

# JAPAN TRADE CONCESSIONS

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

—————  
JANUARY 23, 1992  
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# JAPAN TRADE CONCESSIONS

THURSDAY, JANUARY 23, 1992

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

The hearing was convened, pursuant to notice, at 10:00 a.m., in room SD-215, Dirksen Senate Office Building, Hon. Lloyd Bentsen (chairman of the committee) presiding.

Also present: Senators Moynihan, Baucus, Bradley, Riegle, Rockefeller, Daschle, Breaux, Packwood, Roth, Danforth, Chafee, Durenberger, Grassley, and Hatch.

[The press release announcing the hearing follows:]

[Press Release No. H-1, Jan. 17, 1992]

## SENATOR BENTSEN SCHEDULES HEARING ON JAPAN TRADE CONCESSIONS, CHAIRMAN LOOKS FOR TANGIBLE RESULTS—JOBS—FROM PRESIDENT'S PACT

WASHINGTON, DC—Senator Lloyd Bentsen, Chairman of the Senate Finance Committee, Friday announced a hearing on trade concessions made by Japan during the President's trip.

Bentsen (D., Texas) said U.S. Trade Representative Carla Hills will testify at the hearing.

The hearing will be at 10 a.m. Thursday, January 23, 1992 in Room SD-215 of the Dirksen Senate Office Building.

"Time after time, we've reached nice-sounding agreements with Japan on our trade disputes, only to find years later that no tangible progress resulted. Our trade deficit with Japan today is four times what it was in 1980. By the Administration's own reckoning, that deficit costs us 800,000 American jobs. I want to know how many jobs we can expect to regain because of the concessions Japan made during the President's visit this month," Bentsen said.

"Japanese companies have said they will try to sell 20,000 American cars—about one afternoon's production by our Big 3 automakers—in Japan. How many jobs does that mean? Many of these concessions won't be fully implemented until 1994. But many Americans are jobless and hurting today, and I want to hear what this latest action plan with Japan will do to help them now," Bentsen said.

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

The CHAIRMAN. This hearing will come to order. If you will please take seats and cease conversation, we will be getting underway.

Two weeks ago, the President of the United States returned from a trip to Japan which he had billed as being devoted principally to trade. That trip occurred in the midst of the most prolonged economic downturn that this country has had since the Great Depression.

In the President's own words, the trip was about jobs, jobs, jobs, as it should have been. By the Administration's own estimate, our trade deficit with Japan is costing us 800,000 jobs in this country.

Those are jobs that are sorely needed in a country where 9,000 people huddle for hours outside of a new hotel being constructed in Chicago—huddled out there in numbing cold, waiting to try to get a chance for one of 500 jobs.

So that is the reason why I called this hearing today, to ask one simple, but very critical question: how many of those 800,000 jobs that this trade deficit with Japan is costing us will this trip recover?

In the end, that is how you must measure its success. Frankly, I am skeptical. We have been there before: the Maekawa report; the semi-conductor agreements, the Structural Impediments Initiative; negotiations on electronics, government procurement, and auto parts.

Too often the pattern has been the same: great expectations, poor results. But this latest agreement with Japan seems to break some kind of a record.

Last Monday, only 11 days after the agreement was reached, Japan's Prime Minister said Japan's commitments were just a target, not a firm commitment. Sounds familiar.

The President's team had barely gotten over its jet lag before the commitments were being withdrawn.

Now I am not sure the Japanese Prime Minister was wrong. I have looked at the documents. The commitments look pretty thin. So, today I would like to ask the administration: is Japan back-sliding on firm commitments, or were the commitments never firm?

On top of everything else, the Speaker of the Japanese Lower House accused American workers of being lazy and illiterate. The fact is that those claims are so outrageously wrong, they do not deserve the dignity of a response.

What bothers me most about this trip is that it was an afterthought. It was originally billed as a foreign policy trip. It only became a trade trip when the President got into political trouble and his polls dropped.

He did not even bring along his Chief Trade Representative. I think he should have. I think that big 747 should have had at least one more seat.

I think it would have been a great opportunity to talk about how Japan is not doing enough to help us in the Uruguay Round. Our U.S. Trade Representative is our principal negotiator in that Round. I can promise you that the Japanese Prime Minister sure had his chief trade negotiator there.

The problem is we can no longer make trade an afterthought. In my opinion, this is a critical juncture in world trade. We are in the midst of the Uruguay Round, trying to build a stronger, more open world trading system.

Some of us have just been down in South America. An economic revolution is taking place there as they open up markets, lower tariffs, and do away with trade barriers.

We are witnessing most of the old Communist world taking bold steps to embrace free enterprise.

We face some real opportunities today for trade, but it is not "Japan bashing" to say that Japan has been the most serious problem within that system.

For the last decade and longer, Japan has been the primary beneficiary of free markets worldwide, while it is been quite restrictive in its own market.

Japan's acceptance of foreign manufactured products on a GNP basis is the lowest of any industrialized or newly industrializing nation. Today, Japan's surplus with the whole world roughly equals everyone else's deficit.

I would argue that we will never make progress in creating a stable, open world trading system so long as one of the biggest countries in that system continues to reap the benefits of it while largely refusing to accept the responsibilities.

I have heard some say that this most recent trip may not have produced many results, but it was a good beginning. Anyone who thinks that we are at the beginning with Japan has been sleeping through most of the movie.

The fact is we have let this problem drift far too long. Our trade deficit with Japan today is four times what it was at the beginning of the Reagan/Bush Administrations.

True, we have made some progress. The trade deficit dipped for awhile, but it is back on the rise again and things have still not changed fundamentally.

Do we need to strengthen our own competitiveness? Of course we do. I have been saying for years that we desperately need a national economic strategy to make sure that our companies can compete with those of any other country in the world. And I cannot say that too strongly.

But it will not help to make world-class auto parts if the Japanese Keiretsu refuses to buy them. It will not help to educate our engineers and our inventors if Japanese companies can seize American intellectual property with impunity. It will not help to make our farmers more competitive if the Japanese will not let in a grain of U.S. rice.

The facts are that we are successfully competing against other countries. We do have world-class products.

Since 1986, we took a \$22 billion trade deficit with the European Community and turned it into a \$16 billion surplus. But that trade deficit with Japan remains stubbornly high.

I think this trip did make a difference in one very important respect. It underscored for millions of Americans that international trade has a direct impact on jobs here at home.

So, today I want to focus on what this trip means to the millions of Americans who are out of work and what further steps this administration intends to take in the future.

I would like to call on my colleague, the Ranking Member, Senator Packwood, for any comments he wants to make.

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

Senator PACKWOOD. Well, better late to the game than never, Mr. Chairman. We criticize the President for not playing up trade. Then he decides to play up trade, and we say, ah-ha, politics. He

should not have done it. He should have just gone on a diplomatic and military mission.

Well, this trip was not all that bad, at least from my standpoint in Oregon. And I have got a number of statements that I am going to put in the record here from paper manufacturers, wood manufacturers, auto parts manufacturers and others that think this was a damn good trip, from their standpoint.

And I remember where we were with Japan. This country is not going to change overnight; neither are we. We go overseas and say, open up your markets, and they say, open up your textile markets. And we say, oh, no, no. We do not mean that. We do not want to let your textiles in, your apparel in. We even say that to Hong Kong which does not have any trade barriers to U.S. exports.

I can remember 20 years ago when we could not sell any beef in Japan, and we are now selling beef in Japan. Oregon sells an incredible quantity of wheat to Japan. Oregon is selling finished lumber products to Japan. We were not used to be able to get into the market.

Are we going to be able to break them open for everything? No. Are they changing? Yes. Was this trip a success from the standpoint of a whole variety of industries in the United States and not just agriculture industries? You bet it was.

Was it, from the auto companies? Hard to tell. Although I will put in the record a statement from Mr. Stemple of General Motors that he was optimistic about it.

But we have got to realize that no country is going to change overnight. I will make you this prediction: that if Europe ever gets its act together—it was going to be Europe 1992, I do not know when it is going to be Europe now—but if they ever get their act together, we will have more trouble in the long run with Europe and protectionism collectively than in the long run we will have with Asia.

Because in the last analysis, Europe will choose if they go protectionist, and I fear they will; to keep out our products to a great degree, and to keep out Asian products to a great degree. And the future for all of us may lay in trade agreements East/West between this hemisphere and Asia.

So, I do not think we ought to knock this trip. I think the President came off reasonably well. Did he get everything he wanted? No. I do not get everything I always want. But on balance, how did we come out in this? We came out pretty well.

And I would ask unanimous consent to put in a whole variety of statements from different industries that accompanied the President on the trip, and also put in a statement from Mr. Davidson, the President and Chief Executive Officer of Guardian Industries Corporation of Michigan.

The CHAIRMAN. Without objection, that will be done.

[The statements appear in the appendix.]

The CHAIRMAN. Are there other comments? Senator Moynihan?

Senator MOYNIHAN. No, Mr. Chairman.

The CHAIRMAN. Senator Grassley.

Senator GRASSLEY. I will put my statement in the record.

The CHAIRMAN. Thank you.

Senator Baucus.



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

Senator BAUCUS. Yes. Thank you, Mr. Chairman. Mr. Chairman, I think that all of us in this country have strong feelings and somewhat mixed feelings about the President's trip to Japan.

On the one hand, it was good to see the President finally address himself to our trade problems with Japan. I think such personal involvement is long overdue.

On the other hand, I must say that the entire trip smacks of a political quick fix. And, historically, quick fixes just do not work.

The trip to Japan and the Presidential rhetoric associated with it represent a sharp departure from the Bush Administration's position on Japan over the last 3 years.

In the past, the Bush Administration has shied away from pursuing an aggressive trade policy with Japan. For example, in April of 1990, the Bush Administration declined to designate Japan as an unfair trader under U.S. Trade Law.

Now the administration opposes the efforts of myself and others to extend the so-called Super 301 Provision of the 1988 Trade Act. It takes this position even though it concedes that Super 301 opened the Japan market to exports of wood products, super computers, and satellites.

The administration has generally opposed efforts to strengthen U.S. trade laws that are critical to U.S. efforts to open Japanese markets.

The administration has also blocked efforts to improve the competitiveness of U.S. industries vis-a-vis Japan. In 1989, for example, the administration killed a Commerce Department initiative to make the United States the leader in the development of the next generation of consumer electronics, high definition television.

