George P. Shultz was sworn in as the sixtieth U.S. Secretary of State in July 1982. Prior to his appointment, he chaired President Reagan’s Economic Policy Advisory Board, meeting with leaders from Europe, Japan, and Canada to prepare for the Versailles Economic Summit.

A 1942 graduate of Princeton University, Shultz earned a B.A. in economics. From 1942 to 1945 he served in the U.S. Marine Corps. In 1949 he earned a Ph.D. in industrial economics from the Massachusetts Institute of Technology, where he taught from 1948 to 1957, taking a one-year leave of absence in 1955 to serve as a senior staff economist on President Eisenhower’s Council of Economic Advisors. In 1957, Shultz joined the industrial relations faculty at the University of Chicago School of Business and in 1962 was named dean. From 1968 to 1969 he was a fellow at Stanford’s Center for Advanced Study in the Behavioral Sciences.

During the Nixon administration, Shultz served eighteen months as secretary of labor and then was appointed director of the Office of Management and Budget. In May 1972 he was named secretary of the treasury, a position he held until 1974. During that time, he also chaired the Council on Economic Policy. As chairman of the East-West Trade Policy Committee, Shultz traveled to Moscow in 1972 and negotiated a series of trade protocols with the Soviet Union. He also represented the United States at the Tokyo meeting of the General Agreement on Tariffs and Trade.

Until his appointment as secretary of state, Shultz was president and a director of the Bechtel Group, Inc., and a part-time faculty member at Stanford. Shultz’s publications deal primarily with economic policy and labor policy.
About the Lecture Series

The East-West Lecture Series brings distinguished men and women from Asia, the Pacific, and the United States to the East-West Center in Hawaii to share their thoughts on matters of international significance. Publication of their remarks is designed to provoke thought and stimulate discussion among a much larger audience than could attend the lecture itself. We hope this publication contributes to the achievement of greater understanding and better relations between the nations of Asia, the Pacific, and the United States.

Victor Hao Li
President
On Alliance Responsibility
by George P. Shultz

On February 4 of this year, New Zealand rejected an American request for a visit by the USS Buchanan, a conventionally powered destroyer that was to participate in an ANZUS naval exercise. The government of New Zealand rejected the request because the United States would neither confirm nor deny the presence of nuclear weapons aboard the ship.

New Zealand’s decision followed months of quiet consultations between our two countries, in which we explored an amicable solution. We pointed out that port access for our ships in accordance with our worldwide policy of neither confirming nor denying the presence of nuclear weapons aboard ships was an essential element of the ANZUS [Australia, New Zealand, and United States] security relationship. The implication of New Zealand’s decision was that no American ship that could not be identified as unambiguously non-nuclear-armed could ever call in that nation again. Without access to ports, we could not fulfill our treaty obligations in peacetime or in a crisis. Our policy of neither confirming nor denying the presence of nuclear weapons aboard our naval vessels is essential: It prevents adversaries from identifying our most capable ships, thereby enhancing targeting difficulties and reinforcing deterrence.

“. . . if New Zealand’s objective was to enhance Pacific security and reduce the nuclear danger, it has acted against its own interest.”

We did not challenge New Zealand’s right to choose its own policy. Indeed, several allied, friendly, and neutral countries have special policies regarding nuclear weapons, but nevertheless permit ship visits. No other ally, however, refuses to permit port visits on the basis of our “neither confirm nor deny” policy as New Zealand has. And if New Zealand’s objective was to enhance Pacific security and reduce the nuclear danger, it has acted against its own interest. By adding a new element of risk and uncertainty, New Zealand has weakened regional stability, one of the most important links in the efforts to prevent nuclear war. And the erosion of Western unity only weakens the Western position and the chances for success in arms control.
When New Zealand decided to reject the Buchanan, it also decided, in effect, that the basic operational elements of the ANZUS treaty would not apply to it. In a sense, New Zealand walked off the job — the job of working with each other to defend our common security. This made inevitable the cancellation or restructuring of a number of military exercises and exchanges with New Zealand, including the naval exercise in which the Buchanan was to have participated.

