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Washington Post Board

Mike Mansfield 1903-2001

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AMBASSADOR WITH WASHINGTON POST BOARD
January 23, 1986

Q: What would you like us to know that we don't know, or what are your worst problems?

A: Only one thing--trade.

Q: It's only one thing.

A: Trade.

Q: Defense?

A: Defense is in excellent shape. We had a meeting last week in Honolulu, the annual Japan-U.S. Security Subcommittee meeting, and we did everything but kiss each other on both cheeks -- we were so satisfied with the relationship and what the Japanese are doing in maintaining a steady pace in that area. Of course, there is still some criticism at home about the allegation that Japan, because it spends less than one percent on defense of its GNP, is getting a free ride, economically speaking. Something to it, but there's more to it than just a brief allegation.

As a matter of fact, if they calculated their defense budgets using the same factors that we and NATO do, the figure would be closer to 1.6 percent a year rather than roughly 0.998 percent. That includes pensions and survivors' benefits, which we include in our budgets -- NATO does, too -- but they include those in the Department of Welfare. I would estimate, and I think it's a good estimate that over the past 14 years the Japanese have been increasing their defense expenditures at a yearly rate of about 7 percent. That's the nominal figure. I suppose, if broken down, it would be somewhere around 5.3 or 5.4 percent, but steady and continuous.

In 1984 they contributed 1,124 million dollars for the upkeep of U.S. forces in Japan numbering under 60,000. Last year, '85, the figure was 1,116 million dollars for the same purpose. That included housing, utilities, labor cost sharing and the like. That comprises about one-third of the total cost of maintaining approximately 60,000 military personnel in Japan. The best figure I can get is that what we spend is around 2.4 billion a year.

We have a good Mutual Security Treaty with Japan, an excellent one. It was rammed through the Diet in 1960, literally rammed. Hundreds of thousands of demonstrators in the streets, violent demonstrations throughout Japan. Now it's accepted by the Japanese people, by a very large proportion, I think. The figure is consistent, somewhere around two-thirds.

JACK: Seventy-two percent.

A: So that isn't bad. And they also accept the Self Defense Forces which they were against in the beginning and which under Article 9 of the Peace Constitution, for example, imposed on Japan by MacArthur, the Japanese renounced war and the creation of any kind of armed forces.

So they've done quite well. The Treaty is a good one. We occupy a number of very important bases in Japan as the guests of the Japanese Government and people. We pay no rent on them. Under the Treaty we have agreed to come to the defense of Japan if it's attacked, and we will because we're not out here just for that purpose. We're out here in our own self interest. These bases in Japan and the Philippines form the outermost limit of our own defense perimeter, and if we didn't have them we'd have to ask ourselves a couple of questions: How far back would we have to withdraw, how much in the tens of billions of dollars would it cost us to create a new perimeter, and how effective would that new line be. Something to think about.

So the Japanese have done quite well. Even the Pentagon is appreciative of what they've done, so they must be in good shape.

Q: So trade is your sole preoccupation.

A: Trade is the issue. Everything else we can cope with and make progress. Even in trade we're making progress, but not enough.

When I first came out here I got the impression that the Japanese thought that the only people who really mattered in the United States were the President and the Secretary of State. So I started to put up the pictures of the joint Congressional leadership on the walls here, not to remind me of my days in Washington, but to bring home to the Japanese the importance of the Congress, and those pictures have changed. In other words, the leadership has changed in both Houses. They, the Japanese, have come to pay a great deal of attention to what any Congressman says and almost anything any Congressman says affecting Japan. And trade is front-page news here. Maybe they're paying too much attention, but I don't think so.

The Congress has zeroed in on the 37 billion dollar deficit figure for 1984, which is legitimate, but in the process and for a long time they ignored the 20 billion dollar deficit we had with Canada, the 17 billion dollar deficit we had with Latin America, the 18 billion dollar deficit we had with Western Europe. Four or five years ago we had a surplus of 20.5 billion dollars with that area. It used to be our primary trading area, and an 11.1 billion dollar deficit with Taiwan. But I think they are beginning to realize that it's not just a

bilateral problem -- though Japan has the biggest standout figure -- but that it's a global problem, and they know that there are things which we must do at home, but they are finding it difficult to face up to them. They have tried in a way to cope with the deficit. The move was in the right direction but wasn't strong enough, deep enough. Now they are faced with a new situation under which they will have to face the creature of their own making, Gramm-Rudman. They can't avoid it. They passed it. The President will follow it. He'll throw it back to the Congress and the Congress will have a baby of uncertain life, I think, in its hands. I don't know the details, but you can see the outline on the surface, and it's going to be a tough one.

