

# UNITED STATES—JAPAN TRADE RELATIONS

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**HEARING**  
BEFORE THE  
**COMMITTEE ON FINANCE**  
**UNITED STATES SENATE**  
**ONE HUNDRED FIRST CONGRESS**  
**SECOND SESSION**

APRIL 25, 1990



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# UNITED STATES-JAPAN TRADE RELATIONS

WEDNESDAY, APRIL 25, 1990

U.S. SENATE,  
COMMITTEE ON FINANCE,  
Washington, DC.

The hearing was convened, pursuant to notice, at 10:37 a.m., in room SD-215, Dirksen Senate Office Building, Hon. Lloyd Bentsen (chairman of the committee) presiding.

Present: Senators Moynihan, Baucus, Bradley, Riegle, Rockefeller, Daschle, Packwood, Danforth, and Heinz.

Also present: Senator Carl Levin.

[The press release announcing the hearing follows:]

[Press Release No. H-28, Apr. 17, 1990]

## SENATOR BENTSEN ANNOUNCES HEARING ON U.S.-JAPAN TRADE RELATIONS; PROGRESS ON SII AND SUPER 301 NEGOTIATIONS TO BE EXAMINED

WASHINGTON, DC—Senator Lloyd Bentsen (D., Texas), Chairman, announced Tuesday that the Senate Finance Committee will hold a hearing to discuss in detail the progress being made on U.S.-Japan trade negotiations.

The hearing will be held on Wednesday, April 25, 1990 at 10:30 a.m. in Room SD-215 of the Dirksen Senate Office Building.

The only witness will be United States Trade Representative Carla A. Hills.

"This is an extremely important period for U.S.-Japanese trade relations. The Administration has recently reached an interim agreement with Japan in the Structural Impediments Initiative, or SII, talks. We continue negotiations regarding the so-called Super 301 cases as well as other important trade negotiations. It is critical that the Finance Committee have an opportunity to explore the progress and nature of these negotiations with Ambassador Hills," Bentsen said.

"This hearing also will be held exactly 5 days prior to the date that the Administration must designate the 1990 priority countries and practices under Super 301. This hearing will give members of the committee an opportunity to consider and comment on these designations as well," Bentsen said.

## OPENING STATEMENT OF HON. LLOYD BENTSEN, A U.S. SENATOR FROM TEXAS, CHAIRMAN, SENATE FINANCE COMMITTEE

The CHAIRMAN. We will now move into the public hearing on the SII negotiations and the Super 301 process and welcome Ambassador Carla Hills to it as our witness.

We just had an hour's meeting with her in executive session as she discussed some of these negotiations; and, as they are now at a delicate stage in negotiations, we are required to assume confidence in the information that was given to us.

I would like to say a few words about starting the Super 301 process. When the 1988 Trade Act was enacted, my chief objective was to help shape for the United States a coherent trade policy with clear trade priorities. The Super 301 was the cornerstone of

that bill, precisely because it did direct the USTR in 1989 and 1990 to define U.S. trade priorities.

As anyone familiar with the provision knows, the law is perfectly clear. It states that the USTR shall identify U.S. trade liberalization priorities, including the countries and the practices. It says shall identify, not may identify. It says the designations are to be made in 1989 and 1990. In other words, it sets forth a 2-year process, which is exactly what we intended when we passed it.

We gave the administration discretion. We did not tell it who to designate or what practices to designate, but we did want clear priorities set and tangible action taken in the form of Super 301 cases. Now, we have heard some reports that the administration did not make any designations this year. I certainly hope that those reports are not correct, that the administration would simply abandon the sector of the Super 301 process. I think such abandonment would be a serious mistake.

The Super 301 process has made a difference. As the time period was expiring last year, we saw South Korea and Taiwan make some agreements—some significant concessions—opening up markets to avert the restrictive rein of the Super 301 process. In recent weeks, the administration has reached some far-reaching agreements with Japan on super computers, satellites, as well as establishing an interim SII agreement. The market results of those agreements still remain to be proven.

But everyone knows that these events would not have been realized without the Super 301 process to apply some pressure. I know that there are some voices in the administration who, in viewing those results, conclude that the Super 301 should be scrapped. I view those results, and I conclude that the process works and ought to continue.

There is another reason the process ought to continue. Frankly, I am concerned about what might happen if the administration ignores the Super 301 law in the second year of prioritizing these trade issues. In the next few months, the administration may send us a United States-Czechoslovakian trade agreement, possibly a United States-Soviet trade agreement this year, and possibly a proposed waiver of Jackson-Vanik for China.

At the end of this year, the administration is scheduled to reach an agreement on the Uruguay Round; and that accord, of course, ultimately needs the approval of the U.S. Congress. If the administration ignores a trade law that Congress has constitutionally enacted, I am concerned that it may poison the well for future agreements. That is not the way I want us to have a trade policy. I am sure that that is not the way that the administration wants the trade policy.

We live under a constitutional form of government, and that system works best when the Congress and the administration work together. It cannot work if the administration refuses to implement laws that have been passed by both bodies of the Congress and signed by a President. If that happens, you will have discord and a stalemate will result. And we certainly do not want that to happen.

Therefore, I look for some reassurance that the administration will implement the clear language of the Super 301 law. I suspect,

too, that my colleagues, in general, are in accord; I know they have some additional comments.

I defer to my friend, Senator Packwood, for any comments he might have.

**OPENING STATEMENT OF HON. BOB PACKWOOD, A U.S. SENATOR  
FROM OREGON**

Senator Packwood. Mr. Chairman, thank you.

I have not heard anything from the administration that says they are not going to follow the law, or that they are not going to name any countries under Section 301. But I want to direct my attention particularly to Japan because this seems to be the lightning rod that everyone uses as a touchstone for whether or not the administration is following the law.

Last year we named Japan in three areas—satellite, super computers and forest products. We seemed to have reached a satisfactory settlement or a settlement satisfactory to the industry at least in satellites. We seem to have done the same in super computers.

Now I want to read a telegram that I received at just 10:05 a.m. this morning from Jesse Krier. Mr. Krier is a lawyer with Dewey, Ballantine—the law firm retained by the American forest products industry to monitor the negotiations. "I just spoke with John Ragoستا from Tokyo. He and Alan Wolfe spoke with Ambassador Williams a few minutes ago and were already informed by the Ambassador that the remaining problems with Japan have been worked out. If the terms are as already described by the Ambassador, I understand that they will reflect an agreement which will be acceptable to the forest products industry."

Now that means the three areas that we have pinpointed they have satisfied the industry. They may not have satisfied each and everyone of us individually for some reason, but the people most involved in the day-by-day trying to sell things to the Japanese are saying, "We are satisfied."

So now I think to myself, what is your principal concern the remainder of this year. And in addition to the 301 actions, we have the finishing of the Uruguay Round, due to be finished this year, and apparently will be finished. I would like to think that the main concern we have is to remove as many possible barriers, tariff or otherwise, in all of the countries of the world; and we would not jeopardize that goal by personal peep at one or two countries.

Secondly, if these agreements are as they appear to be, I think Japan has met what we asked. Sometimes I think we ask too much. I recall 20 years ago the forest product industry was digging on me because Japan would not adopt our lumber standards in terms of size. We sold 2x4's measured in inches. They wanted them measured in metric. Outrageous, isn't it? That our industry thinks the Japanese ought to change their measurement standard to buy our 2x4's.

So finally some of the better people in our industry thought to themselves, you know, if there is a market there and they want it measured in meters maybe we can change our saws and cut it in meters. And several companies are doing a booming business selling cut lumber to Japan measured in metric sizes.

I thought when we insisted that the Japanese change their building codes and their zoning codes we were asking too much. It is one thing on tariffs; it is another on misclassification where they take something that ought to be classified at 3.9 percent and classify it at 20 percent. Those are legitimate grievances. It is another if they will not accept legitimate grading that all the rest of the world accepts and they will not.

But for us to say you have to build your house out of wood, rather than out of straw or brick or whatever you prefer, so long as they are standard and do not discriminate against our industry—it might discriminate against wood, Japanese and ours—but I am not sure it is our business to say, no, you have to make it out of wood instead of out of brick and thereby discriminate against the brick industry.

