations of Asia, including the Republic of Korea and the ASEAN states, look to Japan and the United States in particular for the trade opportunities, investment capital, and political support and cooperation that will help ensure their resilience and the stability of the Asian-Pacific region. The historical process that is unfolding is a healthy broadening and strengthening of the community of industrial democracies. It is a process in which the mature democracies of North America, Western Europe and Japan are being reinforced by the dynamic young societies of the developing world. Close Japanese-American cooperation is needed to facilitate this process, for the benefit of all, including our European partners.

Japan and the U.S. Southeast

Ninth Annual Joint Meeting, Southeast U.S./Japan Association,
Japan/U.S. Southeast Association, Birmingham, Alabama, October 11, 1984

Without qualification, I believe this has been the most successful private-sector bilateral association in the history of Japanese-American relations. It was organized at a time of profound economic uncertainty. In the aftermath of the 1973-74 oil crisis, the fourfold increase in oil prices was undermining price stability and inhibiting economic growth throughout the world economy.

Japan, heavily dependent on imported energy, was threatened with industrial stagnation and a roaring inflation. The oil-importing developing countries faced an even grimmer future as rising petroleum prices inflated the costs of energy for their infant industries and petroleum-based fertilizers for their struggling agriculture. The U.S. economy was also hard hit, and in the grips of a brief recession.

By the time the Hasegawa Mission arrived in Atlanta, however, they had seen enough of Texas and the U.S. Southeast to conclude that — in the Sunbelt, at least — the U.S. economy was already on the rebound. This judgment was reinforced by the enthusiastic reception they got from leading industrialists, bankers, state officials and the press in the Southeastern States of the United States. The unanimous conclusion of those early meetings was that expanded two-way trade and investment between our two countries were essential to mutual recovery and prosperity and that, in Mr. Hasegawa's memorable phrase, "Japan and the United States need each other."

You are all familiar with subsequent history. The sense of mutual need has been translated into effective cooperation between the two associations. Annual meetings alternating between Japan and the U.S. Southeast have broadened mutual understanding between our respective business communities, and have contributed to expanded business ties. Indeed, the seven states of the Southeast are today host to 20 percent of all Japanese direct investment in the United States, a remarkable record.

Japanese business operations in the U.S. Southeast have been given a warm welcome and treated with traditional Southern hospitality. I thank you for this. My talks with the management of many of these Japanese-affiliated operations have convinced me of their sincerity in wanting to be good corporate citizens of your communities and states, while putting Japanese technology in the hands of American workers, in a blend of Japanese and American management methods. This appears to be a mix that works very well for all.

Leadership of this region is clearly doing its part. Your state development authorities and business and civic leaders have showed imagination and good judgment in providing a congenial climate for new investment, including worker-training programs, industrial site development, and start-up assistance. You are also taking bold steps on a regionwide basis to strengthen the industrial infrastructure of the Southeast.

The \$2 billion Tennessee-Tombigbee Waterway, which will open formally next June, is a far-sighted example of investment in the future. In effect, you are opening up an entire river system to world commerce through the deep-sea port of Mobile, shaving distances and shipping costs, and preparing the way for agricultural and industrial development upstream. I am sure that this development will be attractive to new investors from Japan and elsewhere.

Talking about future investment, there is one topic we cannot escape. This is the problem of the unitary tax, which has become a great concern to Japanese business circles, and is a serious impediment to new foreign investment. You are aware, I am sure, of some cases where a Japanese investment was shifted from a unitary-tax state to another non-unitary-tax state. Happily in this region only one state maintains such a barrier, and I was glad to hear in Governor Graham's statement this morning that a special session of the State Legislature designed to repeal the unitary tax is planned to be held in December of this year.