Nobody can help on that deficit except us.

Interest rates are in pretty good shape except for the prime. It's still too high. Incidentally, I think Bart Rowen turns out the best economic columns and the most easily understood, and he does a good job.

The G-5 agreement on the exchange rate was a good one, still good. A reasonable decline has taken place in the exchange rate. Not enough, but at least the move there is in the right direction. I think Jim Baker and Takeshita here, the Finance Minister, ought to get a lot of credit because the genesis of the Plaza Hotel agreement in New York last September originated in a meeting here between Baker and Takeshita last June, so they worked pretty well in tandem. That's one of the things which is necessary and one of the things which is changing.

So there are things which we have to do. The important thing for the Japanese is to open their markets, and the key word is ACCESS, ACCESS.

They are doing so -- slow for us, kinda fast for them. We have just concluded a series of agreements on the so-called MOSS sector. Telecommunications, an excellent agreement. Electronics outside of semiconductors a very good agreement, but that's in a different situation. The semiconductor factor is being considered now under Section 301, I believe, of the Trade Act, the '74 Trade Act. In pharmaceuticals and medical devices, excellent. In wood products and lumber, some progress.

But I think Jack Danforth was right when a week or so ago during one of his speeches or meetings with some of the officials here he said it was his opinion that we're not going to get too far picking out issue by issue, and facing up from that manner ... that we ought to face up to the whole trade picture. And I think he is right because these little issues just drag out the big issue and consume a lot of time, create some advances, but, on the whole, I think it's something which has to be faced up to intact.

In GATT that can be done, but it takes a couple of years, so it's a complicated, complex picture which we're trying hard to cope with, achieving a degree of success, but not enough to quiet the Congress. And I would anticipate that this year it will be much more difficult and that the Congress will pass protectionist legislation.

The only person between the enactment of protectionist legislation up to this time and its enforcement has been the President of the United States. And it's an odd situation when you find that the Democrats in the last campaign were trying to make protectionism an issue and, a Republican President, the party of high tariffs, supposedly, being the one barrier between the enactment of protectionist legislation. But his defenses will get weak as the election date draws closer and when the figures are released for 1985 -- we ought to get them in the next week or so -- probably a 50 billion dollar deficit for 1985 compared to 37 billion in 1984. I can see a lot of Congressmen going through the roof in the Capitol. It's a hard problem. Nakasone is doing the best he can, even going on TV begging the people to buy more imports.

Q: Mr. Ambassador, when the Congressional delegations come through here do you find there is a difference in their attitude coming in this door and when they're leaving the country? After they sit down with Japanese officials do their views change at all, or are they here to pound the table and make their points?

A: They pound the table, they make their points. I'm delighted that they do because it helps bring home to the Japanese how important the subject is. I think that almost all of them are impressed, differing in degree, but once they start going home again the old ideas come to the fore and the mindsets once again return to their old form. They are impressed, but it isn't a lasting impression. I've been telling these Congressional groups for years that the Japanese have been spending more than one percent of their GNP on defense based on NATO and our procedures. It doesn't make much of an impression, but it's a fact.

Q: Does the Administration contemplate having you come help with this (inaudible) before Congress and did they ever ask you to come back and sort of work with the corridors there?

A: No, no. I don't think it would be advisable, either, because when I left the Congress I left, and I recall too many retired members who came back the first time and they were all glad to see him; the second time they were kinda glad to see him, and the third time they wondered what he was doing around there (LAUGHTER). So I have avoided the Hill as much as I possibly can and I have not tried to tell any of my friends what to do, but if they write me I'll give them my best answers as honestly as I can, but I won't force it on them except out here. When they want a briefing then I'll give them my views,

and my views are the same here as they are in the United States and as they are with this group.

Q: You must have received all of the high ranking Administration figures who have been involved in this, including Secretary Baldrige. Have you found any distinctions or differences among them as to commitment on free trade? There is some feeling in Washington...

A: Not really. Baldrige and Bill Brock and Yeutter following him and Strauss preceding Brock have had to contend with the Congress and have had to in the process walk a pretty tight rope, but they have all been good free traders. They have all testified against protectionist legislation. There have been differences from time to time between the STR and Commerce and between Commerce and State, but generally they have been able to arrive at a reasonable accommodation. But sometimes I think there are too many voices talking on trade and the result is occasionally some confusion.

Q: I heard in the process of my talks that Bob Dole was particularly angry about what they were doing and considered himself betrayed that they had made promises to him that they hadn't carried out.