So if they have met what we have asked and the industry seems satisfied, I, for one, Madam Ambassador, do not think that you should name Japan again. You can name somebody else if you want, if it must be done, to satisfy a desire that someone be named. Maybe we can name Tanzania or some country that will not feel too badly. Maybe they will like the publicity. [Laughter.]

But I think you would jeopardize future 301 actions if you successfully concluded these and back-to-back named some more in the same country when I think your horoscope this year for the greater good of this country ought to be concluded a successful Uruguay Round.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator Moynihan?

#### OPENING STATEMENT OF HON. DANIEL PATRICK MOYNIHAN, A U.S. SENATOR FROM NEW YORK

Senator MOYNIHAN. Thank you, Mr. Chairman.

I would like to endorse what Senator Packwood has said. It appears to me that one of the more remarkable developments of the insistence by this committee and others that there be some response from Japan to what we perceive as inequities has been our involvement in their affairs at a level which we would never accept in the other direction. I mean, it is the equivalent of— If the Japanese started specifying what would be the mathematical achievement levels of 8th grade students, we would begin to wonder if this is a trade policy or is this intervention.

I am impressed by how detailed these matters are. We are asking the Japanese to change the way in which they assess land values for purposes of inheritance tax. Well the U.S. Congress would not presume to tell Chicago how to assess their State property. But evidently with Japan we do that. That seems to me to suggest a level of cooperation that does not call for some retaliatory act by us at this point.

I would like to make a further note that Brazil and India are both subject to 301. Those are two, the largest and second largest, developing countries in the world. India a democracy, and continuously so since its founding. Brazil finally under civilian rule after generations. The United States may have more interests here than

the immediate economic ones, although your job is economic. I might make the point, however, that in the case of India—the barriers they have placed on investment, obviously do much greater harm to them than to us. When they will learn that—well, we will see. But I would hope that both the Brazilian and the Indian matter be reviewed as well.

But I would like to associate myself with Senator Packwood on the Japanese matter.

Thank you.

The CHAIRMAN. Thank you.

Senator Baucus?

#### OPENING STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM MONTANA

Senator BAUCUS. Thank you, Mr. Chairman.

First of all, Madam Ambassador, I want to congratulate you in all the progress you have made. In conjunction with the Trade Act that this Congress passed in 1988 in delegating you and your predecessors our Chief Trade Negotiator, I think you have done a very good job. It is clear that the 301 action—satellites, super computer, and now, as we understand it, forest products—the three items that you initiated are now being resolved generally successfully. It is clear that the industries would like to go further, but no one gets everything he or she wants and the industries, as we understand it, now do accept these agreements. That is very significant progress for which you should be commended.

In addition, you have reached an interim agreement on the Structural Impediments Initiative. That, too, seems to be moving well. It seems to be moving somewhat satisfactorily, although we won't have a complete and final decision until I guess July.

So I think it is clear that the Trade Act is working. It is working well. I am not so sure though that we are yet at the end of the road. The dollar amount of satellite sales, technology sales, combined with the super computer sales under the agreements will amount to about \$3 million or \$4 million, as I understand it. And the structural impediments interim agreement in 1991 will not amount to significant increase in additional U.S. exports in Japan. It is too early.

Now if you add in the forest products agreement, it is unclear again what the additional U.S. forest products process, forest products sales will be in Japan. But I would guess in 1991 it will be tens, maybe up to \$100 or \$200 million in the first year, although potentially more in future years.

As you know, your own private sector advisory group has recommended to you to take strong action because in their estimate the trade barriers in Japan amount to as much as \$30 billion a year. That is their estimate. Now that is the private industry advisory group. And if they are right, or even if they are not right, let's say they are only half right, that means we are not all the way there. We have not yet completely reached the end of the road where trade barriers are sufficiently dropped, to the point where we should basically believe we have come to a final conclusion.



So frankly, I think as someone once said, "If it ain't broke, don't fix it," the Trade Act is working and we are not quite yet at the end of the road. And when we get to the end of the road, then we can commend Japan for reducing the bulk of the trade barriers; and then more importantly it will be up to American business to take advantage of the opportunities and get with it to learn Japanese culture, consumer tastes and distribution system a little bit better so that Americans can sell more products in Japan.

We are not quite there yet. I, frankly, am very concerned that if we do not continue to go down this road and do not say that Japan still has a priority among the various actions we are taking, if we do not say Japan still is more closed than other industrialized countries, we will be stopping. We will not be going on down the road.

So I believe quite strongly that even though we are getting there—and I very much commend you, and I very much commend the Government of Japan and industries in Japan for the progress we have made thus far—that it would not make sense for us to stop here. It probably makes more sense for us to continue so that sometime later—8 months, 9 months, a year later—we can reassess, reevaluate where we are. And if we continue the progress we have been making, then at that time it would make sense not to make Japan go further.

The fact is that there are many companies, many industries, that are looking forward to a successful resolution of the Structural Impediments Initiative and that is why they are not now pushing you to move aggressively under 301, to take specific action. Because they are looking at the distribution system, addressing the kiretus, addressing the competitive practices that exist in Japan. They are banking very much on these SII talks.

We are not going to know the degree to which SII in fact is going to be successful for some time yet. We are certainly not going to know for the next 2 or 3 months. We will know more in July. We are probably not going to know until the end of the year whether in fact progress is being made. And it is not just words, but the deeds are also there.

So I am not being disrespectful of the country of Japan, but I am being respectful, I think, of our rights as Americans. It is important for us to stand up for those rights and continue in good taste and with utmost respect to continue on the effort we have been making.

This is not a black or white issue. This is a subtle issue. It is one that is going to require productivity, sensitivity, understanding, but one that stands up for and protects American rights. One of those basic rights is to continue to urge the country of Japan to continue to reduce their barriers because they are still there. We have made progress, but there are still significant barriers that remain. So I strongly believe that it is important for us just to proceed in good faith, respectfully, with sensitivity, but to proceed nevertheless.

The CHAIRMAN. Thank you.  
Senator Danforth?

**OPENING STATEMENT OF HON. JOHN C. DANFORTH, A U.S.  
SENATOR FROM MISSOURI**

Senator DANFORTH. Mr. Chairman, I have a very strong suspicion, I might say a sinking feeling, that what we are now experiencing is a rerun of what we have experienced so often in the past: Hurried and ecstatic, almost euphoric, claims of victory on the basis of general and unenforceable promises before we see any real results.

I am particularly concerned that the strategy of the administration is to avoid the structure of the 1988 Trade Act, which to me is the most important single component of U.S. trade policy today.

The 1988 trade legislation was created to provide a legal structure for dealing with unfair trade practices. The idea was to move away from jawboning, saber rattling, name calling, raising our voices, and toward a systematic approach of cataloging unfair trade practices, negotiating them away, and if necessary, imposing sanctions in response to those practices.

I am concerned that when taken together, various recent decisions by the administration indicate a desire to finesse the 1988 trade legislation. I point for example to telecommunication. Violations of telecommunications agreements are subject to action under Section 301. There appears to have been evidence that Japan was not complying with the 1986 MOSS agreement; yet, instead of invoking the 1988 Trade Act, the administration recently announced that Japan has agreed in principal to liberalize its telecommunications market and to continue additional talks for 120 days.

With respect to amorphous metals, again, it appears that there has been some effort to deflect attention from the 1988 trade legislation. The administration has pledged to begin discussions immediately, instead of formally initiating a 301 investigation. According to an article in the New York Times, even an administration official admitted that this outcome was a finesse of the 1988 law.

The SII negotiations, in my view, while not unuseful, may also serve to deflect attention from the enforcement of the 1988 law. My concern again is that the general, unenforceable promises of SII will be viewed as a sufficient victory for the United States without yielding any results, and, that this will give the administration reasons for not utilizing the law that is on the books.

If Japan is not designated a Super 301 priority country, in my opinion, that will be a very strong statement by the administration that it does not intend to utilize the tools that have been made available. I am very, very concerned about this.