We have left the door open, however. The President said on February 7: “It’s our deepest hope that New Zealand will restore the traditional cooperation that has existed between our two countries. Allies must work together as partners to meet their shared responsibilities.” New Zealand remains a friend. We hope that our current differences will eventually be overcome, and that further actions which exacerbate our differences can be avoided.

Our differences with New Zealand are specific and immediate, yet they raise the most basic questions about alliances and about alliance responsibilities in the modern world: What is the purpose of our alliances? What qualities are unique to an alliance of democracies? How do we manage our alliances in a new era in furtherance of our common purpose?

The Goal of our Alliances

After the end of the Second World War, the Western democracies that had united, together with the Soviet Union, to defeat Hitler soon found themselves faced with another threat to peace and freedom. The Soviet Union took advantage of the temporary weakness of nations struggling to recover from the war; it sought to expand its power and control in Europe and in Asia. The West responded by uniting in common defense of its values and of world peace. In 1949, the United States,

“The purpose of our alliances, therefore, remains the same today: to deter Soviet aggression in Europe and Asia by making it clear . . . that allied nations will resist, repel, and punish the aggressor.”

Canada, and the nations of Western Europe signed the North Atlantic Treaty. A year later, after the Communist invasion of South Korea, this web of alliances was extended to East Asia and the Pacific, where the
United States entered into alliances with Japan, Australia and New Zealand, the Philippines, and later Korea and Thailand.

The goal of our alliances 35 years ago was to deter aggression sponsored or conducted by the Soviet Union and its proxies against the alliance partners. Soviet power and its expansionist aims were then clear to all. Today they should be even clearer, in light of the massive Soviet military buildup of the past two decades, the Soviet invasion of Afghanistan, and efforts to extend the reach of Soviet power in Africa, Asia, and Central America. The purpose of our alliances, therefore, remains the same today: to deter Soviet aggression in Europe and Asia by making it clear, beyond a shadow of a doubt, that allied nations will resist, repel, and punish the aggressor.

And something else that was true 35 years ago is also true today: It is not enough for allies to agree that when war starts they will come to each other's aid. Words and agreements alone will not deter war. Allies must work together to ensure that we have the capability to fight and win such a war — and that our adversaries know it. That is the real deterrent.

The Unique Qualities of Democratic Alliances

If the goal of our alliances is clear, we cannot achieve that goal unless we understand, equally clearly, the special characteristics of an alliance of democracies.

For our postwar alliance system is unique. Throughout history there have been many alliances; but never before has there been so enduring a partnership between so many nations committed to democracy. Today, our key alliances are democratic alliances; they are not agreements between rulers or governing elites, but between peoples. The commitments made abroad must be approved and supported by our peoples through their elected representatives.

This unique quality is a continuing source of strength. Bonds among peoples who share fundamental values can survive periodic changes of leadership, where other kinds of alliances might have collapsed. The democracies are united not only by strategic interest but also by moral bonds, which add a special intimacy and completeness to our cooperation. As Portugal's President Eanes recently said of his own nation's participation in the defense of the values and fundamental principles of the NATO Alliance, "Dignified by its reunion with democratic coun-
tries, Portugal now shares, with no hesitation, the historical ideals and essential objectives of the Treaty of Washington.”

Yet alliances among peoples, as opposed to rulers, also present special problems, and place greater demands on all partners.

Deterring aggression is never an easy task. But for democracies, there is a special difficulty. A democracy at peace would much rather focus on the more immediate and tangible social benefits to its people than on the potential danger that exists beyond the horizon. Indeed, we sometimes take for granted that security itself is a vital part of our public welfare. The painful lessons of this century have unfortunately not quite rid us of the temptation to avoid burdensome precautions.

“A democracy at peace, therefore, finds it hard to prepare for war in order to deter war.”

A democracy at peace, therefore, finds it hard to prepare for war in order to deter war. But it is a delusion to think that sacrifices can be safely deferred and that others will pick up the slack. The reality is that the collective deterrence of allies provides the umbrella of security under which nations can advance the well-being of their people.