A: I've heard that story. It may be true, but I doubt it. I mean Bob Dole is too much of a pro to be taken in by something like that, especially when it was common knowledge that Toyota was looking at about 20 states. But Bob is a tough cookie. He has matured tremendously over the past ten years. He has become, I would say, somewhat statesmanlike. His tongue is less sharp, used when he needs it but not as freely used. His understanding has increased, and I think he is fitting himself out for bigger things. He may or may not make it, who knows. But I would doubt that a factor like that would contribute to Bob Dole's thinking in the way that it has been alleged. Those stories do come up, but I think they should be taken with a grain of salt.

Q: It seems most of the headlines and press reports are about the Congressmen and Senators coming to this country who make statements. Is there an equivalent stream of American businessmen coming through your office saying: We're trying to sell widgets and there's this and that that's preventing us.

A: Yes, and it's a stream that's increasing. I met with the president of the American Electronic Association yesterday interested primarily in semiconductors. He was very concerned. Some months previously I met with the president of INTEL. He was very concerned. His corporation had been prospering for many years and now they were feeling the pressure of losses. I come into the office after seeing this president of the American Electronic Association yesterday, and the Deputy Chief of Mission Desaix Anderson tells me he just had a talk with the Texas Instruments people and they're on the

verge of bringing suits of dumping and infringement of patent against various Japanese concerns with whom they have been working with for years.

So it is an increasing factor to contend with. It is of concern to see many former free trade elements in the American business community turning toward protectionism, and it does indicate a depth of feeling which the Japanese have begun to comprehend and which Nakasone and the government are trying to cope with.

Incidentally, since I've been out here I've met with about 44 U.S. governors. They're coming out here. They want businesses, Japanese investments in their states, and quite a few of them are getting them in differing degree. But it's an odd situation with the Congress raising cane about the trade situation and the U.S. governors coming out and trying to get the Japanese to invest. (LAUGHTER)

Q: Mr. Ambassador, to go back to Ken's question, of the American businessmen who come here. Roughly what proportion are here to complain about Japanese practices in the States and which ones are here saying we are prepared to make (apportion ???) to the Japanese market. We've got a product that we think will sell here, and they just won't let us in, the access question. So if you could break it down between access and complaints.

A: Well, access I think is gradually being attended to, slowly. The Japanese are doing away, and your people over here, Tracy and John, can tell you more about it than I can. They are doing away with certification, inspections and making it easier for products to come in, and our investments in Japan are increasing gradually. Nothing compared to Japanese investments in the United States, but you've got over a hundred companies which have been out here for decades who were all making a profit and who were not complaining.

You have a Chamber of Commerce here which I think is the most up-to-date, practical, statesmanlike group in all the Pacific-Asian area, if not in the world. They are aware of the problems here. They try to do something about them. They are not averse to going back to testifying before Congressional committees or knocking on Congressional doors. They have made it, others can make it, and the idea of businesses coming in and making it in a hurry has gone out the window because when they come in they've got to come in for the long pull and they've got to be patient, and they've got to take a little time. So I would say that a greater recognition of what it means to penetrate into the Japanese market has occurred and that the Japanese are loosening up considerably, that Americans have not taken enough advantage of it, but that the knowledge that these openings are being created is gradually permeating the American business community.

Q: How much do you think there is to the complaints that we aren't sensitive to their needs, that we don't adopt our products to what they want, that not enough people speak Japanese, that our products aren't good enough?

A: There is a lot to it, Kay. They had a ship which they placed at the disposal of the American Government some five or six years ago, a trade ship, which went around all the archipelago, made about 13 or 14 stops. I guess you weren't here, Jack, at the time, neither was Carol, and they sold very little of the products which the American companies had placed on these ships which would stop at various ports because the Japanese would come in and look at the clothing and they'd find out the sewing wasn't very good. They wouldn't buy it. But the items which were good they did buy, not that beef had anything to do with sewing but it was a prestige item because it was high trade, high priced stuff.

We're beginning to be more quality conscious in our country. For a long time I think our work was pretty shabby. We just threw it out, sold it and didn't pay much attention to it. But nobody has to buy a Japanese product. They buy it because it's of good quality, reasonably priced and because of the follow-through service. And what the Japanese are doing now is what we used to do and do well, and what we can do and must do again if we're going to compete in the kind of a world in which we live. And with that goes more productivity on the part of our workers, more quality goods, more competitive pricing. I'm shocked to find out, if it's true that the average price of a GM car is in excess of 15,000 dollars. That's a lot of money. That's a very high price and, of course, the Japanese with their exports just fall in behind the price rises in the American economy.