Senator Packwood has indicated that in his view the Uruguay Round is the be all and end all of trade policy in the immediate future. I think that that may be the position of the administration as well. That is not my position. I believe that that would be a very serious mistake to emphasize the Uruguay Round at the expense of enforcing the law.

There has always been a battle, at least as long as I have been around, between the Congress and the executive branch to make sure that the commercial interests of the United States receive the attention that most of us in Congress believe that they deserve. It has typically been the position of the administration to downplay

trade policy, to downplay commercial interests, and to consider other foreign policy objectives. I understand that.

Congress has had to take a role of pushing administrations into enforcement. I think that that is going to continue to be the role of Congress and I believe that the next time we will face this battle will be in the implementing of legislation for the Uruguay Round. I cannot conceive that Congress is going to be cooperative on the implementing bill if the view of the Congress is that the administration has, in the words of an administration official, "finessed" the 1988 trade legislation.

The CHAIRMAN. Thank you.  
Senator Heinz?

#### OPENING STATEMENT OF HON. JOHN HEINZ, A U.S. SENATOR FROM PENNSYLVANIA

Senator HEINZ. Mr. Chairman, I am concerned that the administration is on the threshold of sending an inaccurate and very dangerous message. I am concerned that the administration will fail to list any country under the Super 301 provisions of the 1988 Trade Act, and in doing so will deliver the message that we do not believe that there are any unfair trade practices in any countries, even though both we and the American people know they are being committed.

I certainly join with many of my colleagues in commending Ambassador Hills for doing an extraordinary and energetic job. But even the very best work that she or any super person can do simply cannot avoid confronting the fact that we are still nose to nose with too many unfair trade practices, whether they are under discussion for resolution or not.

A case in point certainly is Japan. And in that connection, I want to express some concerns about the Structural Impediments Initiative. It is an initiative that addresses cultural choices that have been made by a sovereign country.

I do not say we do not have the right to inquire after them, but I do seriously question our wisdom in asking Japan to change its culture as our first and foremost trade negotiating question with them. And I certainly question not only whether we have the right to make those kinds of demands, but I also worry greatly that it distracts from focusing our energies, our efforts, on a continuing problem, namely what it is that makes Japan a continuing lightning rod for trade disputes, not only with the United States but with virtually every other member of the GATT.

And that lightning rod is the continuing special partnership in sector after sector of the Japanese Government with Japanese industry, which supports, which protects, which finances, and which engages in cooperative measures at an amazing level of complexity and detail in industry after industry, sector after sector, as described in U.S. Embassy cable after cable to our State Department by not only our present Ambassador, but by Ambassador Mansfield as well.

In other words, Japanese industrial targeting practices remain just as rampant today as they were 10 or 20 years ago and if we do not focus on those, we will be missing the point, which is that we

want everybody to play on a level playing field. That playing field is most level when government is least involved.

Mr. Chairman, I think Ambassador Hills has the toughest job in Washington, D.C. at this time. I do not envy her because there are many conflicting constituencies and policies she has to please. But I hope that in the major investment she is making in the SII that she will find the opportunity not to ignore these other issues as well.

The CHAIRMAN. Thank you, Senator.  
Senator Riegle?

**OPENING STATEMENT OF HON. DONALD W. RIEGLE, JR., A U.S.  
SENATOR FROM MICHIGAN**

Senator RIEGLE. Thank you, Mr. Chairman.

I very strongly want to associate myself with your remarks, and the remarks of Senator Danforth, and the remarks of Senator Heinz, and others who may speak, because the law is very clear and as you, yourself, have pointed out, the law says that our government shall designate countries that have to go on a priority list under the 301 proceed. Of course, this is the last of the 2 years set forth in the legislation which that must be done.

Now I do not see how by any stretch of the imagination one can take a bilateral trade deficit with a given country, in this case Japan, which is nearly half of our overall entire trade deficit and where there are embedded trade practices of all kinds that are unfair and virtually in every conceivable form and fashion and say that although those facts are there, they will not be listed on that list. I understand that question has not been decided yet or at least insofar as I know.

But Japan, by definition, has to be on that list in the view of this Senator because the numbers tell us that. I am all for talking. I think talking is a wonderful thing and there has been a lot of talking that has gone on over a long period of time with the Japanese; and yes, there has been some modest progress. I think not a great deal and I think modest is a generous description of what we have seen because the real test is the degree to which concrete changes and commitments and agreements can get themselves into a bottom line, and that bottom line is the dollar figure of the bilateral trade deficit.

We see some progress there, quite modest. I would say this year we are still looking at a bilateral trade deficit that is probably going to be about \$45 billion; and there is even a question as to how that is counted in terms of the change in the accounting procedure where we now, in calculating the numbers, peel off the cost of transportation and insurance which I think we ought not to do. But in any case, we are talking about the worst single problem in our trade situation with respect to this persistent bilateral trade deficit with Japan.

Now Mohamad Ali was a great fighter and one of his techniques that all who followed his career are familiar with was the strategy of "rope a dope." He would take and fight a fight in a way with a very strong fighter where he would back against the ropes and he would let the rounds go by, not spend his energy, tire out the oppo-

ment and so forth. And in a sense use that strategy to avoid coming to grips with a difficult situation in terms of who he was facing off against.

I think the Japanese have mastered this technique. I see it now. I hear the arguments made. They have a political problem in their country. They may not have a strong government. Even though they have this massive bilateral persistent trade surplus with the United States,—we really cannot press too hard. We really cannot press too hard.

Well, the law is very clear and the Chairman is right. The word "shall" is in the law as a requirement not by accident but because that is exactly what the Congress meant, and the President, when he signed that bill—put the full force of the government of this country behind it. So the "shall" is not a requirement that is ambiguous and they ought to be on the list. Otherwise, I think the law will not have been carried out in the way it was intended.

And further, I would just say, Mr. Chairman, I think we need to extend the priority listing beyond 1990. If we are going to find that this is not going to be implemented fully and forcefully the way it needs to be, I, for one, will be seeking opportunities, legislative opportunities, further down the line to require that these listings be done in the face of these persistent huge trade deficits by the United States in future years.

In fact, that was the intention initially. It was not to stop it in 1990, but to carry it forward into the future until the deficit was gone or largely gone. So I just want everybody to be on notice, if they think—whether it is a foreign country or anybody else—they can slide by this year with talk and talk, and "Rope a Dope," and things that do not convert to concrete, tangible things that change the size of that deficit number, then we are going to come back and tighten this thing down tighter as may well need to be the case.

I thank the Chairman.

The CHAIRMAN. Senator Bradley?

#### OPENING STATEMENT OF HON. BILL BRADLEY, A U.S. SENATOR FROM NEW JERSEY

Senator BRADLEY. Thank you very much, Mr. Chairman, and Ambassador. It is good to see you.

I am anxious to hear your testimony so I will not make a very long statement. I would just like to make the point that we have a national objective to lower trade barriers worldwide because we believe that is in the best interest of the United States.

You have a number of tools at your disposal: all of your negotiations in the multilateral round, Super 301 and many others. You are the person who is at the table. You know clearly the sentiment of this committee and the Congress, and of the national need to lower trade barriers worldwide and give our exporters a chance to compete.

I think you have done an excellent job. You have certainly consulted this committee more than any Ambassador in memory. You have kept us fully apprised. You have made us a partner. And, therefore, I am going to be listening very much to your own assessment of the status of these negotiations; and your own assessment

also as to what you think would be the most effective way to proceed. Because the result is not only access to the Japanese market, which is essential, but also to lower trade barriers worldwide.

I would not like to take a bilateral action that would endanger the multilateral round in any respect whatsoever. I want to make sure that we have progress in Japan. I am anxious to hear what kind of progress you have gotten in negotiations, whether the existence of a 301 has been helpful. If so, how you have used it and what we might expect. I hope there are some success stories you can tell this committee.

But the main thing is to get worldwide growth, a new level of growth, and that is depending, in my view, on a lower trade barriers worldwide.

So having said I would not make a lengthy opening statement, I just want to welcome you to the committee.