And just last year, the administration threatened to veto Congressional efforts to invest Federal money in developing commercial technologies that would help U.S. industry compete with Japan.

The Bush Administration has opposed these initiatives, in my judgment, because of a misguided belief that our competitors play by the same free market trade rules as we do.

But, as the New Hampshire primary approaches and the trade deficit with Japan looms as a major blemish on the administration's economic record, President Bush has now broken from his hands off rhetoric and now largely blames the recession on Japan.

Unfortunately, the one lesson that is clear from three decades of trade disputes with Japan is that one shot initiatives never pan out.

As a number of commentators are fond of noting, every United States President since Nixon has declared victory over the Japanese trade problem. But history has shown these declarations premature, and the victories hollow.

In fact, as has just been noted, in cases where we have made trade gains with Japan—beef, semi-conductors, forest products—the victories came only after years of sustained effort and a commitment by the United States industry to produce quality goods.

Unfortunately, I fear that the Bush Administration has not made a long-term commitment to solving our trade problems with Japan.

I hope the agreements with Japan on auto parts and computers yield results, but I fear that they will soon be forgotten.

Prime Minister Miyazawa's recent statement indicates that they may well be, and the Bush Administration has returned to its tired, free market rhetoric.

I also note with dismay that President Bush did not even take his very able Trade Representative, Carla Hills, with him on his trip to Japan. If President Bush is serious about trade, he surely would have taken his chief trade negotiator.

Further, if the administration was truly committed to solving the Japanese trade problem, it would have worked with Congress to fashion a comprehensive trade and competitiveness policy.

Such a policy must include passage of legislation to extend Super 301 Provisions of the 1988 Trade Act. Senator Danforth, Senator Riegle, and myself have introduced legislation to extend Super 301.

This legislation would provide a framework for tough, directed negotiations aimed at opening the Japanese market to U.S. exports.

In addition to extending Super 301, it is long past time for the United States to pass the Trade Agreements Compliance Act. This legislation, supported by a majority of this committee, would focus upon enforcing the trade agreements we negotiate with Japan and other countries.

This legislation would help provide a basis for dealing with the kind of quibbling and backtracking we now see Japan engaging in.

A number of my colleagues on this committee would add to this list legislation to restrain Japanese auto imports. This may have merit. If Japan refuses to play by the rules of free trade, we should reconsider our own policies. Free trade must be a two-way street.

But I have concerns that the U.S. auto industry has squandered the protection the Congress has extended to it in the past.

The purpose of protecting the U.S. auto industry is to give it time to become more competitive, not to give it a largess to be spent on executive salaries and stock market speculation.

If we are going to extend temporary protection to the auto industry, we must make absolutely sure that the industry uses the breathing room provided by that protection to become more competitive.

Our agenda for competing with Japan must go beyond trade legislation. The Bush Administration must work with Congress and the U.S. industry to build competitive products that can be sold in Japan, as well as in this country; it must be willing to invest Federal funds in developing commercial technology and raising our educational standards. Unfortunately, all of this could not be completed in time for the primary season.

But the economic problems we face are profound. We all must be willing to put politics aside, even in this election year, and work to forge a sound trade and competitiveness policy.

The CHAIRMAN. Thank you. Senator Rockefeller.

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

Senator ROCKEFELLER. Thank you, Mr. Chairman. I will be brief. I just returned from a week's trip to Japan, right after the Presi-

dent's, and I have got to say that it was not a great deal of fun following that trip.

I happen to think that it was, unlike what Senator Packwood said, politically motivated. And that did not necessarily disturb me, because those things happen in politics. But I felt that Japan was about the worst place that one could have taken a trip that was motivated in that sense.

The Japanese understood that very well and, therefore, it was very difficult for them to take the presence of the President and what he said in a serious manner.

I also feel, as I expressed to Carla Hills before—and I think she is one of the best people in the administration—that not taking her to Japan was a fundamental mistake.

Japan operates often, always, in fact, on symbols. If you do not bring your trade negotiator, it is well understood that you are not ultimately serious about the issue.

Japan understands very well that this is a problem with both countries; that we both have a lot of work to do. The SII talks indicated what a lot of that was, and the SII talks were correct, really, on both sides.

The administration objects to government actions. to my distress, to help translate technology into high-quality marketable products.

They say that is industrial policy, which was, in fact, what we have had in this country for 100 years up until it became politically incorrect in 1981.

The Japanese, of course, do this. They have a managed economy; that is why they are where they are. And it hurts us precisely in the sectors that make us currently a world leader: in semi-conductors; the means to make them; computers; lasers; robotics; telecommunications; ceramics; the composite materials.

So, making ourselves competitive in these sectors demands, on our part, long-term action; retraining our work force and all that we know that we have to do.

Instead of facing these problems and suggesting to the Japanese Prime Minister that we are going to take on long-term commitments in solving our problems as we want him to do in his own situation, the President's visit was all based on short-term palliatives.

The Japanese challenge, of course, is to change the way they do business. They have to assume a leadership role in defending the free market system that has brought them to the point where they are, as the Chairman has indicated, instead of doing what they are doing, which is undermining in Geneva right now our dumping and subsidies laws, which is going to make passage of the Uruguay Round, if it is concluded, very difficult in this Congress.

Here at home I think it is patient capital; it is long-term thinking. This is no time for cosmetic surgery. The relationship between the two countries is in too much trouble, it is too important, and it can be required successfully only with serious, long-term trade and economic policies. That was not emphasized in this trip, and, unfortunately, it was the first trip of the President to Japan—extremely important—and it fell short.

I thank the Chairman.

The CHAIRMAN. Thank you.

**OPENING STATEMENT OF HON. DAVE DURENBERGER, A U.S.  
SENATOR FROM MINNESOTA**

Senator DURENBERGER. Mr. Chairman, I am going to make some brief remarks and ask that my full statement be made part of the record.

The CHAIRMAN. All right.

Senator DURENBERGER. Yesterday I told my colleague from West Virginia, and others, that I watched the Democratic candidates for President speak to the issue of health care up in New Hampshire. And when somebody asked me who did I think their candidate should be, I said it was the Senator from West Virginia.

And I would like to endorse his comments here this morning. I think they are very, very thoughtful; thought-provoking, hopefully, if not here, then somewhere else. That is not just by way of a compliment to him, but by those who agree with what he said.

I, too, agree that it was a mistake for President Bush to change from a pacific relations trip to a pacific trade trip. I did not meet anybody in Minnesota that would disagree with that.

But it was a bigger mistake to take the Big Three automobile executives with him, because I heard nothing but talk about that in my home State of Minnesota. And why? Because it represents the worst of protectionism in this country, and certainly the worst of protectionism in my State of Minnesota.

It is U.S. protectionism, not Japanese protectionism, and so I can understand why, now that the President is back, and the presidents of these companies are back that there has to be a response that highlights Japanese protectionism as well. And we know it exists, we have got plenty of examples of it, and we can talk about that.

My State of Minnesota is a fair trade State. It has probably the healthiest economy currently, or one of the healthier economies, to put it realistically, in America today because of free enterprise; because of fair trade; because we have an opportunity to export our agricultural products; our electronic products, our medical technology products, and on and on.

3-M, which is Minnesota and is America—and I wish to heck the CEO of 3-M had been taken on this trip rather than some of the other corporate executives, with the exception of Bob Galvin is here. I am glad Bob went. But I wish the president from 3-M had been invited to go along, as well.

3-M does more than 50 percent of its business today abroad, and a large part of that is exports from the United States. And that is nearly 100,000 American jobs; it is growing all of the time; it is the kind of company that you say is a real American company, not just a Minnesota company. And I do not think they like the symbolism that came from that trip, either.

During the President's trip abroad, I was in Minnesota, and I met with all the people I have just talked about. And what I heard is, what we want is long-range thinking. What we want is a sense of direction.

What we want is to seize the opportunity of the walls coming down and the central planning systems crumbling and the Chairman of this committee and Senator Baucus and I saw in South America and Mexico.

It is all crumbling. Why not take advantage of it, rather than build our own walls up? People in my State want to see a successful conclusion to the GATT Round.

People in my State want to see an end to European protectionism. That is why they are so anxious to see a successful conclusion of the GATT Round, because of what it represents across the world; though it is hard to do when U.S. industries are demanding protection and more protection.

Minnesotans are getting a little tired of being taxed to support an industry whose vehicles, or products, or services they are not so sure yet they ought to be buying. And right or wrong, that is just the impression. And we know it, and that is the way the folks in Minnesota look at it.

They are already paying \$2,500 to \$3,000 more per imported car than they were before. That is the price of past protectionism.

And I am not going to sit here and add more taxes on them when—and this is my bottom line observation, I guess, and it applies not only to the leaders of industry, but leaders here as well, and it is a compliment to the mental health of constituents of all of ours—but the objection that I heard time, and time, and time, and time again to what particular the Big Three CEOs represented, focused around the salary issue.

But not one of the people of Minnesota begrudges somebody a \$2 million salary, or a \$4 million salary, or a \$10 million salary—\$10.8 for Jack Morris, who is leaving us to go to Toronto—if they have earned it.

Jack Morris earned it in the tenth inning of the final game of the World Series, and that is how simple it is to the farmers of Minnesota, and all the little people in Minnesota. If you have earned it, terrific. But not a one of them believes that any one of those three guys is earning their way.

And the second thing that they worry about with us and them is when you ask them about the performance, they scapegoat. They have got somebody to blame for the problems.

They are sick and tired of us blaming other people, and they are sick and tired of other people blaming other people. And when you ask them about the size of their pay, what does every one of these people say? Well, everybody gets this kind of pay. Not out where I live. The margins are getting thinner all the time. And that excuse is out the window.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. Senator Bradley.

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

Senator BRADLEY. Mr. Chairman, Senator Durenberger's comment about Jack Morris reminded me of the time Babe Ruth was asked why he was paid more money than the President of the United States in 1927, to which he responded, "I had a better year." [Laughter.]

It seems to me that the problem with the President's trip was the premise that it was a trip in which agreements were going to be achieved that would re-invigorate the American economy.

The solution to the problems of the American economy are not going to be found in Tokyo. They are going to be found in Washington. I think that that is a fundamental error of the trip.