The American auto industry needed help in '82. The voluntary agreement on reducing Japanese exports of cars was necessary. That year, as I recall, the American auto industry, the Big Three, suffered a 4.8 billion dollar loss, when in 1983 they had about a 6.2 billion dollar profit, and in 1984 a 9.9 billion dollar profit, and now we're faced with the same thing again whether or not the Japanese are going to maintain their voluntary limitations or go ahead.

Q: What do you think they are going to do on that?

A: Economically they should lift them, politically they should maintain the present limits. It's a choice which they have to make. Economics is becoming more politicized with the passage of time, and especially so in the relationship between our two countries.

Q: Do you have a call, Mr. Ambassador, as to which way they'll go on that?

A: No, no. I think, though, that the initial announcement was

made through the private sector. The government, since the reaction in the Congress occurred or the reaction among Congressmen took place, has sort of backed off. I went to a dinner, night before last given by the Prime Minister for the President of the EC, Delors, and I sat next to MITI Minister Watanabe, and he raised the question, and I told him that it had become politicized, that it was a tough decision, but I said you've got to make your own choice. I said, "what is it?" He said: "I'm thinking about it." (LAUGHTER) I think he is ... thinking a lot.

Q: Do you have any dealings with the Democrats, especially the prominent ones who have been candidates, or labor union people? Do they ever come around? I mean they're the ones who are raising an awful lot of hell. They don't come here on any specific...

A: No, and when they do they are usually understanding. They don't try to get me involved in anything. As a matter of fact, when I took this job I left politics, and so I don't let it involve in any way in my thinking, in my actions or my responsibilities, and I think it's the only way you can operate in this job because I am out here as the President's -- whoever he might be -- but as the President's representative.

Q: I was just wondering whether people like Fritz Mondale or Lane Kirkland or those who have raised a lot of hell have come here themselves.

A: Kirkland has been here once. What was it he came here about? But he was very nice. A fellow by the name of Jackie Presser (LAUGHTER) was here but I didn't see him because I was in the States at the time just a month or so ago.

Q: A well planned he'd say.

A: Evidently, but it was planned long before Mr. Presser was coming out, and we've had Bieber out here a few times. Of course with him it's always autos. Mondale, he hasn't been out. Gary Hart was coming out last December for some sort of a symposium or think-tank meeting he was creating here. Instead he held it in California, I believe. Jack Kemp has been out here, very anti-protectionist and very open about it. Dole, Bradley, Bush twice, that's about it, but no politics.

Q: Howard Baker twice.

A: Yes, Howard Baker comes out quite often now since he has signed up with Merrill Lynch (and Federal or People's Express).

Q: Mr. Ambassador, do the Japanese look at the U.S. trade deficit with Canada and the deficits with some of the other areas you mentioned earlier, and one of the questions they are always asking is why Japan is picked on as much as it is. One of the answers they inevitably come up with is that there are

flashes of racism behind putting the focus on Japan. Foreign Ministry officials and others here talk about a residue of bitterness that has been building up over the years because of the constant hammering on Japan on trade. Do you think that that residue of bitterness really exists?

A: No, but I think if the pressures become too intense and keep up too long, then that's a possibility you can't ignore. The remarkable thing is that quite the opposite has remained constant down through the years and there is a deep affection and respect for the Americans and a desire that we pull ourselves out of the morass in which we've placed ourselves because it would be in their interest if we would do that. And they know that there are things which we have to do. They can't help us in the matter of interest rates or our debt or our deficit.

Q: They can do something about the yen.

A: They can do something about the yen and they have joined with Baker, as I have indicated. I think the beginning of this announced agreement at the Plaza in September took place last June or July when Takeshita and Baker met in Tokyo and laid the groundwork for it. They'd like to see the yen strengthen. They'd like to see a greater degree of parity take place so that we wouldn't continue to price ourselves out of overseas markets. By the same token, they would like to see us increase our productivity, improve our quality, be more price conscious and do the things which we used to do but which the Japanese now are doing. There is a revival of sorts in our country, a better understanding between labor and industry despite incidents like the fishing issue in New Bedford and the meat strike in Minnesota. Those relations have been all too often adversarial.

The same thing can be said about industry and government. What we've got to realize is that we're all in this together, that the world is changing, that many of the countries which we helped in the postwar period are now becoming competitors, that we just can't take things for granted. We can perhaps vent our frustration by pointing the finger at Japan which stands out there by itself. I don't think it's racist, Tracy. Maybe elements of it, but I think that's really an almost negligible factor.