The CHAIRMAN. Thank you.  
Senator Rockefeller?

#### OPENING STATEMENT OF HON. JOHN D. ROCKEFELLER IV, A U.S. SENATOR FROM WEST VIRGINIA

Senator ROCKEFELLER. Thank you, Mr. Chairman.

Ambassador Hills, what interests me and I hope you will address this in your comments is, why do you feel the Japanese will actually implement the SII agreements, and make the adjustments in a whole series of their practices.

One of the things I think is fairly clear about the Japanese is that they have very traditional ways of doing things. A Cabinet Minister, a Diet member, for example, has far less control in Japan than does the entrenched bureaucracy which is there for a lifetime. Therefore, if a political leader or series of political leaders make agreements about fundamental structural changes it somehow never happens because the implementation process does not take place because of traditional Japanese responses. Things are changing: consumers are demanding more; the political pressures are much greater; the political party in government is weaker, which brings pressure for them not to respond as well as to respond in some ways.

The question is how do these things actually get implemented? The history on that is poor. The Maekawa Report, of course, of 1986 is the classic example. Nothing really happened. This committee very much wants to see results. So the question of the SII talks, designation of Japan under Super 301, the question of how does SII get implemented and how do you measure your assessment of implementation against the need to keep the pressure on—i.e. by designating Japan again—how do you balance those?

Those are matters of interest to me.

The CHAIRMAN. Thank you very much, Senator.

Madam Ambassador, thank you for your patience. You can see the intensity of the feeling even though you do not have unanimity of what we feel. I think none of us realize how long we speak. I think one of the biggest surprises is when you are conversing in a foreign country and an interpreter gives you back what you said and you think, "I cannot have talked that long."

I must say we appreciate the 8-day weeks that you put in. When I think of the budget deficit we have, I am certainly glad that the taxpayers do not have to pay you what you are worth.

Ambassador HILLS. Thank you very much.

The CHAIRMAN. Thank you. If you would proceed.

#### STATEMENT OF HON. CARLA A. HILLS, U.S. TRADE REPRESENTATIVE

Ambassador HILLS. Thank you, Mr. Chairman. As you know, I am here to testify about our improving relations with Japan, our recent agreements in the status of those agreements.

As you know, the President fervently believes in the economic and social benefits that flow from open markets. We have been working hard to unlock once-sealed markets and to develop a clear set of enforceable rules that will curb unfair trade practices.

Our negotiations for Japan follow the same basic policy that we follow around the world: To create open and competitive market environments in which the policy to buy or sell is based upon price and quality, not collusion or protective industrial policy.

We have structured a four-part strategy to carry out our trade policy. First, to lower structural barriers through the Structural Impediments Initiatives talks. Second, to eliminate barriers in specific sectors using our 301 statutory authority. Third, to use the current round of talks under the auspices of the GATT, to negotiate strong and enforceable multilateral rules. And finally, to build constituency in Japan that will support our market-opening measures.

I believe that this strategy has achieved some significant successes in the 15 months since the Bush administration has taken office. In recent weeks we have seen our months of negotiation garner new market opening agreements with the Japanese and substantial progress toward others.

Furthermore, we have witnessed a remarkable transformation in Japanese public attitudes about its protectionist trade policies. This last change may turn out to be the most important in the long run. Earlier this month the U.S. negotiators published a good interim SII report with Japan and it contained specific commitments on the part of Japan that amount to a downpayment and provides a blueprint for future action. We have received highly public concrete commitments by the government to remove an array of structural barriers, to amend laws, to change policies, and to spend money.

I will list just a few. Japan has committed to make enforcement of its Antimonopoly Act more rigorous, including amending the Act to make penalties affective and to make penalties public so that violators cannot avoid public exposure. Japan has committed to increase investment in its public infrastructure and to fast track treatment for eight large projects. Japan has committed to liberalize the restricted views of its large retail stores law, reducing the application time for more than 6 years to 12 months. Japan has committed to introduce legislation during the coming diet session to reform land taxation systems. Japan has committed to introduce legislation to abolish the 10-day waiting period on direct invest-

ment; and it has committed to implement a six-point program with some 52 measures to correct price imbalances between the United States and Japanese goods. And Japan has committed to relax 26 fair competition codes specifically those provisions regarding the use of premiums.

The final report is due in July. Granted, much work needs to be done between now and then. General commitments must be augmented by detailed plans that specify actual amounts of money to be spent, laws to be changed, schedules for actions to be taken. And I agree that we need a follow-up mechanism. The exact nature of this mechanism needs to be worked out. But we will insist that reviews be conducted regularly at a very high level.

These actions, I believe, will tend to open the Japanese market. Of course, to correct trade imbalances we too must make changes such as lower our budget deficit, increasing our savings rate, and improving our education system—all things that President Bush has committed to do. We are confident that the final report, the final SII report, will represent a substantial step forward in opening the Japanese market. But we are also proceeding, and have made substantial progress with the Japanese government, in resolving trade issues in specific industries.

Two of our 1989 Super 301 cases—satellites and super computers—involve high technology areas. And under our super computer agreement the Japanese will no longer permit the practice of offering deep discounts to preempt competition. Instead, it will base its purchases of super computers on actual performance and price, rather than price alone; and it will base its assessment performance on real world standards rather than hypothetical ones designed to defeat American-made super computers.

We are also pleased with the agreement we have reached on satellites. It requires the Government of Japan to buy all commercial and operational satellites through an open and competitive procurement process. This agreement opens up their market to U.S. commercial communications, broadcast satellites, and in fact all nonresearch and development satellites.

Finally, we are engaged in discussions which have just been completed to resolve the forest products issue. I will depart from the statement. We have received word from Japan, as Senator Packwood announced, that we have achieved an agreement in the forest products area and it does deal with the four areas that had caused our forest product industry concern. And the industry has stated that the agreement does meet their expectations.

During the past year we have remedied Japan violations of certain telecommunications agreements with the United States as mandated by the Trade Act of 1988. The agreement we have reached in 1989 provides for access of the American companies to the lucrative Tokyo cellular telephone market and to benefit fully from the expansion of the third party radio market. And last month, again in telecommunications, the Japanese government agreed to liberalize its market for certain digital network channels, equipment used to connect computers to digital networks; and it agreed to negotiate the means whereby this liberalization will be affected over the next 4 months.



-It has also agreed to resolve the problems for foreign companies arising out of procedures that the Government of Japan uses to certify international value-added providers of certain telecommunication services. The Japanese have agreed to begin talks on a trade dispute involving amorphous metals, a high technology product used primarily to improve the efficiency in electric power transmission.

Allied Signal had filed a 301 petition and then withdrew it to permit these talks to take place. If the talks are unsuccessful after 150 days, we will accept a refiled petition and will assure a determination under 301 within the same time frame as if we had proceeded with the originally filed petition.

Last week I was in Mexico where I participated in a 2-day informal ministerial meeting of roughly 30 GATT nations. We continue to believe that the GATT is the most effective way to open markets and thus to foster the future prosperity of the United States in oil trading partners. Agreements on the GATT agricultural intellectual property government procurement services and aspects of market access will certainly help resolve many of our difficulties with the Government of Japan.

And perhaps the most promising avenue for rapid change in our trading relationship with the Japanese is the transformation of their public opinion toward protectionist policies. You may have noticed one of last weeks headlines in last week's Business Weeks cover story on Japan which stated, and I quote, "Japan's silent majority starts to mumble. Consumers are beginning to buy the U.S. line that trade barriers make for costly goods."

Japan's public psychology is changing. As a result, our discussions under the Structural Impediments Initiative is getting support from a number of diverse and important interests including employer groups within Japan's society. The response by the Japanese public at large has been very positive and for the right reasons. A recent survey of the Japan's leading business newspaper on the Structural Impediments Initiative indicated that more than 80 percent of the respondents said they were in favor of the U.S. goals in our SII talks and we are heartened by this endorsement by the Japanese people. Our message has been received and understood.

Ultimately, both they and the American people will benefit and consequently, lastly, improvements in our trade relations will result.