Going to Tokyo to try to find the answer is a little bit like going to the Sahara to try to find water. We have to look clearly at our circumstance.

I am anxious to hear from Carla Hills. I think she is really outstanding. I would echo the sentiments of other Senators that I wish she had been on the trip, and I will look to her explanation of what was achieved.

But, to me, as I was traveling around New Jersey and watching the trip from there and from here, there was a tinge of managed trade that seemed to creep into the picture.

I might be a minority on this committee that holds this view, but I do not think our comparative advantage is managed trade, industry by industry, country by country.

I think it is in open trade and multi-lateral agreements. I think there was a certain irony about the President's trip to Japan moving in the direction of managed trade precisely at the time that the GATT negotiations were floundering.

I think that if the President is going to lead on trade, then he is going to have to invest the same kind of personal energy and creativity in getting a solution to the GATT Round as he did with Desert Storm.

It is an issue that is more profoundly important to the future of this country than any that we are discussing. It is going to take that same kind of commitment and strength and energy to get the leaders of the other countries in a room and get an agreement that will not be reached, no matter how able our Trade Representative is, if negotiations are among Trade Ministers.

I hope that the message coming out of this Tokyo trip is a sense of urgency to get on with the GATT Round and a recognition that the answers to our economic problems are not to be found in Tokyo, but in Washington.

Thank you.

The CHAIRMAN. Senator Roth.

#### **OPENING STATEMENT OF HON. WILLIAM V. ROTH, JR., A U.S. SENATOR FROM DELAWARE**

Senator ROTH. Thank you, Mr. Chairman. I think it was Mike Mansfield who, for many years, was the Democratic Majority Leader of the Senate; who, for many years, under both Republican and Democratic administrations, was our Ambassador to Japan, and Mike Mansfield said that the bilateral relationship between the Japan and the United States is the most important bilateral relationship in the world.

Now, whether one agrees with that or not, the fact is, we are talking about the relationship between the two largest economies in the world.

And I am very fearful that in this Presidential election year, that rather than seek the kind of constructive answers to this trade deficit, this trade relationship, it will deteriorate into just Japan-bashing in America, and in Japan, American bashing.

This may be very popular politically, but it does not solve a single problem; it does not create a single job in America.

More importantly in many ways is that if we continue along that route, we are putting at risk an international relationship that can see a serious deterioration of the stability that now exists in that region of the world.

Now, there is no question but that some solution has to be found to this trade deficit. And just let me say you can make all the criticisms you want about the Presidential visit, but 15 years ago I called for the President of the United States to go abroad and make trade the number one goal of this country. And I think he achieved that.

For the first time, we had a President saying, trade is a principal goal of this country; not other matters. Let me tell you, Mr. Mitterand, who is President of France, has not hesitated to promote the sale of French planes and other merchandise.

And that is what we have to become. We have to become conscious of the need for trade. Because for every billion dollars of exports, we create something like 22,000 jobs. That is where the future lies. So, I applaud the President for having the courage to make that his principal goal. Anyone who thought we were going to resolve all our problems, of course, were mistaken. It is ridiculous even to think that.

But we do have to, here in this country, begin to realize that everything we do impacts on trade. And that if we are going to succeed, we have got to, as Max Baucus, in his statement, said, develop the kind of policies that are going to promote U.S. exports.

Now, there are a lot of misperceptions that need to be corrected, in my opinion. In Japan, there is the idea that we do not produce quality goods. That is hogwash. We are a leader in many sectors. We produce quality products, and I would say we produce some damn good cars today.

Secondly, it is totally wrong to say that the American worker is not efficient. All figures I have seen show that American productivity is still number one.

So, we are not dealing from a position of weakness, as many of the people would have you. As a matter of fact, as I recall, in the case of Honda—I think it was Honda—they were saying that their cars produced here were better than the cars being produced in Japan. They were produced by American workers.

And, finally, I think Japan has to recognize that as an economic superpower, it has got to do something about its imports of manufactured goods. The figures I have from 1987 show that Japan's manufactured imports were only 2.4 percent of their gross product, compared with 7.3 for the United States; and 14.4 percent for Germany. So, they have to give us access, and they have to begin buying.

Just let me say, from our point of view, we have to make some corrections, too. We have to, as I say, make trade our number one goal.

And let me tell you that when the heads of international American corporations come into my office, they complain that their headquarters are not sufficiently trade-conscious.

And that is where we are going to do something about trade, in the private sector. I agree with much of what Bill Bradley said, but it is not going to be solved in Washington.

All we can do here is create an environment of trade; an environment of growth. But it is going to happen in the private sector and I think it is critically important that business recognizes that.

Finally, Mr. Chairman, just one additional factor. I am opposed to protectionism, but I do wish the American consumer on his own, or her own, would look for American products.

The Japanese will buy Japanese products if they are available; the French will do the same, and many others. So, I think it is time that we give American products the chance again, because a lot of them are quality items.

Mr. Chairman, I applaud you for holding these hearings. And I just want to join my colleagues in saying that I cannot think of a tougher, better negotiator than we have in Mrs. Hills.

The CHAIRMAN. Thank you. Senator Chafee.

**OPENING STATEMENT OF HON. JOHN H. CHAFEE, A U.S.  
SENATOR FROM RHODE ISLAND**

Senator CHAFEE. Thank you, Mr. Chairman. I have a brief statement I will put in. I would just like to make, if I may, a couple of comments. I, for one, am very glad the President made the trip to Japan.

If nothing else, it certainly did away with the view that Detroit's depression is due to Tokyo. I think it showed that our auto executives are hauling down outrageous salaries while not being competitive.

Just as Dave Durenberger said, we do not care what they earn if they have a good year, but none of them had good years. In fact, they are losing money hand over fist. We learned that while complaining that the model cars they wanted to sell in Japan did not sell, they also pointed out that they do not have right-hand drive. I think it would be hard to describe the appearance of the Big Three top executives over there other than as a total fiasco. And I want those companies to succeed.

By the way, Mr. Chairman, I wonder when was the last time anybody in this committee ever had an automobile salesman call them up and try and sell them a car.

I have had aluminum siding salesmen call me, and I have had the Little League, the Salvation Army, and innumerable stock brokers and real estate agents. But I have never had an automobile salesman. I suppose now my phone will ring off the hook. [Laughter.]

Senator CHAFEE. I just want to report I recently bought a Ford Taurus, so I am set. [Laughter.]

The other car I have got is a Dodge Omni. That is shaky. I have had Don Riegler try to sell me a car; but he is the only one. [Laughter.]

I want these companies to succeed. I might say the blame is not all on the auto executives, while I have the floor. If they do not do something about the health care package that the UAW has gotten out of those automobile companies, they will all go down the tube.



If you try to devise the worst, the most expensive health care policy known to man, you would have what the UAW has gotten out of the automobile companies. They ought to change it, and they ought to have managed care in there. The benefits would be the same, and the costs would be greatly reduced.

So, I want those companies to succeed. But, at the same time, Mr. Chairman, I do not think my constituents at home want to be deprived of their choice: their choice to buy a Japanese car, if they believe it is better quality.

Frankly, the reason Americans buy Japanese cars is because of the quality. The quality of American cars has tremendously improved, but there is the perception that is still there.

So, I believe in this choice, and I am not for restricting those cars. I hope that GM, Chrysler, and Ford will be on the ball and outdo them in every way. But I do not think out people should be deprived of the right to choose.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. Senator Riegle.

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

Senator RIEGLE. Thank you, Mr. Chairman. While we are hearing a lot of different comments around the table, I think they all, in a sense, say one thing, and that is we have got very serious economic problems in America today and we need a plan to deal with them. The problems have been building up over many years.

Some of our problems are made worse by events outside our country that have an impact on the U.S. economy. As others have said there are also other events within our own economy that I think also need to be dealt with.

Unfortunately, the trip to Japan was a failure, and even the very tiny concessions that were given, at least verbally, or represented from that trip have been recanted on. We have had top leaders in Japan minimizing and backing away from even those modest concessions which were made. But I do not find that terribly surprising.

I think one of the ironic footnotes is that our Trade Ambassador, who is here today, was not on that trip. Most people in America do not know that. They thought it was a trade trip, but it was a trade trip without our Trade Ambassador being present and applying the know-how and hopefully the muscle that would be needed in such talks.

The same thing is true with respect to the Secretary of State. This key U.S. figure was also not present on the trip. So, it is not surprising that very little came out of the talks with our trading partner, Japan.

I want to comment briefly on the trade issue and the trade problem, and then talk for a minute about what I think we need to do here at home.

It does no good to bash America. We have got to rebuild America and get a team strategy put together here. We need business, and government, and labor sit down around a table and make some serious decisions as to what sacrifices and what investments have to be made to restore an economic strength. That is what other coun-

tries are doing. Japan has a plan in which it does identify economic goals. The Europeans also have such a plan.

One of the great ironies of our government today is that the Executive Branch has an economic plan for virtually every other country in the world except our own. There is a plan for Mexico, and a plan for Kuwait, a plan for the separate parts of the old Soviet Union, and so forth. There is no plan for America.

With respect to the external problem, Japan has taken out of the United States since 1980, \$460 billion. It is an enormous capital drain, which has forced entire industries to be wiped out.

This is true for consumer electronics which has experienced terrific damage in computer chips and flat panel displays. Great damage now is evident in the U.S. automobile industry, finally aviation is next, along with other sectors and industries of the U.S. economy.

I think these are important industries for our future. I think we need the jobs and the national income that come from these industries. We have got a record high unemployment level in this recession right now.

We have over 16 million people in the United States who want to work and cannot find full-time work. Over 10 million of them cannot find any work.

We also have 6 million additional people who are working part time yet want to work full-time. If a person works even as little as an hour a week, he/she is counted as employed based on the way we derive the unemployment figures.

These unemployment figures represent a major problem for our country. Yesterday, United Technologies announced that it was eliminating 14,000 jobs. Every day it is a different company in America; large companies, medium-sized companies, and small companies which is making the tough decision to cut U.S. workers from their payrolls and eliminate these value-added jobs.

We have got a major economic problem. The trade cheating over the years by Japan, keeping its home markets closed, using dumping strategies here, and using the Keiretsu arrangements both there and here, have done great damage to the U.S. economy. These practices do not contribute to fair competition; nor fair trade, and we all know that.