Envy might be a factor to consider but, after all, the Japanese learned a lot from us, and a lot that we taught them we've forgotten about and now we're beginning to think about again. I'm thinking, for example, of quality control councils, an American innovation. We forgot them. The Japanese improved on them and now they're giving an award each year to a Japanese business concern which exemplifies the best in how quality control councils should be conducted.

We introduced robots into this country, then we forgot

about them. Now we're going back to them. We used to have follow-through service. The Japanese get a customer, they treat him like a baby, and if anything is wrong they'll fix it, they follow through. It's the kind of thing we used to do, we've got to do again, and we're finding it hard to change because we have been fat for a long time. But we ought to get a little lean now, and in recognizing the changes recognize the fact that just as we used to look over our shoulder at Japan, that Japan now is looking over its shoulder at more Japans coming up behind them, and they are all going to be contenders. So it's going to get worse, tougher, more competitive, in the years ahead, and if there ever was a time that we shouldn't sit on our fannies and live in the glories of the past, it's now.

Q: I'm intrigued by the delicate domestic political situation here shaping up this year with Nakasone's term as head of the party coming to an end. I'd be interested in your prediction as to what may happen this fall. Will the LDP find some way to keep Nakasone in office?

A: Well, that is a matter for the LDP to decide and not for me to comment on publicly.

Q: We'll turn off our tape recorders.

A: Well, you can leave them on but just keep your mouths shut. (Laughter) But, as you know, there are a lot of people -- Takeshita, Abe, Nikaido, and others -- who would like to have Nakasone's job. It's natural, not unexpected. But there is a rule adopted by the party that its president cannot be elected more than twice and, of course, once you get elected to the presidency you automatically become the prime minister.

My feeling is that it would be a mistake to count Nakasone out. This rule may be changed. I don't know. Again you get back to the responsibility of the LDP. I noted with interest a front-page story in the TIMES this morning in which Gotoda, the (Chief) Cabinet Secretary, an old hand at politics and a tough cookie in politics, came out and said in effect that he didn't see any reason why the two-term presidency rule should be observed, and I have an idea that might be the opening gun in a countercharge against the statements made by the contenders and their supporters -- not by the contenders but their supporters and sponsors -- that it's a good rule and shouldn't be changed, and Gotoda used something which has been going through my mind for months, and that is the extraordinary high personal popularity rating which Nakasone has enjoyed for three and a half years. And I think if you look at it there are people who take note, of the polls and that over that entire period the figure comes close to 50 percent, perhaps a little more, which is extraordinary. If a Japanese prime minister had a 26 to 30 percent rating after two years in office, he was riding the waves, but this fellow has achieved among the people the highest personal popularity rating of any prime minister that I know of since polls were conducted. You can't avoid that in

politics. Gotoda says you have to pay attention to that. It's a good benchmark, it's a good indicator, and he says, in effect, of course playing the game, that democracy depends on the people.

But make your own judgment. Watch closely late this year. The answer will be given, and I would guess that the success of the Summit, the impression he'll make on his March visit to Washington, if it culminates, and it looks like it will, and the elections to be held for the Upper House I think next June. All (this) will have a very determining relationship as to whether or not the party will change its rigid two-term rule and, if so, it means that Nakasone will be in. I think he has been an outstanding prime minister. He is a very strong nationalist. He's a very strong internationalist. He has brought Japan front and center. In the process he has brought himself front and center on the world's stage, too, but that's all right. He's the prime minister and as such he's the symbol of his country abroad. He has made all the right moves in foreign policy. He has done his best in domestic policy, and evidently the people, by and large, pollwise, are very satisfied with this tenure.

Q: Do you think one of his legacies, particularly if the moment comes this fall and somehow he is extended in office,

do you think one of his legacies might be some sort of breaking down, dilution of the traditions of the smoke-filled room in the LDP, the succession system here which is controlled by elder statesmen and not by what we would think of as a more open and democratic process?

A: I would doubt it. I think that they would continue into the indefinite future on the same basis that they do at the present time. They don't change easily, and it has worked pretty well so far, and unless pressures arise to bring about changes, they won't move.

Japan has been getting it from both sides, I mean from Europe and the United States, from all three sides. They have difficulties with China and other Asian nations because they have surpluses with them, too. So it's a handy target, but as a host I would imagine that the guests, the visiting chiefs of state or heads of state, would treat their host with courtesy and consideration, at least on the surface. What would have to be done would be done before or after the meeting because there is certainly no time in a congregation of that sort to work out policies and come to agreements or issue communiques of any real substance.