When even one partner shirks its responsibilities, the health and unity of the entire alliance are placed in jeopardy. All the allies face the same kinds of domestic problems; all would prefer to use their resources in other ways that offer more immediate and tangible benefits to their peoples; and all would rather avoid the political complications that may be brought on by fulfilling alliance commitments. If one partner is unwilling to make these sacrifices, others will wonder why they should carry their share of the burden. The result may be the gradual erosion of popular commitment to the common cause.

“The first and most basic responsibility is that each of us has a share in maintaining the overall deterrent strength of the alliance.”

Shared Responsibilities

What, then, specifically, are the “shared responsibilities” of which President Reagan spoke?
The first and most basic responsibility is that each of us has a share in maintaining the overall deterrent strength of the alliance. For the United States, that means restoring our own strength, in both conventional and nuclear arms. It means helping our allies, as best we can, to maintain their strength, both economically and militarily. It means consulting and planning so that collective efforts are directed effectively toward common goals. Finally, and most importantly, it means making clear, through both words and actions, that we are resolutely committed to the defense of our allies, that we have the will to act in the defense of our common ideals and our security.

"Commitments cannot be met selectively by one nation without eroding the security of all and undermining popular support for the alliance."

Our allies, of course, have an equally grave responsibility to help maintain the deterrent strength of the alliance. They must make the necessary effort to ensure their own security — and particularly in the area of conventional defense. Joint military exercises and intelligence cooperation are also essential. They need not possess their own nuclear deterrent; but if they undermine ours, they weaken their own national security. Commitments cannot be met selectively by one nation without eroding the security of all and undermining popular support for the alliance.

In the modern world, keeping the peace and preventing nuclear war involves more than maintaining an adequate deterrent, however. We also share a responsibility to seek a more constructive relationship with our adversaries. Our allies have every right to expect the United States to manage relations with the Soviet Union responsibly. As nuclear superpowers, the United States and the Soviet Union share a special responsibility to seek to reduce the danger of nuclear war. Our allies can expect us to make reasonable proposals and explore every promising avenue at the bargaining table in pursuit of arms reduction. We will do so, in our own interest as well as in the interest of the free world. We consult with our allies at every stage of the negotiating process, and together with our allies we seek to put forward the most flexible positions consistent with alliance security.

Our allies also have a responsibility in this regard. A principal Soviet aim throughout the postwar period has been to divide the alliance. In-
stead of pursuing arms negotiations seriously in the quest for an equal and stable strategic balance, the Soviets have often tried to develop and exploit differences among the allies, leaving us to negotiate among ourselves while they sit back and wait for unilateral concessions that they need not reciprocate.

Our unity is essential to the success of East-West negotiations. The Soviets must understand that their efforts to divide the alliance will not work. The Atlantic allies made this point loudly and clearly when we went ahead with our INF [International Nuclear Forces] decision in the face of the biggest Soviet propaganda campaign ever. We must continue to be firm. The Soviets must see that only through negotiations can they achieve limits on our forces, and only if they are prepared to make concessions to match our own.

The value of unity is also relevant to the current discussion of the Strategic Defense Initiative, or SDI. President Reagan bears a responsibility to do all he can to protect the world from the nuclear danger. That is why he is pursuing research into strategic defenses, which, if they prove feasible, can diminish the threat of a first strike and hasten the day when nuclear arsenals can be reduced.

"... the Soviets proposed to stop our research, while continuing theirs."

Soviet propaganda on SDI is both cynical and hypocritical. The Soviets are heavily involved in strategic defense and have been for years. Over the last two decades, they have spent roughly as much on strategic defense as on their massive offensive nuclear forces. They have deployed around Moscow the world's only operational antiballistic missile system. Their large phased-array radar near Krasnoyarsk in Siberia is a violation of the ABM treaty. Since the 1960s the Soviets have pursued research in advanced technologies for strategic defense, including high-energy lasers, particle-beam weapons, radio-frequency weapons, and kinetic-energy weapons. These are the same types of technologies that the United States is now looking into in our SDI program. Not surprisingly, the Soviets proposed to stop our research, while continuing theirs.

We should not be led astray by such self-serving propaganda. Last month's NATO Ministerial in Lisbon showed solid support for the U.S. position in Geneva. If we want Geneva to succeed, we must continue to
ensure that the Soviets are given no reason to hope that they can divide us over SDI.