The unfair trade practices are only a part of our problem and do not make up for our own shortcomings. We have got to do a much better job here in America, in solving our economic problems. And this is true in all industries, including the ones in my State.

I know Senator Baucus said before I came in that if we are going to have an effort to try to do something to deal with the trade cheating from abroad, we have got to have commitments from industries within this country to do a better job with their own competitiveness. I absolutely agree with that view.

I think we have got to have an iron-clad understanding back and forth among ourselves in terms of how we make ourselves number one again in the areas of our economy that we think are important for our National income for the future.

Our people need jobs today. There was a scene on the television the other day out in Chicago where a new hotel was opening up. There were thousands of people standing outside, in bitter, sub-

zero cold weather, and with the snow flying, all people were bundled up, waiting in line to try to file a resume with the hopes of getting a job in that hotel.

We have engineers driving taxi cabs; we have teachers that are working in hamburger stores, and other similar examples across the country. These people are reduced to jobs for which they are overqualified because we do not really have a plan, a strategy, for our economy so that we can make sure that there are enough good jobs for our people here in the United States.

Japan, to its credit, has a plan. Part of its plan is to take advantage of weaknesses on our part and to use every manner of trade cheating that it can get away with. Japan has done this over the years, and it is doing it today. We have to confront this part of our economic problems directly.

The apologetic tone of our government in kowtowing to our trading partners and their unfair trade practices is really unacceptable. We cannot allow others to treat us unfairly, nor can we tolerate our failure as a Nation to have a kind of Team America strategy where we assert ourselves, pull ourselves together and show what we are capable of doing.

The closed markets in Japan have to open. And to say, even though they backed away from it, that they would take 20,000 or 30,000 American cars 2 years from now is unacceptable. This amount is less than table crumbs. The number of additional cars that Japan would take from us in the course of a year is equal to the number of Japanese cars sent to the United States in 2 days.

I think America has a job to do here at home. We have a job to do with respect to confronting the trade cheating overseas.

I would like to hear from the Trade Ambassador today as to what the goal is for this year, quarter by quarter, on the reduction in the bilateral trade deficit with Japan. What is the target? How many billions of dollars is the United States-Japan trade deficit going to come down?

I have suggested in the legislation I introduced yesterday with Senator Rockefeller, Dixon, Levin and Hollings that our trade deficit with Japan ought to come down by at least \$8.5 billion this year. It should also come down in steady steps over the next 5 years, to a balance of trade where we have an orderly adjustment in our massive trade imbalances.

We cannot afford the continued hemorrhage of U.S. capital and jobs to Japan, or other places around the world. We just do not have the economic strength to continue to encourage U.S. jobs and capital flight.

If we allow additional industries to be destroyed, we are going to be surrendering our economic future. Protecting our economic future is the responsibility of this committee—one which I hope we will continue to seriously address.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. Senator Danforth.

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

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

For the 15 years that I have had the privilege of serving on the Finance Committee, the members of the committee have had a very consistent statement to all administrations, and the statement has been that international trade should be a much higher priority as far as the Executive Branch goes.

Trade should not simply be the stepchild to a foreign policy, it should not be a bargaining chip that is given away for foreign policy objectives.

And, therefore, I think that for the President of the United States to go abroad, for the President to go to Japan, and for the President to raise trade as a major item on his agenda in Japan was exactly what we have been asking Presidents to do for at least the last 15 years since I have been around. I think that was a very positive thing.

I do not think that this was a trip for detailed negotiations, although I am told there were some negotiations that went on. But what was really significant was that the President of the United States was saying that trade has to be a priority; a priority of our country and a priority in our relations with other countries. And I think that that is exactly right.

I am not sure about the entire entourage that he took with him. I share some of the feelings much more eloquently expressed by Senator Chafee. I think that some of the crying and the high visibility that went on on the part of particularly the auto executives was really embarrassing to them and demeaning to our country and to the Japanese, as well.

I wish I could say that a single trip is the answer to the trade problems of the United States. I do not really believe that. I think that a trip is a trip. It is an opportunity to raise an issue, but it really does not and cannot amount to the solution to trade problems.

I also wish that I could agree with Senator Riegle, that somehow the problem is that we do not have a plan, and that if only planners got together in Washington and sat around a table, the right plan would solve our problems. I really do not believe that, either.

I think that the objective of U.S. policy should instead be the enforcement of the rules that we negotiate; day in, day out enforcement, almost matter of fact, routine enforcement of rules, not bashing another country; not insulting another country; not having temper tantrums; not saying things that are embarrassing to us or to them; but instead, the enforcement of the rules of international trade, enforcement for the sake of opening markets, not closing markets.

That, to me, is effective trade policy. And that is where I hope we will be moving, and that is where I think Senator Baucus is moving with the Super 301 legislation that he has introduced.

I think that for some who have watched this trip and for some who went on the trip and accompanied the President, the trip was really a kind of an excuse or a setting of the groundwork for a move toward protectionism.

I think, for example, that the answer to the problem of the U.S. auto industry is not really access to the Japanese market. It would be wonderful if we had more access. I think we should insist on more access. I think that it is part of overall enforcement of the

rules. But I doubt that very many people think that the auto industry in the United States would be made well if only the Japanese opened their markets to American cars.

And I think that much more damning to American enterprise, to the American work force and American industry—much more damning than the statement of any politician in Japan—is the statements of politicians in the United States that basically we cannot keep up; that America is not good enough; that we cannot sell adequate products in other markets, and, therefore, our only recourse is to raise the barriers to entry to our market. To me, that is defeatism. That really is protectionism.

The decision, it seems to me, is protectionism on one hand versus enforcement on the other, and I am for enforcement. And I hope that this committee is going to be addressing the question of enforcement during 1992.

The CHAIRMAN. Thank you. Senator Hatch.

**OPENING STATEMENT OF HON. ORRIN G. HATCH, A U.S.  
SENATOR FROM UTAH**

Senator HATCH. Thank you, Mr. Chairman. I wish to make a brief statement and, if I could, provide a more lengthy statement for the record, if that is all right.

At the outset, I want to say, without reservations, that the President's trade mission cannot be summarily written off as a wasted effort, and anybody who does that is doing it for political reasons.

Rather, the benefits were both material, as well as significant from a policy perspective. For the first time, a President has placed international trade and commerce at a high enough agenda priority to justify his direct intervention.

Now, that, Mr. Chairman, is a major policy accomplishment. And that sent a message that I do not think is ignored by the rest of the world, or by the rest of the business world.

I think it is something for which President Bush deserves a lot of credit. Anybody who has ever made one of those foreign trips knows they are difficult, and the people who think they are wonderful have not made them. They are pathetic. And it is a lot of work, a lot of effort, a lot of trial, a lot of jet lag, and a lot of difficulty.

Indeed, the President has borrowed a page from the business text books in demonstrating that you often need to get top management involved to make a program work.

Secondly, the message has been conveyed to our trading partners everywhere that the United States has arrived in the trade arena. Gone are the days when a relatively small share of domestic consumption going to the foreign market kept trade from the top of the Presidential agenda.

Today it is the strongest source of economic growth in our economy, currently outdistancing government and private business spending, as well as consumer spending, in terms of rate of growth.

Many material benefits also emerged from the trip. Today an agreement is being signed that will expand computer software and hardware sales in both the private, and now the public sectors in Japan.

Imminent is a paper agreement that the paper industry, which appeared before this committee in October, is now praising, having at last been placed on a more equitable footing in their attempts to penetrate the Japanese market.

To be sure, inequities do remain in our Japanese trade relationship, and they do trouble me as well as everybody else. But I am not convinced that we are effectively using the many mechanisms at our disposal in rallying against unfair practices where they exist. And let me just catalog a few of my concerns.

First, we saw from the minivan case that Chrysler and others successfully filed an anti-dumping petition under Section 731 of the Tariff Act of 1930.

They obtained from the ITC a preliminary ruling leading to the requirement that a bond accompany each imported van from the offending companies. If the final July 1992 ruling goes their way, the U.S. companies will have duties placed on minivan importation.

Secondly, our successes in using Section 301 of the 1988 Trade Act to leverage out concessions in the Japanese government procurement sector, as well as from other countries, has not been successfully pursued by the U.S. auto industry.

The Auto Parts Advisory Committee still seems inclined to let the U.S. Trade Representative "self-initiate" a study. APAC, in my opinion, needs to be more forceful.

Nor have we been creative and aggressive in applying our anti-trust laws. This may yet be the best remedy for undoing some perceived injustices, such as cartel buying by Japanese transplants in the United States.

And, finally, we need to give the Structural Impediments Initiative more emphasis. In another forum, I have criticized the high cost of American automobiles sold in Japan.

However, what caused this price differential—30 percent higher than the U.S. cost? It was inaccessible distribution networks and inspection costs, the types of barriers that should be eliminated by negotiation.

And I do not think anybody expected the President to sit down there and negotiate all of these details for the auto industry. That is absurd. And those who have been trying to make a fuss about that, they are absurd.

And, Mr. Chairman, I want to close by saying that I do not approve of managed trade or protectionist practices by anyone. It is contrary to my personal economic philosophy.

However, I am committed to everyone getting his or her day in court. To illustrate my philosophy, I am less impressed by a mandated sale of 20,000 vehicles to Japan, which is a form of managed trade, than by the permanent elimination of barriers by negotiation, which is what our Trade Representative has been doing, and I think doing very, very well. One remedy is for the moment; the other is forever.

And, Mr. Chairman, I have seen some of these people who were invited on the trip come back and bad mouth the President. I have respect for a number of those people, but I did not have any respect with the way they conducted themselves.

I do not think you do that, especially when the President makes this kind of an effort. And I personally thought it was not only ridiculous, I thought it was offensive.

I think it is time for the automobile industry to show that it is the greatest industry in the world. They have got the greatest workers in the world; do not let us let the Japanese have the greatest managers in the world, but rather, let us have these managers who are belly-aching about these problems—let them walk up and do something that is good for the automobile industry and use these things that we have available for them to get it done.

Let us quit belly-aching and do something to compete. And then let us use our laws to make sure that the Japanese people do what is right, too.

Because they are not doing what is right in a number of areas, and I, for one, am willing to help any Senator on this committee, or any Senator in the Senate to try and help correct some of those inequities.

So, let us all pull together and see what we can do for our country. And maybe if we got rid of some of the politics, we would go a lot farther.