So I look forward to it to go off quite well. I am certain in my own mind that Abe and Nakasone and Watanabe, the MITI man, and Tekeshita will also do their best to do what they can to produce more results before the economic meeting in May. How successful they will be remain to be seen. They've got a

tough job confronting them, but it will be a good meeting. It will be a necessary meeting, and trade and perhaps terrorism will be the factors which will dominate it.

Q: Mr. Ambassador, one group of countries that won't be represented at the Summit are the developing countries in the Pacific Basin. You've been a strong advocate over the years of the growth and development of the Pacific Basin as an important part of the global economy. Over the past year the depreciation of the dollar and protectionist moves in the United States have hit some of these countries out here pretty hard. What do you see for the next couple of years, for particularly the four tigers -- South Korea, Hong Kong, Taiwan and Singapore?

A: I think the ones to watch are Korea especially; Taiwan next, Hong Kong next. But just as is the case in Taiwan there is a degree of uncertainty about the future of Hong Kong, and Singapore which is in a slump at the present time because of its dependence on refineries and shipbuilding and the like. Tourism even has declined to such an extent that their growth last year was very little compared to their usual 7 to 10 percent growth in preceding years.

But I think this is an area which you just cannot underestimate. It's an area, as far as the economic summits are concerned, which is sadly underrepresented. You have the U.K., France, Germany, Italy and the EC representing Europe and the Atlantic. Why the EC should have a member on the board of the economic summit is beyond me when you have four European countries represented as such. Then you have Canada and the U.S., half Atlantic and half Pacific, and the only Pacific nation is Japan.

I have been advocating for years that Australia should be admitted, that the Pacific, because of its growing significance, and the facts and figures will bear it out, is entitled to more representation. But for some reason or other it doesn't seem possible to get Australia into the summit, but we'll keep trying because this region is on the march. When you consider the fact that in 1975 our two-way trade with all of East Asia, including Japan, was 42 billion dollars, and that in 1984 it was 181 billion dollars, you begin to get an idea of just what's happened within a period of a decade, and for six of those years the East Asian region, including Japan, has eclipsed Western Europe, which used to be our primary trading partner, and that differential is widening in East Asia's favor.

So you've got a tremendous area out here. You've got a tremendous basin which is going to mark the future. The next century will, without question, be the Century of the Pacific, and when you look at these trade figures, think of it in a decade what will happen.

Q: Was it 42 to 181, is that the figure you pointed to?

A: The 42 billion dollars was in 1975, 181 in 1984; and of that 84 billion dollars was with Japan alone. Remarkable! Twice the figure with Japan a decade later than it was with all of East Asia a decade before. So if you look at that, you look at the American business, you've got about 26-27 billion dollars out of 233 billion dollars which American industry has invested worldwide, 26-27 billion dollars in East Asia. But the returns are the best of any developed region in the world and better than a lot of the developing regions, and they are consistent. That is going over on about a five-year average. When you look at what's happening in our country and note the demographic trends, the population shifts to the South, but especially to the Southwest and the West, and when you look at the figures there and see California, an empire in itself, with more than a 50 billion dollar two-way trade with East Asia -- and that's a conservative figure -- Washington State just under 10 billion dollars, Oregon coming out of its long sleep, waking up, about 4.5 billion dollars in two-way trade, you begin to get an idea of the significance of this area.

When you have 44 American governors coming out here -- the 45th one, Governor Kuhnin of Vermont came out while I was in the States -- we're getting pretty close to the full total, something is happening, and when you look at that basin and see four continents impinging on it, four South American states fronting on it, all of Central and North America, Australia, New Zealand, the islands of the Pacific, all of East Asia, 58 percent of the world's population lives around that basin, tremendous natural resources, not so much over here as on the other side, great potential markets, and on the whole friendly peoples and governments, you can't help but come to the conclusion when you tie it all in together, that in the basin is where it all is, what it's all about, and where our future lies.

Absolutely no question in my mind that the next century will be the Century of the Pacific, and that's where we have to look and that's where we have to be, and that's where we should be.

Q: Would you like to see any representation from those four little tigers in the summit?

A: No, I'd rather see Australia because it represents an area which is developing closer ties with the ASEAN nations which I think would fit in quite nicely with a truly Asian nation, as a truly Pacific nation, or you might say a Pacific-Indian Ocean nation, and it's about the same size, somewhat less in population about 14-15 compared to Canada which has full representation with about 22 million.

Q: Mr. Ambassador, I wonder how important do you think this Restructuring Commission Report that is supposed to come out in March is going to be?