I am pleased to answer any questions that members of the committee have; and I appreciate the opportunity to be here today.

[The prepared statement of Carla Hills appears in the appendix.]

The CHAIRMAN. Thank you, Madam Ambassador.

Apparently, the Super 301 threat was quite helpful insofar as South Korea and Taiwan last year. They opened up some markets to avoid that kind of designation. But I am concerned about what has happened with regard to the 1989 Super 301 phases for Brazil and India. What have been the results for those countries?

Ambassador HILLS. Our results in Brazil are quite heartening. Since the Inauguration on March 15 of President Collor and his administration, there has been a drastic change in policies in Brazil; and on April 11 the Congress in Brazil gave the Collor administration a stunning victory by approving a number of measures that

would dismantle the protections that had been built up over a very long period of time.

I have met once with President Collor while he was in Washington. I have met twice with his Economic Minister; and I, of course, consulted when I was in Mexico last week with the Brazilian Ambassador, Marcos De Asambuja. I wish them every bit of luck and success that can be imagined and I am very supportive of the steps that they have taken. So I would say that Brazil is a very happy story in terms of reducing protections.

India is quite a different story. India is truly out of step with the exciting changes that are taking place around the globe. We have seen countries in Eastern Europe throw off shackles of restriction that have been imposed by government in the political arena and in the economic arena and strive to move toward market principals. We have seen the same economic change in this hemisphere, in Central America, and we have seen it, as I mentioned, in Brazil. But we have not seen it in India.

So that population of 850 million people is beset with protections that prevent them from, in my view, achieving the full extent of their potential; and they continue to have restrictions in the areas that we designated last year—namely, the services area, particularly with respect to insurance, and with the investment area.

The CHAIRMAN. I have some concern about how you measure procurement under the SII when you are talking about almost changing the culture of a country. I think that such change is extraordinarily difficult to accomplish. How will you measure success in these initiatives?

Ambassador HILLS. We will have to use different tools—the SII, the 301, the multilateral negotiations, quiet bilateral talks—all tools at our disposal to open up the Japanese market. The SII is simply one. We have focused with the Japanese on six areas in our SII discussions.

Let me just focus on one: exclusionary business practices. I have a number of business executives who have come to me to complain about the anticompetitive practices, the price fixing, bid rigging, market allocation, group boycotts, that keep them out of the Japanese market. So of course I am interested in having the Japanese rigorously enforce anticompetitive laws that are on the books. They have committed in the SII to amend their Antimonopoly Act to raise penalties.

I do believe that to make the penalty fit the crime is one way to deter the criminal activity. And they have increased their enforcement capacity by increasing the number of enforcement staff at their Fair Trade Commission from 129 people to 154 people.

They have adopted greater transparency for administrative guidance which they say will be pro-competitive rather than restrictive; to have visions that work to enable foreign goods to get into their market, not against our getting into the market. They have committed to speed up their patent process so that they are committed to reduce the long delays that we have seen in their patent or bring them into internationally comparable standards which are basically 18 months to 37 months. And, they have said with respect to procurements by private parties that they will try to erode the Japanese tendency to deal only with Japanese firms by providing

tax credits for imports which should introduce Japanese buyers to foreign suppliers; and that they will review and revise their fair competition codes.

All of these things, I think, will have meaningful results.

The CHAIRMAN. I see that my time has expired. But let me state once again that I am most appreciative of your consulting with Congress and, particularly, with this committee you have kept us abreast of the negotiations. That has been most helpful.

Ambassador HILLS. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Packwood?

Senator PACKWOOD. Madam Ambassador, last year, of course, you knew the United States was criticized when we named all those countries under the 301. It was amicable to the GATT negotiations. Did it slow them down at all for some period of time after they were named?

Ambassador HILLS. Our international partners were quite offended. Those not named may have expressed more offense in fact than those who were named. But the device of naming parties for activities did cause some offense, and I do recall at the OECD meeting in May of last year that the participants were distracted by dealing with the 301 issue rather than dealing with our multilateral objectives.

I did defend the 301 and did say that the United States does believe in multilateral rules very strongly. But the fact is, we do not have multilateral rules covering roughly one-third of world trade and in areas which are important to us; and, therefore, no one should criticize our elected representatives for unilaterally developing protections in those areas where we do not have multilateral rules. That it is incumbent upon the Ambassadors to get to work and build those multilateral rules if they are to escape any country from trying to protect its national interest. But I did spend a lot of time on that subject.

Senator PACKWOOD. In your judgment, will it further complicate your negotiations for the remainder of this year if more countries are named this year or some of the same countries named again?

Ambassador HILLS. Let me put it this way, I would like in consultation with you and with the members of this administration to very surgically use the tool of Super 301 in a manner that is so careful and balanced that it does not cause distraction or, in fact, a permanent impediment to our achieving our multilateral goals.

I have listened very carefully to what every member has said here and in our hour meeting before; and I am cognizant of how strongly some feel. I will attempt to meet with those who feel most strongly when the decision is reached to explain why it is we took the decision we did because I will tell you, our objectives are all the same. Our objectives are to open the market and provide opportunity for American entrepreneurs; and our objectives are to get a clear set of enforceable rules.

I must be given a small amount of discretion to be able to tell members of this committee where I think the tools ought not to be used and where they should be used.

Senator PACKWOOD. As one who has by in large defended your actions, I would think that you could use a Super 301 designation in such a way—maybe it is India again; maybe it is Brazil—but in

a practice where many of the rest of the world's trading nations would say, "Heck, yes, we have the same problem with them." And this is not covered by GATT. It is not covered yet. It may be by the end of the year. And they would understand why we were doing it and would probably appreciate our success in that area.

Ambassador HILLS. Well I appreciate your suggestion.

Senator PACKWOOD. Thank you.

I have no other questions, Mr. Chairman.

The CHAIRMAN. Senator Baucus?

Senator BAUCUS. Thank you, Mr. Chairman.

Madam Ambassador, I would like you to confirm the reports this morning that our Government has reached a successful conclusion for processed U.S. forest products with Japan. Is that accurate?

Ambassador HILLS. That is accurate. I was told of that just about 9:30 this morning, that we have reached a conclusion. And then subsequently I received a note to say that the industry had been apprised and was supportive of the conclusion reached.

Senator BAUCUS. I heard the same report and I appreciate that very much. It is very important for a lot of reasons. One, to certain parts of our country, certainly part of my State of Montana. It is also probably the most significant market opening measure we will have taken with Japan. The dollar amount of super computers and satellite technologies together, about \$200 to \$300 million. But the dollar amount of processed forest product sales in Japan will be \$1 to \$2 billion additional dollars. That is about 10,000 to 20,000 additional jobs in the United States.

So it is a very significant action and you are to be commended. Ambassador Williams and all our trade negotiators are to be commended. I very much appreciate the action that you have taken.

You made one statement though I think in your prepared text which is quite interesting. That is, 80 percent of the people in Japan agree with the goals of SII. I find that particularly interesting because some in this country fear that perhaps we are treading upon, you know, the cultural sovereignty of Japan. Well it sounds like 80 percent of the Japanese people want the United States government to if not tread upon the cultural sovereignty of the country of Japan, at least accomplish the goals that we are seeking under SII.

I have found it is usually Government leaders that resist American treaties to open up markets the most, and sometimes the Government leaders are out of step with the people. That may be true of this country as well. But it seems to me that if we are going to in fact not only help American people under SII but help the Japanese people under SII that we should proceed very vigorously to try to accomplish those goals that apparently we presume the Japanese people agree with.

Wouldn't it therefore make more sense for our country to maintain the 2-year status quo in Japan for one more year so that we accomplish our objectives or are more likely to accomplish our objectives under SII? Not only our objectives, but the objectives of 80 percent of the people of Japan.

Ambassador HILLS. Senator Baucus, I think if you were to take a poll of the Japanese people as to how they would react to be named for a second year, you would get no support whatsoever. So the

question is: What tool do you want to use that will maintain the support in Japan for the goals that are to our mutual benefit?