**Mutual Confidence and Broader Cooperation**

The shared responsibilities in a democratic alliance are broader and deeper than deterrence of a military threat. Such a partnership depends on a deeper bond of mutual confidence and mutual support across the broad range of our relations.

Many challenges to common interests, after all, lie outside the purview of formal treaties. Yet cooperation in meeting these challenges is important not only to protect the interests of individual allies, but also to bolster the mutual confidence that underpins the entire alliance system. We cannot allow the enemies of our way of life to attack each ally one by one in the hope that we will be divided and thus incapable of a coordinated response.

That is precisely one of the hopes of the international terrorist network. In Western Europe, terrorists and their sponsors have tried to weaken the fabric of the NATO alliance by sowing fear and wreaking destruction on the peoples of the NATO countries. In the Middle East, terrorists and their sponsors count on disunity to prevent effective sanctions against those who harbor terrorism. In the recent hijacking of TWA 847, the terrorists hoped to cause strains in the close and enduring friendship between the United States and Israel. In Asia, when North Korean terrorists bombed and murdered South Korean government officials in Rangoon, they sought, among other things, to weaken South Korea's ties to its treaty ally, the United States.

“. . . we must do more than just hold the line. We must fight back. We must realize that we are under a continuing attack.”

These murderous efforts to divide us, to sow confusion and fear among our peoples, have not succeeded and will not succeed. But we must do more than just hold the line. We must fight back. We must realize that we are under a continuing attack. We must cooperate to deter and punish both the terrorists and those who support them and offer them safehaven.
Our alliance treaties state that an attack on one ally is an attack on all. When these treaties were signed, we were preparing to defend ourselves against traditional kinds of threats. Let there be no mistake: The threat posed by terrorism is no less real, no less a form of warfare, no less a direct attack on the interests of the democratic alliance. No nation can take refuge in silence or inaction. No nation can afford to define its interests so narrowly as to imagine it is not affected. No nation will be spared.

"... terrorism is only one issue where cooperation outside the formal alliance is essential."

And terrorism is only one issue where cooperation outside the formal alliance is essential. The fight against international narcotics smugglers — which is clearly linked to terrorism — also requires cooperation. We in the Western Hemisphere see all too well the efforts of Cuba and Nicaragua in the narcotics field. None of us can ignore this problem. To one degree or another, all of us are weakened by the plague of narcotics. At the Bonn summit and at ASEAN we and our partners issued statements affirming our heightened determination to cooperate in the fight against narcotics trafficking and the terrorists who so often profit by it.

"Economic matters are often the source of the most contentious disagreements among allies."

The same imperative of cooperation applies to economic issues. Economic matters are often the source of the most contentious disagreements among allies. Domestic concerns weigh heavily on many economic decisions, and well they should. Yet protectionism, for example, is destructive for all of us. We cannot afford to let economic disagreements undermine the political unity that ensures our common security — the security that underpins our common prosperity. Our divisions can only becloud our common future, and bring comfort only to our adversaries.

On regional issues, as well, we owe it to each other to be supportive when an ally's vital interests are threatened, even when treaty obligations are not involved. Thailand, for instance, today faces the threat of Vietnamese aggression in Cambodia. We provide direct aid to Thailand
to help the Thai people defend their security interests. But beyond that we must also be sensitive to Thailand's concerns and its understanding of the best way to deal with the Cambodian situation and the problems of Vietnamese aggression. Similarly, we owe the Republic of Korea support and understanding in its efforts to engage North Korea in a direct and responsible dialogue.

A few years ago in the South Atlantic, the United States confronted a dilemma: Both Argentina and Britain are friends. American interests, narrowly conceived, might have called for taking a neutral position. Our NATO obligations do not require us to support our European allies outside of the North Atlantic region. Nevertheless, we supported the principle that such disputes should not be settled by force. We were right to do so, and we were right to help our NATO partner, Britain, uphold that principle.

We feel that similarly important interests of ours are at stake today in Central America. The Nicaraguan Communists, with Cuban and Soviet support, are trying to consolidate a totalitarian state on the Central American mainland. They have tried to undermine their neighbors by supporting Communist guerrillas and terrorists. We do not ask our allies to help us actively resist Communist aggression in our hemisphere. But we have every reason to expect that they will not undermine our own efforts in a region vital to us. Allies are free to differ on many political issues. But comity and the preservation of mutual confidence call for understanding of those most affected.