A: Nakasone thinks it's of tremendous importance, and you may recall, John, that that was a personal creation of the Prime Minister with orders to report directly back to him. I think the reason behind it -- couldn't prove it, just assuming -- was that he wanted to see what could be done to break down this trade difficulty which confronts both our countries before the summit in May, and so I would expect great things. I expect great things out of his Action Program, but that will be over a one to three-year period, and when the programs are announced out here, and sometimes with justification, many times, some of our people get concerned because something doesn't instantly come out in the way of substance and are not prepared to give them a little time to work out the details and to come up with something really of value.

Q: You mentioned terrorism as a possible hot topic at the summit. In Japan itself has your life been changed by terrorist threats?

A: No, no, this is the safest country in the world, and this region, except for incidents like the Rangoon incident a couple of years ago, has been relatively free. It's mostly a Mediterranean, Middle East, North African, Southern European situation, but it's a type of activity which can spread and spread very easily. The Japanese are very conscious of it. They will have extraordinary security precautions when the summit meeting occurs, and I think it's going to become an increasingly important factor in the years and decades ahead because it's so easy to accomplish and so inexpensive and costs so little.

Q: We're going to Korea from here, and their relations with Japan have never for centuries been happy. And now I guess there is a trade problem there, too. Have you got any particular view of the situation there that we should be aware of?

A: One of the most significant things, and historically it may be the most significant in Nakasone's tenure in office, (as well as) his first official act as Prime Minister was, in that capacity, to visit Korea. He called on President Chun, saw the proper people there, and that was followed last September with a return visit by President Chun at which time the President saw the Emperor, and those two visits, and especially Nakasone's one to Seoul, will, in my opinion, mark the beginning of a new era in Korean-Japanese relations. There is still a lot of mutual antipathy, distrust and suspicion, but at least the groundwork has been laid for a gradual change in the relationship to something approaching a more normal status.

The trade picture is a difficult one because with the decline in the oil prices we find a decline in Korean workers in the Middle East and Korean construction operations which has affected the economy of Korea itself. It has invested heavily

in such areas as shipbuilding, which is in decline at the present time, but the Koreans are survivors and where nothing is possible they will make it possible. They have enabled to bring down the inflation rate from a high of around 25 to somewhere around 7 or 8 percent, I believe, I'm not certain of the figure, but it has come down considerably. Do you know what that is, Tracy?

Tracy: It's about 7 percent now.

A: And they have tried to make employment. Wages are still low there. Just incidentally the wages of a Korean automobile worker, I understand, come to around 2.50 or 3 dollars an hour. In Japan it's about 12.50. The average industrial rate in the United States, except for autos and steel, about 22-24-25. Quite a contrast. But it's a low-wage country, and that's an advantage in that respect, and an advantage that a lot of American companies are taking into consideration as they closed down operations or curtailed them and moved overseas.

Chun has said he will not run for a second term, and he has reiterated that several times, and up to now I would believe him. You still got the frictions between the various parties. Kim Dae Jung seems to be a little less of an issue with the passage of time. Maybe they're getting used to him now again. The students erupt now and again but not as much as usual, Jack and Carol, would you say? They don't seem to be so active or so numerous.

X: I think, Fred would feel that any day, any morning and any afternoon, any moment it could erupt. He feels that the situation is perhaps worse with respect to student volatility.

A: But so far what has happened?

X: So far since the last episode there has been an occupation of some business offices. One of our centers was occupied last month, but it is being kept under tighter control by the security, both the police in Korea and our own watchers.

A: I see. So I would say, then, that the situation in Korea is normal. (Laughter)

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A: When do you go back, Kay? You're going to Korea.

Q: We're going to Korea and the Philippines from Singapore and Hong Kong.

A: When will you be in the Philippines?

Q: Just about a week before the elections.

A: Very interesting time.

Q: We're just going to Korea for three days and then to the Philippines.

A: You'll enjoy the Philippines for no other reason than it will be warm after Korea.

Q: Have you got some feelings about the Philippine bases and the worry about them, or do you think they are exaggerated? I've heard both. I mean a lot of people say we should stop worrying about the bases, no matter what happens nobody is going to take them away.

A: Well, I think that's a reasonable assumption. I hope it's a good one because those bases are tremendously important, and when you look at the whole picture and see how they fit in in relation to the Soviet build-up, their importance becomes more apparent. For example, at the present there are about 49 Soviet divisions on the Sino-Soviet frontier, plus four more north of Vladivostok in the maritime province. That's about 30 percent of the Soviet ground forces, and all first rate, modern, up to date.