There is no question in my mind that the SII goals that we want to achieve will lower prices for Japanese consumers. We have used the pricing study that was undertaken in Japan and had found that the Japanese pay on average 40 percent more for their goods than do consumers in other industrialized countries.

We have identified our objectives for market openings in SII, not out of our pure imagination, but by going back and seriously looking at the reports that have been made by former Government officials, existing Government officials, and those who have studied the Japanese market and made recommendations, which have not been implemented. So that we are attaching ourselves to those who would seek to correct structural impediments in Japan.

I think that accounts for our success. We have had a very good negotiating process. We have an interim report that we think is a constructive one, and we would like to follow through on that.

Senator BAUCUS. If I might—my time is about out here—it sounds like you are saying you could better accomplish your SII goals without naming Japan than you can if Japan were named for this next year. I frankly find that logic a bit weak.

Ambassador HILLS. Well perhaps we can take more time, if not here, and I can explain why I believe that to be so. I would certainly listen to your comments going the other way.

Senator BAUCUS. My main point is, what we have been doing so far has been working; and if it has been working, shouldn't we continue that same process. And then, at the end of the process make a determination whether we should continue to name Japan or not. The present process has been working. Why change now? Why change courses in the middle of the stream? It doesn't make sense.

Ambassador HILLS. We did not name Japan in connection with the goals of the Structural Impediments Initiative under 301. Not naming of Japan in that context enabled our discussions to proceed in a much more friendly fashion. We have worked together. This is a bilateral identification of barriers that exist in both markets. I think that together we have prepared a good interim report.

There is no backsliding in the fact that we have committed to have a good final report in July. So I say, for the same reason you did, it is working. Let the process work; and let us keep the friendly negotiation whereby we both in a mutually constructive attitude strive to address the problems that we have in each market that prevent the imbalance from being corrected and prevent the Japanese market from being opened?

Senator BAUCUS. Well it just seems a bit centered that your chances and your probabilities of getting a successful resolution are greater if we continue to name Japan. So that next year not only will we more likely have reached a more successful agreement, but in addition we are going to find many more Senators of this committee agreeing at that point that perhaps Japan should not be named.

We are not at that point yet. I just do not think it makes any sense whatsoever for us to back off, take the pressure off, because I feel quite strongly that if we do back off and take the pressure off,

you are not going to get the results under the Structural Impediments Initiative that you think you are going to get.

Ambassador HILLS. We are not backing off or taking the pressure off. And the Structural Impediments Initiative is not in the framework of the 301, and it is working. We always have the capacity, the tool that you gave us, to self-initiate a 301 if at any time we find that negotiations are not proceeding in a given area. So that it may have been appropriate last year to have identified those sectoral issues in a 301 which were encompassed in a tight time frame. But the Structural Impediments Initiative is altogether a different tool, a different approach, with a different set of goals, and it is working.

I will continue to consult with you, to share with you, both the problems and the successes that we have.

Senator BAUCUS. My time has expired. I have taken more than my allotted time.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator Levin has asked to make some comments and we are pleased to have him. You can do so, Senator Levin.

Senator LEVIN. Let me thank you, Mr. Chairman, just for allowing me to briefly join you and this committee this morning. I thank our Trade Representative as well.

Let me first join our Chairman, Senator Danforth, Senator Riegle, and others, who have said strongly that they believe that Japan should be named under Super 301. It is my belief that we should treat other countries no better than they treat us in the area of trade; and that the only way we are going to truly open up their markets to our products is if we take strong action under 301 and that is why it is almost unthinkable to me that Japan not be named.

And that would include auto parts because an effort that has been made for so long, a frustrating effort that has been made over so many years, to break into that auto parts market. It has been very, very frustrating indeed and I do not see any alternative after all these years except to name auto parts and Japan as priority practices and countries.

My question though is slightly different. We had a hearing the other day in my Subcommittee on Innovation, Technology and Productivity in the Small Business Committee on auto parts trade practices on the part of Japan. Assistant USTR Don Phillips testified that resolution of the difficulties that are associated with auto parts trade with Japan is a "top priority" for the U.S. Trade Representative. Those were his words and a representative of the Department of Commerce agreed that it was a top priority.

The Super 301 provision of the Trade Act, as you well know, reads that the Trade Representative shall identify U.S. trade liberalization "priorities"—that is the word it uses—including "priority practices" and "priority countries." Those are the precise words in Super 301.

Now I understand that you are not able to tell us today whether Japan's barriers to auto parts exports will be identified under Super 301 in the next few days or whether Japan will be named as a country. Now my question is: How would it be possible for the

USTR's office to refer to a country as a top priority or a trade practice such as auto parts as a top priority 1 week and then not include it in the Super 301 designation of U.S. trade liberalization priorities the next week? How could we use the rhetoric that this is a "top priority" in week one and then not say or identify or designate it as a priority practice in week two?

Ambassador HILLS. Senator Levin, it may be a function of our crowded calendar. We have so many top priorities at USTR. We are negotiating with the Eastern Europeans. That is a top priority. We are negotiating with the Japanese and that is a top priority. All of our industries are a top priority. We try to use the tools in the sectors that make the most sense to achieve our results.

We have agreed with the Japanese government and the Japanese industry in consultation with our auto parts industry that there would be a joint United States-Japan competitiveness conference that involves both business and industry and that would search for ways to make autos, as well as auto parts, more competitive in the respective markets.

When I was answering an earlier question I commented on the groups with whom I think it is important to consult. And, of course, we consult very closely with the industry and we try to use the tool that will achieve the goals that they tell us they want to achieve. I believe that what we have achieved here gives us a means for accomplishing the goals that are important to the auto parts industry.

Senator LEVIN. Well, I disagree with your conclusion. I hope time proves you right, but time has never proven this course of action to be right with Japan. It just simply has not worked in terms of that trade deficit. We have gone back to 1970. We have quoted one President after another, starting in 1970, Democratic and Republican Presidents, that have talked about the trade deficit coming down with Japan, and trade barriers being removed in Japan. And I know you can anecdotally give us examples of where barriers have come down after tremendous pressure. But look at the macro picture.

The rhetoric, I am afraid, continues to be the same, which is that we think we are making progress but the numbers, I am afraid, are different from the rhetoric. So my conclusion is different, but I appreciate again your testimony.

I particularly appreciate the willingness of our Chairman to allow me to come here today.

The CHAIRMAN. Thank you. We are delighted to have you.

Ambassador HILLS. Could I respond to that, Mr. Chairman?

The CHAIRMAN. Yes, of course.

Ambassador HILLS. You made two points—that it has never worked for Japan. Senator Levin, I would have to tell you that I think Japan has moved further this year than perhaps any other country. We have achieved agreements in three important sectors—satellites, super computers, and just this morning, forest products, which is a very important industry—we have signed two agreements in the telecommunications area, in the very important areas of digital equipment, third party radios, cellular telephones; and that we have a highly visible interim report on structural change that commits to change things that will make a difference

to U.S. entrepreneurs in terms of the laws that are applied, the policies that are applied, and the monies that will be spent.

But since you have mentioned the macroeconomic factor of the trade deficit, I wanted to respond. I believe that we can get all the markets open in the world, and that fact will not affect measurably the trade deficit as that is more in our hands than trade opportunities. However, we do want to correct the trade deficit in the context of growth. That is why trade is so important, not only to us, but our trading partners.

But you may be interested that for the first 2 months of 1990 our trade deficit with Japan took a sharp dip. It was running at \$35.8 billion at an annual rate, compared to a deficit of \$49 billion for all of 1989. This is a 27 percent drop in the annualized deficit with Japan in 1990 for 2 months. I think that is rather substantial.

Indeed, all of the drop in our deficit in these first 2 months is attributed to a drop in the deficit with Japan. Now I do not think that comes as a result of opening markets. But I do think it should allay your concerns that we are going in the right direction on the macroeconomic side of the picture.

The CHAIRMAN. Thank you.

Senator Danforth, did you have further comments?

Senator DANFORTH. Mr. Chairman, thank you very much.