The CHAIRMAN. Thank you. Senator Breaux.

#### OPENING STATEMENT OF HON. JOHN BREAUX, A U.S. SENATOR FROM LOUISIANA

Senator BREAUX. Thank you, Mr. Chairman. I apologize for being late. Thank you for having the hearings. I think they are incredibly important. I thank Ambassador Hills for being with us, and obviously being very patient listening to us.

I had written the President a couple of weeks before the trip and I wrote a letter saying one of the biggest problems we have with some of the Asian countries, and particularly with Japan, is rice.

They have been absolutely unfair in not even letting us offer that product to their country for sale. When our people had a food show and even tried to show rice in Japan, they almost got arrested.

The Japanese tell us that, well, it is our tradition to grow our own rice. It used to be our American tradition to build our own cars, and build our own televisions, and build our own electronics.

We have opened our markets to them, but in this really absolutely unjustifiable position on their part, they have refused us even to be able to offer a product that we could probably sell to them at a cost 500 percent cheaper than they could achieve.

The point I want to make is that I had written the President two weeks before the trip and said, Mr. President, this is really an important issue.

Please consider taking one person from the rice industry, from any State, to go with you on the trip to act as an expert advisor, to be there as a counsel to show the Japanese that this is really a serious issue; that we really feel very strongly about this issue.

I got a response from Fred McClure, who said that "we got your letter. Thank you very much." I Never got any substantive response; In effect, no one from the rice industry was eligible to have even one seat on the 747. Not just one seat to be able to be there in an advisory capacity and send a signal to the Japanese.

I am real sorry Ambassador Hills was not on the trip either. In summary, I just really wanted to ask about the rice issue and see what are we doing about this issue. It is just so frustrating.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, gentlemen.

Madam Ambassador, you have seen the intensity of the feeling of members. Without a question, this committee, with the primary jurisdiction of trade, has always put strong emphasis on trade, than has the Executive Branch. It means so much to the economy of our country.

You heard the comments about you, too. And I must say that for someone to have been in that job now for, what, almost three years, and to have been through some of the toughest of negotiations and to have that kind of bipartisan praise is quite a tribute. Now tell us how you are going to live up to it. [Laughter.]

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

Ambassador HILLS. Mr. Chairman, thank you for your kind comments and those of the committee. I am pleased to be here to talk about the state of our trade relations with Japan.

I have sent up a written statement with an appendices. Because of the shortness of the time that I have with you, let me just make a few of the points that I did try to make in my written statement.

Perhaps I could cover three items. One is our trade policy currently with Japan. Secondly, I would like to say a word about the President's recent trip in the context of our broader trade objectives. And, finally, perhaps, just a sentence about the future of our trade negotiations with the government of Japan.

I think you all know that our overall trade objective is and has been to get markets open, creating export opportunities abroad so that we can stimulate economic growth here at home and generate jobs.

When the President took office 3 years ago, a top goal of his policy was to expand access to the world's second-largest market economy, namely, Japan.

We seek, as you do, an open and competitive climate in Japan where the decisions to buy or to sell are based upon quality, price, and service and not on Keiretsu, collusion, or protective industrial policy.

And this was the message that the President delivered forcefully to Prime Minister Kaifu in his Palm Springs meeting in 1990, and this was again the message that the President delivered forcefully to Prime Minister Miyazawa in Tokyo on his recent trip, all in an effort to create this parity of opportunity with Japan.

The administration has steadfastly pursued a comprehensive, three-prong strategy which includes eliminating barriers in specific sectors, sectors that have been mentioned here this morning, using all of the leverage at our disposal and our trade laws.

Secondly, reducing economy-wide barriers that are structural impediments that have been addressed under our Structural Impediments Initiative, and, I think, effectively.



And then, finally, working hard in the Uruguay Round to negotiate strong and effective multi-lateral rules, to lower tariffs, to increase access for U.S. goods and services.

This strategy is paying off. During the Bush Administration, U.S. exports to Japan have risen by 30 percent. Our trade deficit with Japan has declined 18 percent. Japan is currently our second-largest export market. It is currently our largest single buyer of agricultural products. Last year their agricultural purchases topped \$8 billion.

Since 1988, our overall exports to Japan have grown 50 percent faster than our imports, and over the past 3 years, our exports of manufactured goods, which has been mentioned this morning, have grown by 45 percent, topping \$30 billion. So, it is not a small number.

In 1990, American exports to Japan were greater than our exports to France, Germany, and Italy combined. In fact, our exports to Japan are about 25 percent greater on a per capita basis than our exports to all of Europe.

This remarkable expansion of exports to Japan in a relatively short period of time has created jobs—about 200,000 of them. And yet, we agree, there is much more work to be done.

Our objective is clear and has been clear from the outset. Our entrepreneurs must have the same opportunities in Japan as their entrepreneurs have in our market. And that is why the President emphasized the need for market openings in his recent trip.

I daresay that if he had taken the trip and not addressed the economic issues, he would have been criticized. And then he takes the trip and emphasizes the economic issues, and he is criticized.

Let us look at what he accomplished in 4 days in Japan. He was successful. He did achieve greater market access in the \$9 billion public sector market for computer hardware and services. We signed that agreement yesterday. And the computer industry is extraordinarily pleased. It projects that this market opening agreement will be worth somewhere between \$3.5 and \$5.5 billion annually by 1995. That is good.

In addition as a result of the President's trip, we have greater access to a \$65 billion paper market has been mentioned—this has been a focus of our attention for the past 3 years—And to a \$4 billion glass market—and those in that market are applauding the fact that greater access has been obtained.

And you mentioned the new car market. Well, we eliminated 14 standards and certification impediments, restrictions on the creation of dual distributorships, and the excessive dealer and distribution mark-ups. So, here again, we have achieved greater market opening.

The President was also able to obtain a pledge from Japanese car makers—this is the private sector. His presence enabled a pledge to be obtained that Japanese car makers will double their purchases of U.S. auto parts from \$9 billion to \$19 billion by 1994.

We have always tried to introduce a willing Japanese buyer to a good, competitive American seller. And that is all this does. We are not suggesting to you that this opportunity to sell more parts is going to solve all of our problems, but I think it is a constructive step in the process of opening an important market opportunity.

We reached an agreement with the Japanese government on 49 standards and certification issues; those non-tariff barriers, those invisible barriers that have curtailed our exports of cosmetics, processed foods, pharmaceuticals, chemicals, and industrial machinery in Japan.

And we reached agreement with the Japanese government to reinvigorate the Structural Impediment Initiative by undertaking new commitments.

It has been said, and I agree, that no single visit, nor any single agreement with Japan is going to open the market to our standard, which is to achieve the same opportunity for our entrepreneurs in the Japanese market as their entrepreneurs have here.

But because of the President's efforts in Tokyo, the Japanese market is, as a matter of fact, more open than it was. And American firms and American workers can expect billions of dollars of increased sales into the Japanese market.

Some urge us to enter into market sharing agreements with Japan, or to limit its sales here in our market.

And I just have to say so sincerely that neither of these strategies will accomplish our objective to ensure that the Japanese market is as open to our entrepreneurs as ours is to theirs.

Protection stifles innovation, taxes consumers, particularly the lower income consumers, by raising their prices and reducing their choices; managed trade merely sets ceilings on what American companies can achieve, and it most assuredly invites similar action against us.

The only certain way to open the Japanese market is with steady, persistent pressure; the precise strategy the President has employed for his 3 years in office, and it has achieved demonstrable results.

We sometimes forget how much concrete progress has been made over the past 36 months. Some of the agreements reached since the President took office include: a 1990 satellites agreement, resulting in a \$600 million contract for a U.S. company; the super computer agreement entered into in 1990, where, U.S. manufacturers have won three out of eight new contracts since that agreement was signed, compared to two out of 43 in the prior 4 years; the wood products agreement, which the industry says will most assuredly increase their exports to Japan \$1 billion annually; the cellular telephone agreement, the services and equipment telecommunications agreement, all nudging toward \$1 billion in sales in 1991; the semiconductor agreement moves sales up from roughly about \$700 million to \$2.4 billion annually today; and the major projects agreement in construction increased our opportunities to exceed \$20 billion. U.S. firms have achieved contracts since that agreement.

Moreover, through the Structural Impediments Initiative, we have insisted that the Japanese enforce their anti-monopoly laws and liberalize the retail distribution system, making it easier for our companies to operate and to sell in Japan.

Another important avenue that ought not to be overlooked for increasing access to the Japanese market is to bring our Uruguay Round global trade talks to a successful conclusion.

And on this trip, President Bush raised with Prime Minister Miyazawa the importance of the Uruguay Round, and that focus on that Round was both timely and constructive.

In conclusion, let me say that the U.S./Japan relationship has profound implications for global prosperity in the remainder of this decade, and well into the 21st century. As the world's two biggest economies, we do play a critical role in keeping markets open and our global trading system functioning.

And this administration has been working steadily, and, I believe, effectively, to do just that.

I thank you.

The CHAIRMAN. Madam Ambassador, when you cited your numbers, I cannot help but have to look at the total numbers. Now, you cited some individual areas where we made some gains. But when I look at what it is in 1991 as compared to 1990, I see the trade deficit with Japan increasing again.

I have noted the fact that on semiconductors, we had an agreement some 5 years ago that we were to work toward 20 percent of the Japanese market.

The numbers that I get are 12 percent; the numbers that I understand your office now puts out are 14 percent. But I think much of the 2 percent difference is how you figure it, and that you have changed the way that you calculate the percentage.

I look at a situation where the trade deficit with Japan has now increased to approximately 60 percent of the total trade deficit that we have.

I have looked at what we have done in bringing down the value of the dollar against the yen, and I have seen the dramatic change in the enormous trade deficit we once had with the EC. We moved that from about \$22 billion, as I recall, some 5 years ago, to about a \$16 billion surplus today.

I look at the problems we have had in the Uruguay Round in trying to get the Japanese to help us. On the agricultural sector, as I recall, they rejected the Denkel text even before the EC did. And that has added to our problems.

I would like for you to comment on that.

Ambassador HILLS. Mr. Chairman, we also look at the total picture. And I would point out that since 1988 when President Bush took office, the deficit with Japan is down from \$52 billion to \$43 billion. You rarely have a straight line in such matters.