The Spirit of Alliance Unity

Before we entered the war against Hitler, Franklin Roosevelt explained the lend-lease program by a simple analogy. When you see a neighbor's house on fire, you lend him your garden hose. You don't ask him to pay you back. You know he'll do it when he can. That is the spirit of mutual support that must guide us.

“For 35 years, our global alliance system has kept the peace and preserved our freedom, in Europe and in most of Asia.”

So far, we and all our allies have done an outstanding job. Our alliances are working. They have confounded the skeptics and those who, at every stage, complained of disarray. For 35 years, our global alliance
system has kept the peace and preserved our freedom, in Europe and in most of Asia. For 35 years, nations and peoples with diverse cultures and histories, with different needs and national aspirations — and sometimes with differing views of the proper tactics for managing the many international challenges — have nevertheless remained committed to partnership in defense of what we hold dear.

We have preserved the deterrent strength upon which both our security and our freedoms depend. We have worked to reduce nuclear arsenals and enhance our conventional deterrent even while realizing that, for the moment at least, the nuclear deterrent is essential for the security of all of us, in the Atlantic and Pacific.

“For any of us, to retreat from this collective security system—in a world of new dangers—would be foolish.”

Of course, we face problems. How could free and sovereign peoples not occasionally disagree? But those who would have the United States withdraw from its commitments take a dangerously short-sighted view of our interests. A world in which the United States had withdrawn from its worldwide alliances, or from any part of the alliance structure, would be a grim world indeed. The arguments for isolationism or unilateralism should have been dashed long ago. The global equilibrium would be that much more precarious. Nor is it a serious option for our allies: The aggression we see in many parts of the world has shown that there is no defense in isolation. For any of us, to retreat from this collective security system — in a world of new dangers — would be foolish.

Those who would have us ignore or paper over allied disagreements, however, are equally short-sighted. Alliances such as ours must be carefully tended if they are to flourish. All sides must be conscious of the price that is paid when solidarity is weakened. Governments must lead and educate their peoples. All sides must take care to prevent the erosion of the spirit of unity among their peoples — the unity that is the essential foundation of our common freedom.

As President Reagan said at the United Nations last September, “Every alliance involves burdens and obligations, but these are far less than the risks and sacrifices that would result if the peace-loving nations were divided and neglectful of their common security.”
American support for alliances, therefore, is not part of some sentiment­al attachment to the past, nor a mindless devotion to continuity. We support our alliances, first of all, because they work. Experience shows that we can overcome our differences if we make a real effort to do so. And we support our alliances, most of all, because of the values and ideals they are meant to defend. May America and America's allies always remain faithful to the global cause of freedom and democracy, security and peace.

Question and Answer Session

MR. GERALD SUMIDA (President, Pacific and Asian Affairs Council): Mr. Secretary, one of the first questions we have deals with the question of terrorism. And, essentially, how can the U. S. effectively combat terrorism by preemptive strikes or retaliatory activities without at the same time increasing the danger to Americans, especially those Americans abroad in other countries?

SECRETARY SHULTZ: I suppose it's a question of what jeopardizes people the most: lack of action or action. Lack of action means that terrorists never pay a price for what they do, so that gives them the message that it's all free to do anything you want; nothing ever will happen to you.

If we raise the costs, that must make them think twice. But don't misunderstand me. Your government is not about to engage in any sort of gross activity that has the chance of major harm to innocent individuals. However, I believe, as time unfolds, we will see there are things that can be done. In fact, we have been doing some things and we have seen some successes.

Let me just outline very briefly for you the nature of our policies to combat terrorism.

First, it is important that our publics in a democracy understand this problem, its seriousness, its international dimensions, and the importance of dealing with it firmly and, among other things, seeing to it that terrorists don't succeed in their objective. I think a lot of headway has been made in peoples' consciousness of the problem and understanding of it. Unfortunately, through participation or vicarious participation in the events of terrorism. This goes not only for the United States but, of course, all around the world.
Second, we have to have very good intelligence, as good intelligence as we can get about this phenomenon. We’ve made a lot of headway ourselves in the United States. Obviously, it’s important that our friends and allies also have as good intelligence as they can get and that there be linkage between our intelligence communities so that we have the capacity to share things that we know, particularly on a real-time action basis when we know about some thing that might happen.