In the same regions you've got about 31 percent of the Soviet air forces, again first rate, modern, up-to-date.

Operating out of Vladivostok you have the biggest and best of the four Soviet fleets, and getting bigger and better all the time.

In the Northern Territories, the islands which are illegally occupied by the Russians, they have around 12 to 14,000 military personnel and at least one squadron of MIG-25s, we think two, but we're not certain about the second.

And then you find that they have a large and increasingly large concentration of sea and air forces, especially sea, in Indochina, centered primarily at Cam Ranh Bay. They have been down there about five years now, and the Cam Ranh Bay facilities have been expanded and they were pretty big when we left there, and they have a steady amount of shipping and planes operating out of Cam Ranh Bay, the best anchorage, they tell me, in all Asia, and other outlets.

The significance of that is that it brings the Philippines, for example, and its bases so much closer to the Russians who are now at least semi-permanently located in Vietnam. And if I recall my history correctly, in the latter half of the 18th century Catherine the Great announced as one of the objectives of then Czarist Russia the need for Russia to have warm water ports the year around. So at least for the time being they have got them in Indochina, and for the first time they have direct access to both the Indian and the Pacific Oceans. They didn't have that out of Vladivostok -- certainly not on a year-round basis because Vladivostok part of the year is ice-bound, but

this is a different picture down there, and because of their penetration into that area the Philippine bases become that much more important because the Russians and the Americans in a defensive or strategic sense have grown that much closer together in an entirely new area.

But it doesn't preclude the fact, as I see it, that the most important base installations are here in Japan -- stable, rent-free, no trouble surrounding them, the morale of our troops here is extremely high, and the relationship between our military, Japanese and American, is unexcelled. So we have problems in trade, but not in defense.

Q: Mr. Shevardnadze has just been here and the Soviets seem under Gorbachev to be changing their policy vis-a-vis Japan. What is it they have in mind, trying to detach it from relationship with us? What are they doing?

A: Well, they would like to disrupt, split up in any way it could, the very close relationship between our two countries. And I notice that since the Foreign Minister returned, TASS has been reporting the meetings with Abe and Nakasone as quite successful. Well, the best I can say in looking at it is that there were meetings (Laughter) and the important factor, the return of the Northern Territories, was raised by I'm sure Nakasone, certainly by Abe and others, and the answer in effect while soft was the same: No dice.

If the Russians wanted to really emerge with an excellent relationship with the Japanese, all they have to do is return those four islands which really are of little or no strategic or economic necessity for them to have, but evidently once they get hold of something they don't give it up. It might start a pattern.

X: With that return there is a fixed limit on the relationship between Moscow and.....

A: That's right. You can say that the relations are good.

Q: Nakasone mentioned that Shevardnadze had admitted there was a problem and the fact is that is the progress.....

A: Well, if he admitted it was a problem it was an advance, but up to now it has been no problem because the problem didn't exist as far as the Russians were concerned. But among all the Japanese, including the communists, it does exist, that those islands should be returned, and they should be. They are illegally occupied, have been since five days after the end of the Pacific War. They mean nothing to the Russians, really. They mean a great deal to the Japanese, and we're getting a free ride, in a certain sense, because of the Northern Territories issue, and the Russians obviously makes us look good in comparison.

Q: Does this encirclement or expansion of the Soviet presence in the region frighten the Japanese?

A: No, but for a while they weren't too much concerned but now they see all the time Soviet planes flying over the Sea of Japan, ships sailing the Sea of Japan going to Vietnam from Vladivostok or to Vladivostok from Vietnam. So the presence is there. There is a good deal of scranbling on the part of Japanese fighter groups, but the concern has increased, but I don't think it's anywhere near as serious as our concern, but much more than it was, say, two years ago.

Q: What about the industrial development in eastern Siberia? Can you imagine the Japanese going in there on a commercial basis in a big way without the Northern Territories question having been settled?

A: No, and just as important they wouldn't go in unless we went in with them, and we have indicated no desire to do so. So you have a two-pronged factor there to contend with. Certainly Siberia is a land of riches, but it will be a very expensive development, and there is some Japanese involvement there in lumber and some mining commodity, I forget which, but it's on a minor scale.

Q: Well, that's been wonderful, most helpful. Thank you, Mike.

A: The nicest thing, Kay, is seeing you. Haven't seen you for a long time.

Q: We get such stellar reports on what you do here.

A: Well, listen, there's a couple of speeches I made. If you want to look them over, fine. One was to an LDP seminar and the other was to some other group, the Southeast U.S. Governors' Group.

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