The process of bringing a deficit down is going to be a sawtoothed process, but it is on its way down, and the overall deficit is down, as you point out, from a high of about \$157 billion in 1986 to, as you point out, \$65 billion this year. We are not going to have bilateral balance with each of our trading partners, just as a family owes one creditor while it has revenues coming in.

The CHAIRMAN. I agree with that, Mrs. Hills. But it is such an incredible differential difference with Japan compared with as the progress that we have made with other countries. And that does give me some concern.

Ambassador HILLS. We are looking for multi-lateral balance, and we are trying to get into multi-lateral balance. And, as my statement shows, I agree with you that we have more work to do with Japan.

But I would like the record to show that we have made progress globally, and with Japan. So, my point is: we are on the right track and we ought not to change our strategy, which is working, for a strategy which will curtail trade, will curtail our economic growth, and create problems—grave problems—worse problems here at home.

The CHAIRMAN. Well, help clear up for us as to whether or not these so-called commitments that we heard about for Japan: were those just targets, or were they firm commitments?

Ambassador HILLS. It depends on the issue that you refer to.

The CHAIRMAN. How about automobiles?

Ambassador HILLS. Automobiles is a commitment private sector to private sector. It is simply a commitment by the private sector to buy more auto parts and by the auto distributors to permit dual distributors.

The CHAIRMAN. Firm or targets?

Ambassador HILLS. There is no enforceable agreement with the private sector, but it was a public commitment. The dealer association commitment permits a Ford, or a Cadillac to be shown on a Japanese dealer's show room floor. The fact of the matter is that our auto companies today do not have an automobile to ship to Japan.

The best that we were told they could do was to divert an automobile from Europe to Japan; we were told that they could not ship that tomorrow. But, by opening up the opportunity for them to show their products, I think that is a plus.

The CHAIRMAN. Yes. But I am trying to understand if it is a commitment or a target. That is a very simple question.

Ambassador HILLS. With respect to computers, we have an agreement. A government-to-government agreement that will be monitored, and it will be enforced. On the effort of the Japanese private business sector to increase its imports of American manufactured goods, such as auto parts, that is simply a target. We will watch that. If that target falls short, that will be one indicia of a market being closed.

If they meet or beat their target, that will indicate an opening of the market. We still have our trade tools, but we want to work so we get the market open. We want to have increased access, and I think the President's visibility in Japan highlighted the need to accomplish just that.

The CHAIRMAN. Senator Packwood.

Senator PACKWOOD. Carla, let me know if my figures are right. I am looking at U.S. Department of Commerce figures on the merchandise trade deficit—and this is merchandise; it does not take into account everything, it is just merchandise—with Japan.

I have got the following figures: 1987, \$56 billion; 1988, \$52 billion; 1989, \$49 billion; 1990, \$41 billion; and through November, \$39 for 1991. Is that the same figures you have got?

Ambassador HILLS. Yes.

Senator PACKWOOD. Well, it is going down.

Ambassador HILLS. The trend line is definitely in the right direction. The projection for the overall year is that 1991 may exceed the \$41 billion that was achieved in 1990 by a small amount. And, hence, we are concerned. We are working on that. Again, the bilat-

eral balance is not our exclusive focus but rather we also seek than to get the market open so we have equal, competitive opportunity.

Senator PACKWOOD. And I will say again what I said in my opening statement. I have got all kinds of manufacturers in Oregon that are quite pleased, although it did not relate in this trade. I have got a company called A-DEC that manufactures dental equipment. We probably are all familiar with it, unfortunately, as we go to the dentist and see it. [Laughter.]

Twenty percent of their sales are overseas. They have about 10 percent of the Japanese market, and they compete in the Japanese market with several Japanese manufacturers. And they say things are going fine.

It took them about eight or 9 years to break into the market, and they have broken in. They have the advantage of being able to sell directly to the dentists, and it has worked out fine for them. I think we are going in the right direction.

Let me ask you one specific question. We ourselves would almost solve this problem of not selling American cars in Japan if Americans were just satisfied enough to buy American cars, would we not? You do not need to answer that. [Laughter.]

Ambassador HILLS. Thank you, Senator.

Senator PACKWOOD. I have no other questions, Mr. Chairman.

Senator RIEGLE. Would you just yield before your time is—

The CHAIRMAN. No. Just a minute, please. Let me state that we have several other witnesses, and I do not want to cut the members off, as I am not going to cut Senator Rieggle off. But I wish you would keep that in mind as we try to get through it.

Senator PACKWOOD. I would answer his question, though. I drive a Chrysler van, by the way, and it is a beautiful car.

Senator RIEGLE. I know you do, and I congratulate you for doing so.

One of the issues—and we cannot discuss it here in the time we have—is that Japan, over the years, has been selling cars here in the United States at a lower cost than they sell that same car in Japan by several thousand dollars.

And so, in fact, they are very attractive purchase-by-purchase, because if you can buy a car that normally would cost and be produced, let us say, at a price of \$30,000, and, instead, is being sold for \$20,000, you know, that is a very attractive purchase in and of itself.

Those cars are sold at a much higher level in Japan because the market is closed and other competition is not allowed in there. Not just in the United States, but from other countries.

So, that two-tier pricing system stretching now out over a decade is a fundamental part of this issue. It is complex because people have to move down into the issue of what constitutes dumping pricing and fair pricing, and that is a part of the problem. And I thank you for yielding.

The CHAIRMAN. Thank you. Are there others who would like to comment and ask questions? Senator Baucus.

Senator BAUCUS. Thank you, Mr. Chairman. Ambassador, I first compliment you, and the administration for your work under Special 301 with respect to intellectual property infringements by the PRC. You have worked hard at reaching an agreement with China,

and it looks to me like it is a good agreement. I compliment you for that.

It is your work, though, on Special 301—with its targets and deadlines—which leads me to my real question.

And that is, I am just surprised at the administration's continued opposition to extending Super 301.

I am particularly surprised because, in your statement, you talk about consistency, and hanging in there, and being tough, and so on, and so forth.

You mentioned satellites, super computers, and forest products as sectors where the Administration succeeded in opening the Japanese markets. As you well know, those successes occurred because we named sectors under Super 301.

When we had Super 301, we had targets; we had deadlines. And it is clear to me that priorities and deadlines go a long way, particularly with Japan, in reaching success.

Why does the administration oppose an extension of Super 301? I mean, it is a market opening measure; it is not protectionism. It is designed to open markets overseas. It does set priorities. We cannot do everything; we have to set some priorities.

It does set some deadlines. This world runs by deadlines, and we all know it is human nature to procrastinate. And the Japanese are adapt at putting things off—the SII talks are a good example—if we do not have deadlines.

So, why not extend Super 301?

Ambassador HILLS. Let me explain. The Super 301 statute, as it was drafted, requires USTR to file an action against a country on a specific date. And that may be the very worst time in our ongoing negotiations where we are trying to get the market open.

We are negotiating all of the time. I can understand why you would want to have a Super 301, if you faced a Trade Ambassador that was resisting using Regular 301 actions which can be filed at any time, and which also have the same 12 month deadlines and which are also a part of legislation that this committee passed. But that is not what you face.

The statistics show that we have initiated more 301 actions than any of our predecessor administrations; that we have resolved more Regular 301 actions than any prior administration; and that we have self-initiated twice as many 301 actions as the private sector has brought.

I rarely commence a negotiation without bracketing that negotiation with the Regular 301 process. And I can tell you it is effective, and I am grateful for this tool you have given us.

But your Super 301, which must be filed on April 1st, is really very ineffective, and after it is used, it takes me about 4 months to get the trading partner back to the table.

All of our Super 301s entailed unnecessary friction and delay; I could have brought a regular 301, and, I believe, solved each action earlier. You just have to believe me, because I was in the negotiating room. I am not enthusiastic about Super 301 as an effective trade tool.

Senator BAUCUS. Well, a lot of your trade negotiations are. They see it as good leverage. And I must say you have not filed a single 301 with respect to Japan since the expiration of Super 301.

Ambassador HILLS. That is incorrect.

Senator BAUCUS. What has been filed?

Ambassador HILLS. What I did is what I explained to you. I bracketed each negotiation. I sit down with my counterpart and I say, how long will this negotiation take?

For example with respect to amorphous metals, it was determined on the basis of a discussion with my counterpart that a fair time to resolve the difference was 150 days—which by the way, is a shorter period of time than allowed under Super 301. I said fine. On the 150th day, I will file this action if we have not reached an agreement. The statute does not require us to wait a precise length of time before taking retaliatory action.

So, we started the negotiation, and, indeed, we solved the matter in 150 days. Similarly, with digital equipment, there we decided that an agreement would take 120 days.

Senator BAUCUS. Well, it is clear that there is no perfect time.

I mean, if there is a statute that requires the administration to take such action by such time, I am sure the administration would like it to be a day later, or a day earlier.

Nothing is perfect in this world. But I think it is equally clear that the statute has been effective. You yourself touted three areas where it has worked: super computers, satellites, and forest products.

Ambassador HILLS. Well, I could name 15 cases where I have been, in my opinion, more effective with Regular 301.

Senator BAUCUS. Well, let us have both. Let us have both.

Ambassador HILLS. Actually, I would have to say to you that I think in the future we will create problems rather than solve problems with Super 301.

And yet, the remedy of a Regular 301 is indistinguishable from a Super 301, except that it may be filed in May or December or any date, instead of a particular, specified date: April 1st.

Senator BAUCUS. Well, we just respectfully disagree with each other, because I believe in priorities and deadlines. We are going to have to set deadlines and dates and priorities if we are going to accomplish our objectives. Thank you very much.

The CHAIRMAN. Thank you. Senator Grassley.

Senator GRASSLEY. Mr. Chairman, is this round a five minute round?

The CHAIRMAN. Yes, it is. I wish it was three, frankly.

Senator GRASSLEY. I am not complaining, I am just asking.

In my opening remarks, which I will insert to conserve time, I spent a great deal of time talking about enforcement of anti-trust laws. I am pleased to hear that Senator Hatch brought up the same issue in his opening statement.

Today, I am particularly interested in hearing our trade ambassador's position on the role that she might play in the anti-trust principles in the trade area.

For instance, when Attorney General Barr was before the Judiciary Committee during his confirmation hearings, I questioned him, and he agreed that the extraterritorial enforcement of our anti-trust laws is an important tool for promoting free trade.