It is perhaps interesting for you to know that over the past nine months, as a result of our intelligence efforts, there have been something over 60 terrorist-planned actions exposed, stopped, or, in one way, dealt with before they took place all around the world. Some of them have become known publicly; others, not.

The point I’m making is that we do know a lot and we have had some success. It’s not an impossible task. I might say that those who are engaged in terrorism would perhaps be surprised if they knew how much we know already about them and their activities.

Third, we need to do all of the things that we sensibly can to guard against and make difficult terrorist acts against our airplanes, airports, installations, or whatever, around the world. To that extent, we have a major — and it will be costly — effort to improve the security of our embassy buildings, for example.

To that extent, we have had for some period of time, in the United States and around the world, airport security measures. And I remember that people — when these first came into effect, I was in the government at that time back around 1970, or so. In fact, I was director of the budget and I used to look at the costs of this kind of thing with great concern. But, nevertheless, all of the airport security business that’s put in has been most helpful. And by this time, rather than object to it, most people feel uncomfortable — very uncomfortable — if they find themselves in an airport where everybody is not being scrutinized. So security helps.

I might say that in the past two decades, in the operation of these systems, in the United States alone we have picked up some 35,000 pistols or explosive charges of some kind or another and made 13,000 arrests. The point again is not that these systems are perfect, but that they have accomplished a lot. So that’s a second category of things, and it applies to your own conduct. If you’re in an area where there is insecurity, you might just be a little more careful.
And, of course, the fourth thing, then, is to be prepared, where it is appropriate, where we can do it effectively, to deter by raising the costs or to preempt when we know about something that is to happen, and we have done that successfully, as I said, on a number of occasions.

Somehow the idea of preemption sometimes bothers people but it's easy enough to win, I think, the argument on principle. If there is a truck coming down the road that's loaded with explosives and you know where it's headed, would anyone here argue with stopping it? That is, preempting it, not waiting until it hits its target and blows up? I don't think there's a person in the world that would say, no. So preemption, in principle, is something that just makes complete sense. And, of course, then the problems are to know what you're doing and to have intelligence and to be able to preempt, insofar as you can, in a manner that doesn't hurt innocent people.

I do think we have to say that a person who harbors a terrorist is not an innocent person even though that person has not directly perpetrated a terrorist act.

Well, I gave you more of an answer than you asked for. But, anyway, it's an important subject and I wanted to give you a notion of the full flavor of the President's thinking on this.

QUESTION: Thank you, Mr. Secretary. Perhaps I should have included this in the first one. But several questioners have referred to the introspection that is now taking place within the media, with respect to the media's role in coverage of the hostage crises. And the questions sum up to, what are your thoughts and conclusions with respect to how the media has handled, at least, the most recent hostage events?

SECRETARY SHULTZ: First of all, you have to say that it was an extraordinary feat of technical capability; and the media have an ability to be any where any time and find out stuff, and so on. So you have to take your hat off to them for their capability.

It is also the case that there were some occasions where somebody from the media was able to go some place that we were not able to go and provide us information that was useful.

Having said that, let me go on to some other aspects of that performance. There are a number of instances in that where information was revealed that we had hoped not to have known, or the excessive speculation led
people to think things that might not have been so, that definitely hurt our ability to cope effectively with that crisis.

I think it is also true that the ability of terrorists to capture television and to get themselves constant attention, to whatever it is that they want to get across, is a way of rewarding them. If they are denied access to publicity, they are denied, in part, of what they want to achieve, and certainly we don't want them to achieve their objectives.

So the fact that anybody who will waive a pistol, or something, can get a camera focused right away is a problem. And then I think there were some aspects of the coverage that were simply maudlin and not particularly complimentary to anybody.