Madam Ambassador, you have heard me in the back room, you have heard me here today. I have said it on the floor of the Senate. I am very, very concerned. I believe that the administration confuses achieving agreements with attaining results. I think that it is very easy to achieve—well I will not say very easy; I do not want to denigrate what the USTR does in the least—I think it is much easier to achieve agreements than to attain results.

I am really concerned that what we are doing now, not only the executive branch but what I heard from some of my colleagues today, is exactly the wrong thing. I am concerned that what we are saying, particularly to Japan, is that if you enter into agreements, even agreements that are not enforceable, even agreements that are very, very general, the result will be a profuse display of uncritical praise such as that which some have heaped on Japan even this morning in this committee.

I am very concerned about the 1988 trade legislation. My view is that the 1988 Trade Act is the cornerstone of U.S. trade policy. You and I might disagree with that, but that happens to be my view. Super 301 is the cornerstone of the 1988 Trade Act, and Japan is the number one problem that we have in trade. I just cannot conceive of not naming Japan as a Super 301 priority.

I think we may be going back to where we were before. I think that we are going back to a situation where, as within every administration, foreign policy and diplomatic concerns, tend to push commercial objectives onto the back burner. The attempt is made to downplay trade problems, finesse them, fuzz them up. That is what is happening here.

I have great regard for you. I am not saying this as anything that is at all critical of you. But we all know that within every administration there are differences of viewpoints. Generally speaking, OMB, Council of Economic Advisors, State Department take a



position of trying to finesse these issues. I am concerned that this has happened again.

The whole effort in the 1988 Trade Act was to put the administration on the hook, to mandate effective action. I think that the administration has done a very good job of wriggling off the hook. But that is how I see it and I am very, very concerned about it.

You might want to try to assure me that I am all wet on this. I would be happy to hear any response that you have.

Ambassador HILLS. I can only say to you, Senator, that quite sincerely the commercial objectives and the results are what I am after. There is no question that we have to achieve an agreement before we can achieve our commercial results. I think that you really have to give me just a little leeway.

The fact of the matter is, you are fond of the 301 tool and we have used it effectively. I have not avoided using it. Since 1974, there have been 79 301 actions initiated by private parties or the USTR; 79 301's. Since the Bush administration came in, we have successfully resolved 10 to the satisfaction of the industry involved. And we will continue to strive to do that.

I will use a 301 at any time that I believe it is going to achieve the results that you want, that I want, and the industry wants. Our difference is only the tool I choose. But since we have achieved market openings in 14 months I ask you to give me a little bit of leeway to select the appropriate tool. Give me 8 months.

If in 8 months I have not achieved the objectives that I know you and I agree on, which is to open the market so that we can achieve those commercial results—and you are absolutely right in that is what I want to achieve—then we can talk about whether a 301 or any particular tool must be used. I do believe there has to be a sensitivity and a choice here by your negotiator as to the appropriate tools to be used.

I just ask you to work with me. You will never find me short on consultation. I will always tell you in what direction I am going. But I do need a little of your confidence and just a little longer tether.

Senator DANFORTH. Well, you are wonderful in consulting. But I am concerned that this tool that we have created is going to be tossed out into the rain, and that it is going to rust, and that it is just not going to be a credible way of getting into markets if it is not used.

I would like to give you 8 months, which is the date you suggested. But the fact is that next Monday time runs out on the Super 301 designation.

Ambassador HILLS. But, Senator, if we could achieve our objectives without using the Super 301 device, you would have no complaint.

The question is: How do we achieve our objectives?

Senator DANFORTH. What is the problem with using Super 301?

Ambassador HILLS. Because there are some circumstances and some timing when the Super 301 is not the appropriate tool to get the market opening. We have used the Super 301 successfully and did not shirk from it. We achieved agreements.

You talk about results. I cannot give you a result on an agreement that achieved at 3:00 a.m. this morning. The super computer

and satellite agreements were only achieved in the past 30 days. We have to have the patience to let the process run more than 24 hours or 30 days.

But I am saying to you, you want to get the market open, the barriers down. That is our objective. We have not not worked diligently at that aspect. We have had 10 successful settlements with the industry concurrence on the 301's. And, in fact, I have consulted with the industry. As I earlier walked you through the 1990 trade estimates book, I cannot find a sector with Japan where I feel that the Super 301 is the best tool to use at this time of the calendar to achieve your objectives. That is our only difference.

Senator DANFORTH. Mr. Chairman, you have been very tolerant of listening to me preying on this, both back there and in here. I appreciate it. I would just be repeating myself.

I thank the Ambassador for her comments.

The CHAIRMAN. Thank you very much, Senator.

I must say that when you talk about people objecting to the use of Super 301, I cannot help but remember that, in our trip to Europe last year, we met there some of the people that I think objected the most—the Europeans and the Chief Executives. And yet, I listen to them talk about requiring 60 percent domestic content in England on automobiles, and 80 percent in France, and about comparable things in other European countries. Also, I thought of the resulting cries of outrage if we had imposed the same measures on automobiles in this country.

I think that with Super 301, we have opened up some markets. I think it has been effective. To say that it should not be surgically used is incorrect—of course it should.

You have been very helpful, though, and we are most appreciative. We wish you good luck along the way. Thank you.

Ambassador HILLS. Thank you, Mr. Chairman. You have been very helpful, as have the members of the committee and I am very, very grateful.

The CHAIRMAN. Thank you.

[Whereupon, the hearing was adjourned at 12:02 p.m.]



# A P P E N D I X

## ADDITIONAL MATERIAL SUBMITTED

### PREPARED STATEMENT OF CARLA A. HILLS

Thank you for the invitation to testify about our improving trade relations with Japan, about our recent agreements and the status of our continuing negotiations. President Bush fervently believes in the economic and social benefits that flow from open markets. He has us working overtime in our trade negotiations around the world to unlock once-sealed markets so that trade can expand, and to negotiate a clear set of enforceable rules that will curb unfair trade practices. In short, we seek to create a passport for the free trade of American goods and services.

#### U.S. TRADE POLICY TOWARD JAPAN

Our negotiations with Japan conform to the same basic policy: To create open, competitive market environments in which the decision to buy or sell is based on price and quality, not collusion or protective industrial policies.

To accomplish this, the Administration has implemented a four-part strategy:

- First, to lower structural barriers through our Structural Impediments Initiative, or SII talks.
- Second, to eliminate barriers in specific sectors using 301 statutory authority and through other means.
- Third, to use the current round of talks under the auspices of the General Agreement on Tariffs and Trade, or GATT, to negotiate strong and enforceable multilateral rules, particularly in agriculture.
- Fourth, and last, to build constituencies in Japan that will support market-opening measures.

This strategy has achieved some significant successes in the 15 months since the Bush Administration took office. In recent weeks, we have seen months of negotiations garner new market-opening agreements with the Japanese and substantial progress toward others. Furthermore, we have witnessed a remarkable transformation in Japanese public attitudes about its protectionism trade policy. This last change may turn out to be the most important in the long-run.

#### STRUCTURAL IMPEDIMENTS INITIATIVE

Earlier this month, U.S. negotiators reached a good *interim* SII report with Japan. I want to stress that this is *only* an interim report. It contains specific commitments on the part of Japan that amount to a downpayment and provides a blueprint for future action. It is qualitatively different than any agreement we have reached in the past. For the first time we have received highly public, concrete commitments to remove an array of structural barriers, to amend laws, change policies, and to spend money. Let me list a few of them for you:

- Japan *has* committed to make enforcement of its Antimonopoly Act more vigorous, including amending the Act to make penalties effective, and to make penalties public so that violators cannot avoid public exposure.
- Japan *has* committed to increase investment in its public infrastructure and to fast-track treatment for eight key infrastructure areas.
- Japan *has* committed to liberalize the restrictive use of its large-scale retail store law, reducing the application time from more than 6 years to 12 months.
- Japan *has* committed to introduce legislation during the coming Diet session to reform the land taxation system.

- Japan *has* committed to introduce legislation to abolish the 10-day waiting period on direct investment.
- Japan *has* committed to implement a six-point program with some 52 measures to correct price imbalances between U.S. and Japanese goods.
- And, Japan *has* committed to relax 26 "fair competition" codes, specifically those provisions regarding the use of premiums.