He has since moved to expand the class of international anti-trust cases that the Department of Justice might bring. I appre-

ciate his efforts, and wonder whether there might be also room for more aggressive promotion of anti-trust principles by the trade representative's office.

Madam Ambassador what do you perceive as your role in the promotion of international adherence to the principles of competitiveness that are embodied in our anti-trust laws, and in the enforcement of those laws?

Ambassador HILLS. Senator, our mission is to coordinate trade policy within the administration, so we work with the Attorney General among many others, and then to carry out negotiations pursuant to that policy.

The Attorney General is very able, and is looking at the question of when extraterritorial application is appropriate. And I know he is vigorously enforcing our anti-trust laws here at home, so that if foreigners have made investments here, they must comply with our anti-trust laws.

Senator GRASSLEY. And you see that as a useful tool?

Ambassador HILLS. I think that the way that the Justice Department is discharging their responsibilities is useful and effective.

Senator GRASSLEY. All right. I am particularly interested in whether you think there is room for the use of the trade laws to promote competitiveness in the Japanese markets in the event that the Japanese Fair Trade Commission is insufficiently aggressive in pursuing anti-trust cases.

Last session, the committee held hearings on the Japanese Keiretsu form of industrial organization. Numerous Japanese and American businessmen, as well as anti-trust lawyers, have told the Congress that the Keiretsu style of organization is anti-competitive, and contrary to anti-trust principles.

The 1988 Trade Act made clear that Section 301 applies to foreign government toleration of conduct that violates its own anti-trust laws.

Do you think that Section 301, or any other trade law—even including Section 337—should be used to discourage anti-competitive Keiretsu organizations?

Ambassador HILLS. We have used our Structural Impediment Initiative to get at the problems of the Keiretsu, and, I think, with some effect.

Now, the Structural Impediments Initiative was a 3-year undertaking. The Initiative was completed last year with a commitment to review its process three times a year and then twice in the succeeding 2 years, and that is being done.

There is far more disclosure today—disclosure based upon our type of securities law—in Japan than there was before we started our discussion. A disclosure of the interlocks in the Keiretsu relationship will be constructive.

And I think that our negotiations in that area will be helpful, and, as you mentioned, backed up the Justice Department in its application of our anti-trust laws.

Senator GRASSLEY. You spoke of the Keiretsu as a problem. Do you see the system itself as anti-competitive?

Ambassador HILLS. Not necessarily. The question is whether it operates in a given circumstance in an anti-competitive fashion. All we ask is that our goods be offered competitive opportunity. When



they are the best on the basis of price and quality, they ought to be examined.

Now, it is true, as Senator Riegle has pointed out, that the Japanese, in years past, have followed a strategy of sanctuary at home, and super-competitive activity abroad. And that has been harmful to our industry. Those practices are much diminished today. We have our dumping laws to deal with those dumping practices when they occur, and the Japanese have been the target of our dumping laws. We do take action against unfair trade.

But the fact that there is ownership, one corporation of another, is not, per se, a problem, so long as the interlock is transparent and the competitive opportunity by foreigners offering their goods is a real competitive opportunity.

Senator GRASSLEY. Do you think that our trade laws ought to be changed to deal with anti-competitive behavior of Keiretsus, if it exists? And you say it depends, it might exist or might not exist; it depends upon the specific tack they might be taking.

Ambassador HILLS. I think that the Attorney General is in a better position to advise you as to whether our current anti-trust laws are adequate to deal with foreign problems.

Senator GRASSLEY. Well, I am speaking of our trade laws and what tools you might use if you thought that the Keiretsu system was a problem, and, in some respects, anti-competitive.

Other than going in under anti-trust laws, can you use these tools to combat the Keiretsu system?

Ambassador HILLS. Absolutely. Where it results in market closure, we would take action, and we would seek to get that particular market open. And that is what we have done. That is what we have done.

Our successes, which have turned the trade figures with respect to Japan so that our overall exports are up by 30 percent, are a result of our looking at individual industry sectors, whether it be medical devices or heavy equipment, or what have you, to get those markets open.

The CHAIRMAN. Thank you, Senator. Are there other Senators who wish to question the witness? Senator Rockefeller, I believe you are next.

Senator ROCKEFELLER. Thank you, Mr. Chairman. Ambassador Hills, when I was in Japan, I spoke with the Prime Minister, the Foreign Minister, the Finance Minister, all about the question of dumping and countervailing duties, and the actions of the Japanese negotiators in the GATT Round. That was my main message.

I did not have a feeling that it was being heard, particularly, and I also did not have the feeling, frankly, in discussions with the embassy, that it seemed to be as high a priority there as I might have expected.

Under the present situation, we can countervail against regional subsidies. The text that I believe that Dunkel has placed before you, would make that not permissible. Whether or not that is what Dunkel has done and what the Japanese have caused, or a combination, what do you see the situation as to dumping and subsidies and countervailing duties, and what is it that we are doing about that with respect to the Japanese at the GATT Round?

Ambassador HILLS. We have worked very hard, and I am glad that you reinforced our efforts, in both of those categories. And I am surprised that you did not get the feeling that our embassy was pushing very hard too.

I can tell you that I have called in the Japanese Ambassador to have a serious talk regarding both of these areas, and he is very able. And I know full well that my messages have been passed back to Tokyo.

There is a difference between the anti-dumping text, as you know, and the subsidies text. The permitted categories under the subsidies text do include regional subsidies. That was more of a demand by the European community than it was by Japan.

In point of fact, our States provide some subsidies. So, it is an area where we are working in Geneva to deal with the difficulties as we see them. That also applies to the anti-dumping laws. With respect to anti-dumping the European community and the United States stood shoulder-to-shoulder. Japan was on the other side of that issue, along with developing countries.

We are analyzing the text with our manufacturing sector now, and we do believe that the rules against circumvention of our anti-dumping laws, and that the greater specificity of the rules are a plus.

We are disappointed that we did not achieve all of our objectives. We are going to have to compare the text as it turns out, because now it is just a draft, with whether it improves the trading system from what it is today, or makes it worse, before we decide whether or not it is something we can accept.

Senator ROCKEFELLER. Is it your impression that the Japanese are or are not trying to undermine the separate topics of dumping and countervailing duties?

Ambassador HILLS. I would say that on the topic of dumping and a countervail remedy against dumping, that the Japanese position is opposed to ours, without question.

Senator ROCKEFELLER. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. Are there others seeking to question? Senator Roth, you are next.

Senator ROTH. Madam Ambassador, let me say it is always a pleasure to have you, because it permits each of us to address TV. [Laughter.]

A number of people made a critical comment about the fact that you were not on the trip to Japan. I wonder if you would care to comment on that?

Ambassador HILLS. The U.S. Trade Representative's office was very well-represented in Japan. My deputy, Ambassador Moskow, was there the entire time. He was engaged, literally, around-the-clock on the negotiations that did create market openings. I was in daily contact with him.

I might remind you that the period of time when the President was in Japan was the period of time that the Director General's text was being reviewed by our industry, and we were approaching a Trade Negotiation Committee meeting in Geneva.

We have a very full plate at the current time, with many trade missions and many trade challenges. We believe that, in this instance, we deployed our resources both correctly and effectively.

Senator ROTH. Well, I can imagine that if you had not directed your attention to the Uruguay Round, there would have been critics of that. So, I share your comments.

One thing that concerns me—and I will keep it to this one question—is the Uruguay Round and where it is going.

I have been particularly disappointed that Japan, as a leading trading nation of the world, has not provided more effective leadership in bringing those around to a successful conclusion.

In the area of agriculture, they have not been very forthcoming, although I have heard that they may begin to take some steps.

But what can we do? Why is Japan, who has benefitted the most, or as much as anyone from the liberal trade practices espoused by this country, not taken a more leadership role, and how can we get it to do that?

Ambassador HILLS. I think we can only continue our effort to raise trade concerns with the Japanese leadership. Their historic role has been less to be leading on international negotiations, but, in the future, that can be changed, depending on who is in power.

Senator ROTH. Do you see any signs of that coming about, any recognition of their responsibility to open up the multi-lateral trade discussions?

Ambassador HILLS. They were energetic in many parts of the Round, and, in fact, led in some areas. Of course, they represent their interests, as they see them. And you and I might disagree as to how they define their long-term interest in these negotiations that seek to enforce and strengthen the multi-lateral trading system.

Senator ROTH. That is all the questions I have, Mr. Chairman.

The CHAIRMAN. Thank you. I see next on the list is Senator Chafee. Would you care to speak?

Senator CHAFEE. No questions.

The CHAIRMAN. Nothing. Senator Riegle.

Senator RIEGLE. Thank you, Mr. Chairman.

Madam Ambassador, what goal are you seeking, or what marker has been set out there for a reduction in the bilateral trade deficit with Japan this year?

Ambassador HILLS. We focus less in what the number ought to be, and more in terms of what the opportunity ought to be. We are trying to get that market open across the board.

Senator RIEGLE. So, there is no target, though, in terms of the combination of all of those things—what we sell to them and what they buy from us. You do not have a target for how much that deficit should come down this year?

Ambassador HILLS. We are looking for multilateral trade balance, and we may end up at the turn of the century buying more from one country and selling more to another.

Senator RIEGLE. I have set forward a proposition, as you know, with four other Senators and a group of House members that would require an \$8.5 billion reduction in the bilateral deficit with Japan for this year.

That would be about 20 percent of last year's number. And we would follow that reduction with equal steps over the next 5 years in order to get to that balance of trade 5 years out.

We chose this time table because it allows an orderly transition rather than an abrupt, immediate move toward restoration of our trade balance. Could you accept that kind of a goal? Is that within the range of what we ought to be targeting for and trying to achieve?

Ambassador HILLS. I think the strategy, Senator, is not one that I could endorse. What it seeks to do is to curtail our trade, rather than to open the market.

And I think it is far more important not to constrain trade, which will limit our economic growth and activity, but rather to open global markets so we can expand our exports and our economic activity for the reason that has been stated.

Senator RIEGLE. Well, let me just stop you. I know the philosophy, because you have stated it over and over this morning. I wanted to know whether there is a goal or a target for overall trade deficit reduction with Japan. You have said there is not; that answers that question.