Now, I say all of that in the total conviction myself that we are far, far better off with a completely free press than any other way. And one of the things I have noticed is that there are quite a few articles in both the writing and television press examining this performance and, of course, defending their right to do everything that they have done, but also questioning whether or not some restraint might have been useful in the occasion. So I welcome that self-examination, but I think there are some real problems presented by the wide openness of all this. But, as I said, I'd much rather take that than going in the other direction and trying in some manner to restrict the press, which only leads you in the wrong direction.

**QUESTION:** Mr. Secretary, switching to international trade issues. The United States seems to place primary blame on Japan for trade deficits. In fact, the U.S. has very large trade deficits with Canada, the European economic community and South America.

Isn't the emphasis placed on the U.S.-Japan trade deficit situation a little bit unfair?

**SECRETARY SHULTZ:** No, it isn't.

If you express our deficit with Japan, as a proportion of the two-way trade between the two countries, that proportion comes to 45 percent in 1984. That's about three times the proportion of most other major countries; way above Canada. So that shows that we have some special problems with Japan that are different.
They are partly questions involving market opening, which we have been working on, but they are also questions involving Japan's internal tremendous imbalance between what it saves and what it invests, including what it invests in defense. And that imbalance leads it chronically to need an excess of exports over imports in order to maintain high employment. So Japan has an internal problem or internal set of arrangements that generate these huge surpluses.

I think, given the fact that many countries around the world have heavy restrictions on exports from Japan, they tend to flow heavily into the largest, most open market in the world; namely, ours. And they are generating political reactions that I hope will not, but which threaten to, lead us into protectionist legislation, which is very much against the interests of Japan.

Now, having said that, let me also say that the recent big surge in our trade imbalance cannot be attributed to Japan. And if you take the swing — if you start in 1982 and compare with 1984 and say, by how much has our imbalance changed — and take Japan, take the European community, take Canada, take ASEAN — and express that as a percentage of the two-way trade, you see that Japan is very much in line with others.

What that tells you is that there is a broader problem than just the rules of the trading game involved here. I think that problem involves, in part, the sucking-in process to our market of the unprecedented expansion that we had in the last couple of years, but also the fact that money has been pouring into the United States at an unprecedented clip. Around $100 billion on net last year, and that fact means that the value of the dollar, as evaluated by the market, is much higher than it would be if you had, let’s say, neutral financial flows and essentially the value of the dollar was being governed on the basis of trade relations.

So the very high value of the dollar has priced U.S. goods, in many cases, out of third markets and also out of our own market, and it’s a problem. Now we are seeing some, I think, beneficial things going on now.

We have seen our interest rates fall drastically since the President was first inaugurated. They bear no resemblance at all to those days. But as the financial markets become convinced that inflation is really being held under control, our interest rates have been coming down. And by
this time short-term rates, like three-month treasury bills, are selling below 7 percent and long-term rates have come down by 200 to 300 basis points over the last four to six months. So we've seen a decline in interest rates. Perhaps that will have some effect on financial flows, and we have seen, in recent weeks, an impact on the dollar, and there has been a rising of other currencies with respect to the dollar that probably is healthy.

MR. SUMIDA: Thank you, Mr. Secretary. I'm afraid that because of the Secretary's tight schedule, we have no further time for any further questions.

Mr. Secretary, on behalf of the East-West Center and the Pacific and Asian Affairs Council of Hawaii, and all of the people here, we certainly express to you our thanks and appreciation, aloha, and hope that you will return to us soon.

Thank you, Mr. Secretary.

SECRETARY SHULTZ: Thank you very much.
The East-West Center is a public, nonprofit educational institution with an international board of governors. Some 2,000 research fellows, graduate students, and professionals in business and government each year work with the Center’s international staff in cooperative study, training, and research. They examine major issues related to population, resources and development, the environment, culture, and communication in Asia, the Pacific, and the United States. The Center was established in 1960 by the United States Congress, which provides principal funding. Support also comes from more than 20 Asian and Pacific governments, as well as private agencies and corporations.

Situated on 21 acres adjacent to the University of Hawaii’s Manoa Campus, the Center’s facilities include a 300-room office building housing research and administrative offices for an international staff of 250, three residence halls for participants, and a conference center with meeting rooms equipped to provide simultaneous translation and a complete range of audiovisual services.