The final report is due in July. Granted, much work remains to be done between now and then. General commitments must be augmented by detailed plans that specify actual amounts of money to be spent, laws to be changed, and schedules for actions to be taken. We also must agree on a follow-up mechanism. The exact nature of this mechanism needs to be worked out, but we will insist that reviews be conducted regularly at a very high level. These actions will result in opening the Japanese market.

Of course, to correct the trade imbalance, we too must make changes, such as lowering the budget deficit, increasing our savings rate, and improving our educational system, all things that President Bush is committed to do.

We are confident that the final report will represent a substantive step forward in opening the Japanese market.

#### SECTORAL NEGOTIATIONS

We have also made significant progress with the Japanese government in resolving trade issues in specific industries. Much of this progress was made using the leverage of our trade laws.

Two of the 1989 Super 301 cases, satellites and supercomputers, involved high technology areas. Under the new supercomputer agreement, the Japanese government will no longer permit the practice of offering deep discounts to preempt competition. Instead, it will base its purchases of supercomputers on actual performance and price rather than price alone; and, it will base its assessment of performance on real world standards rather than hypothetical ones designed to defeat American-made supercomputers.

We are also pleased with our agreement on satellites. It requires the government of Japan to buy all commercial and operational satellites in an open and competitive procurement process. The agreement opens up their market to U.S. commercial communications, broadcast satellites, and to non-R&D satellites.

Finally, we are engaged in intensive discussions with the Japanese to resolve the forest products issue in a manner that would result in a genuine opening of the Japanese market for wood products.

During the past year, we also remedied Japanese violations of certain telecommunications agreements with the United States as mandated by the Omnibus Trade Act of 1988. The negotiations focused on the cellular telephone and third party radio markets. The agreement we reached in 1989 provides access for American companies to the lucrative Tokyo cellular telephone market; and to benefit fully from the expansion of the third party radio market.

Last month, in another telecommunications sector, the Japanese government agreed to liberalize its market for certain digital—network channel terminating equipment (used to connect computers to digital networks). It agreed to negotiate the means whereby this liberalization would be effected over the next 4 months. It has also agreed to resolve problems for foreign companies arising out of the procedures that the government of Japan uses to certify international value-added providers of certain telecommunications services.

The Japanese also have agreed to begin talks on a trade dispute involving amorphous metals, a high-technology product used primarily to improve efficiency in electric power transmission. Allied Signal filed a 301 petition and then withdrew it to permit the talks to take place. If the talks are unsuccessful within 150 days, we will accept the refiled petition and will assure a determination under section 301 within the same time frame as if we had proceeded with the original petition.

#### GATT NEGOTIATIONS

Last week I was in Mexico where I participated in a 2-day informal ministerial meeting of 30 GATT nations. We continue to believe that the GATT is the most effective way to open markets and thus to foster the future prosperity of the U.S. and all its trading partners. Agreements in GATT on agriculture, intellectual property, government procurement, services, and aspects of market access will help to resolve some of our bilateral issues with Japan.

## PUBLIC ATTITUDES

Perhaps the most promising avenue for rapid change in our trade relations with Japan is the transformation of Japanese public opinion toward protectionist practices. One of the headlines in last week's *Business Week* cover story on Japan summed it up best: "Japan's Silent Majority Starts to Mumble; Consumers are beginning to buy the U.S. line that trade barriers make for costly goods."

Japanese public psychology is changing. As a result, our discussions under the Structural Impediments Initiative is getting support from a number of diverse and important interests within Japanese society. The response by the Japanese public at large has been very positive—and positive for the right reasons. A recent survey by Japan's leading business newspaper on the Structural Impediment Initiative indicated that more than 80 percent of the respondents said that they were in favor of the U.S. goals of SII.

We are heartened by this endorsement by the Japanese people. Our message has been received and understood. Ultimately, both they and the American people will benefit, and consequently, lasting improvements in our trade relationship will result.

## CONCLUSION

In 1990, United States-Japan trade relations are making substantial and historic progress.

We do not represent that the Japanese market is as open as our market. And, the Bush Administration will not shrink from confronting the government of Japan with our problems. But, we are encouraged by the considerable effort and determination shown by the government of Japan to take action that will open its market and to resolve certain outstanding trade matters.

The Japanese government has been responsive and decisive. We continue to believe that a global partnership between the United States and Japan can be a great force for peace and prosperity.

Attachment.

## FACT SHEET

## BUSH ADMINISTRATION MARKET OPENING ACCOMPLISHMENTS IN JAPAN

June 28, 1989—*Telecommunications: Third Party Radio & Cellular Phones.*—Japan agreed to eliminate regulations discriminating against foreign firms seeking to gain access to its third party radio and cellular telephone markets. In April 1989, USTR had determined under section 1377 of the 1988 Trade Act that the Japanese practices were in violation of the MOSS telecomm agreement.

October 1989—*Bilateral Steel Agreement.*—The United States and Japan renegotiated a voluntary restraint agreement on steel, and concluded a bilateral "consensus" agreement committing Japan to eliminating subsidies and other trade distorting practices for steel.

October 1989—*Telecommunications: NTT Agreement.*—Japan agreed to renew the NTT agreement, which provides for open and transparent procurement procedures for Japan's recently privatized major telecommunications company. The new agreement took effect January 1, 1990, and remains in effect for 3 years.

November 1989—*Legal Services Talks.*—In response to a letter from USTR Hills to Japanese Justice Minister Goto, Japan agreed to initiate talks aimed at eliminating remaining barriers to foreign lawyers practicing in Japan. Negotiations commenced in February, 1990.

November 1989—*Food Additive Labeling Regulations.*—In response to U.S. concerns, Japan's Ministry of Health and Welfare modified regulations for food additive labelling, so that synthetic and natural additives are treated in an equivalent manner. Previous regulations had worked to discriminate against U.S. suppliers.

November 21, 1989—*Construction.*—USTR determined that certain Japanese policies and practices for procuring construction and related services were unreasonable under section 301, but decided that no action was appropriate because Japan committed to taking steps to discourage collusive bidding, increase available information to foreign bidders, and allow Japanese companies to form joint ventures with foreign firms. In addition, Japan committed to negotiate all unre-

solved matters regarding construction market access within the context of the May 1990 review of the Major Projects Arrangement.

- February 1990—*Pharmaceutical/Medical Devices*.—Japan assured the U.S. Government that it will not impose price controls on implantable medical devices without first consulting with the United States.
- March 22, 1990—*Supercomputer Understanding*.—The United States and Japan concluded an ad referendum agreement on supercomputers, under which Japan agreed to seek adequate funding for supercomputer purchases, use practical benchmarks to select among machines, credit bidders who offer extra performance, and provide an effective procedure for handling complaints.
- March 30, 1990—*Telecommunications: Digital Equipment Terminals and International Value-Added Networks*.—Japan committed to liberalize its market for network channel terminating equipment and international value-added network services. Negotiations will occur over the next 4 months on the implementation of these commitments.
- April 3, 1990—*Satellites Understanding*.—Japan agreed to a new policy that opens government procurement of all satellites except for genuine R&D satellites. Its commitments will work to create new opportunities for U.S. commercial satellite producers.
- April 5, 1990—*SII Interim Report*.—In the Structural Impediments Initiative (SII) Interim Report Japan committed to specific steps to eliminate structural barriers to imports, including: strengthened enforcement of its Anti-monopoly Act, including stiffer penalties for violators; shortened approval times under the Large Retail Stores Law, increased spending on public infrastructure, and improved Japanese patent examination. The final SII report, which will elaborate on and extend these commitments, is due in July 1990.
- April 18, 1990—*Amorphous Metals*.—Japan committed to expedite talks on market access for amorphous metals. Rather than negotiate under a year-long section 301 investigation, Japan agreed to seek a conclusion to the issue within 150 days.
- April 24, 1990—*Sound Recordings*.—Japan has committed to take major steps to improve the copyright protection of foreign sound recordings, including the protection of foreign recordings produced before 1978 and provision of "national treatment" for rentals.