Let me move to the next one. Has Japan practiced protectionism? Are they practicing protectionism today?

Ambassador HILLS. In some areas—

Senator RIEGLE. Can you give me just a yes or no?

Ambassador HILLS. In some areas they protect their markets, in other areas they do not; just as we do.

Senator RIEGLE. Has it worked for them? Have the Japanese gained great economic strength by the tactics they have followed?

Ambassador HILLS. If you take their history from the 1960s, I think their strategy of sanctuary and selling abroad in a competitive fashion has moved their producers along more rapidly. It has taken a toll on their consumers.

Senator RIEGLE. May I ask you this: why should we not treat Japan in the trade area exactly the way they treat us? Why should we treat them any differently on any single item? Senator Breaux's mention of rice could be one possibility.

This is one product that is out there that I know has a special heat to it. But if you take the idea of reciprocity across a whole range of activities and products, why should we—after Japan has had a bilateral trade surplus with us in their favor of \$460 billion since 1980—not say today that we will have exactly similar trading relationships back and forth and where they are open, we will be open; where they are closed, we will be closed. Why should we treat them any differently than they treat us?

Ambassador HILLS. Because we would greatly restrict our trade. We have a surplus with Japan in services. We have a surplus with Japan in agricultural areas.

Senator RIEGLE. We have an overall surplus?

Ambassador HILLS. Yes. In those sectors.

Senator RIEGLE. Oh. No. But not in total in all sectors.

Ambassador HILLS. Not in total. But, again, Senator, we could go back to bilateral balance, country-to-country, U.S.-to-Japan, and the correction that you urge is do not trade if there is any surplus.

Senator RIEGLE. No. I say fair trade, and I say let us have the same rules which apply to both countries in all areas. Let me just cover one more thing.

Ambassador HILLS. But we do not give Japan the same rules going in both directions either. That is why the Uruguay Round is so important.

Senator RIEGLE. Would you say we have a more open market to Japanese products than Japan has for us?

Ambassador HILLS. In some sectors we do.

Senator RIEGLE. I am taking it as a whole. Now, let us not dance with one another. I mean, taken as a whole, is the Japanese market as open as the United States market is?

Ambassador HILLS. No, it is not.

Senator RIEGLE. All right. Thank you.

Finally, on the automobile situation, you have talked about the fact that you think that there has been some improvement over time.

I want to just lay out a point or two, because I think the openness of the Japanese market to autos is very important. In the news the last couple of days, Chrysler Corporation, one of the remaining Big Three in this country, has just undergone another credit rating downgrade.

This action comes on top of two previous credit rating downgrades—one for GM and one for Chrysler—which was made public about two weeks ago. As I am sure you know we have major financial problems in the U.S. auto industry, and the recession is compounding the situation.

Japan, has followed the transplant strategy, thereby bringing some auto plants over here. The Japanese owners operate those plants based on well-established Keiretsu arrangements, involving interlocking, vertical business relationships between Japanese companies and financial institutions.

As a result, the Japanese market share of car sales in America continues to rise. It has been rising steadily since the transplants arrived in the U.S. The Japanese have 33 percent of the U.S. auto market now. There is every reason to believe that in the absence of any U.S. plan to reduce the adverse effects of the transplants on our auto industry and our economy, the 33 percent market share will continue to rise.

I must tell you that this is only one U.S. industry. I do not think you have to love Lee Iacocca to care about wanting to save the domestic auto industry in this country. I say that, because it is 4.5 percent of our GNP, and involves about 2.5 million American workers.

What I am wondering is this: is there any way that we can try to break apart this Keiretsu arrangement in a more accelerated manner?

The data that we have shows that the transplant cars have less than 20 percent of actual content coming from American companies. In fact, the lion's share of auto parts for transplant vehicles comes from other Japanese companies.

One of my concerns about the recent understanding with Japan is that apparently Japan can buy auto parts from itself to satisfy the arrangement made during the President's recent trip. Japanese transplants in the U.S. can buy auto parts from other Japanese companies here in America, who, in turn, are buying from Japanese companies over in Japan.

Ambassador HILLS. We are trying to get at the Keiretsu, but the transplants here are regarded as American companies providing American jobs and we do not want to close them. We want to offer our products here and in Japan on a competitive basis. We do not want to close a Japanese-owned company here because those Japanese companies employ American workers.

Senator RIEGLE. Yes, they do. But, our workers essentially end up doing the lower level work, as you know, when they are employed by Japanese transplant auto companies.

The CHAIRMAN. Senator, if you could close it up.

Senator RIEGLE. Yes. Thank you.

The CHAIRMAN. Thank you very much. Senator Danforth, do you have comments?

Senator DANFORTH. I think that when you were answering questions relating to fixed targets for the trade balance with Japan, or any other country, what you were saying was that our objectives should be to negotiate and enforce the rules of fair trade rather than to pre-judge the result of what that fair trade brings us. Is that the essence of it?

Ambassador HILLS. Correct.

Senator DANFORTH. I listened to your colloquy with Senator Baucus. For those of us who want to enforce the rules and to do so very systematically—which is a word you used in your testimony—I would hope that you would not just rule out thinking that we might come up with how to have more vigorous and more systematic enforcement than we might have right now.

Maybe Super 301 is not the greatest idea that was ever developed. I thought it was a pretty good idea. [Laughter.]

Senator DANFORTH. But if you have a better idea for how to accomplish systematic enforcement, fine. I, myself, do not think that ad hoc enforcement of regular 301 quite does it.

But I would hope that you would at least be willing to discuss the matter with us before foreclosing either Super 301, or something that is a reasonable follow on for Super 301.

Ambassador HILLS. Well, as you know, Senator, I am delighted to consult with you. And I can show you all the cases that we have brought and share with you outside the television cameras why it is we think that a strategy that is mandated at a particular time works less well than one which has the flexibility of discretion.

And we have brought a number, as you know, of 301 actions—more than any other administration—and yet we have only been here for 3 years.

But we are always happy to talk to you about alternative ways to open markets. And, of course, we upheld the Super 301 statute for its 2 years in existence and would uphold any other law that you saw fit to pass.

Senator DANFORTH. I always appreciate your reasonableness. Thank you.

The CHAIRMAN. Well, it is nice you want to uphold the law. I like that, too. [Laughter.]

Senator Breaux.

Senator BREAU. Thank you, Mr. Chairman. Thank you, Madam Ambassador, for being with us.

Subject: rice. The Japanese support their rice farmers at a support price between eight and ten times the world market. The price of rice to their retail consumers in Japan is somewhere between three and six times the world's price.

And yet, for the last 20 odd years, they have absolutely refused any country—not just the United States, but any country—the ability to offer rice for sale in their country.

Now, when I read Section 301 of the Trade Act, it says that, "If the USTR determines that an act, policy, or practice is unreasonable or discriminatory, and burdens or restricts U.S. commerce, an action by the United States is appropriate and the Trade Representative has discretionary authority, as under prior law, to take all appropriate and feasible action, et cetera." Then it outlines the action.

Now, my question is this: considering the Japanese practices in this area, do they meet the criteria of a Section 301 petition, and if not, why not?

Ambassador HILLS. There has been a 301 action brought, and working with the industry, I think, as you are well aware, we concluded that the best way to get the Japanese rice market open was through the Uruguay Round.

Senator BREAUX. Well, these two petitions were not really brought by our government. They were both rejected. In 1986, the rice industry filed a 301 petition. And at that time, Ambassador Clayton Yeutter said, "The Japanese rice program is indefensible, it is intolerable," yet he rejected the petition. In 1988, the industry came back two years later and said, all right, the same thing is happening. Let us file a new petition. They filed a second petition in 1988, and we got basically the same words. I have the statement from Ambassador Yuetter. "Their program is indefensible, it is intolerable, but we reject the petition."

He did say in 1988, that, if, in the current negotiations in Montreal at that time, that "if they are not successful in bringing a solution to this problem, I will entertain an immediate resubmission of the Section 301 petition."

Well, here we are 4 years later. Their support price is eight to ten times the world's price; three to six times the price that was paid by their consumers. And they even try to arrest our people when they tried to show the product over there.

Now, if a petition was before you today, I mean, like right now, and knowing these facts and knowing the circumstances, would it be something that would be positively received by your office, or would it be rejected again?

Ambassador HILLS. We would certainly study it.

Senator BREAUX. Study it? I think that is an indication of where we are. I mean, I would say to my colleagues, that USTR says file a petition. We filed a petition in 1986, and they said "everything you say is true. It is intolerable what is happening over there, but we are rejecting it." They filed it in 1988; same situation: the government rejected it.

And now our ambassador, with all due respect, is saying, "We will study it." I mean, when I tell my farmers in Texas, and Louisiana, and California about this, they laugh at me now. They say, you want to do what?

Ambassador HILLS. We would have to read the petition, Senator. Senator BREAUX. Sure. I know that. But if the factual situation that I outlined about the Japanese protection of rice is accurate—let us assume it is.

Does it meet the requirements of a section 301 petition being favorably filed. And if it does not, why does it not?

Ambassador HILLS. I think it certainly raises a prima facie case. I would want to look at the petition and what the Petitioners were stating.

I still maintain that I think we will get a better outcome by being successful in the Uruguay Round. Agriculture, rice, barley, starch, corn, sugar, peanuts, worldwide, are protected. We have bans or such low imports on some products so that they can scarcely come in.

And Europe is, I think, the largest transgressor. That is why we are giving so much attention to the Uruguay Round, and why it is so very important to the global trading system. I am with you. I want the rice market open.

Senator BREAUX. Let me read something about the Uruguay Round—the Japanese thoughts on it. "If the Japanese accept the proposed agricultural plan in the Uruguay Round, which may well be resurrected, it would mean that the government of Japan would have to allow foreign producers to supply at least three percent of the Japanese rice market a year. And they would then create a 700 to 800 percent tariff to replace their import ban." That is not too promising, is it?

Ambassador HILLS. It actually is promising in that it gets the trading system on the right path. Those high tariff figures that you mentioned would be subject to progressive reduction over time.

And there would be minimum access at the bottom, and a gradual reduction of the tariff barrier at the top. When we talk about 3 percent growing to 5 percent of total consumption of rice in Japan, yes, that does create increased market opportunity, and we think it is going in the right direction.

Senator BREAUX. Thank you.

The CHAIRMAN. Thank you very much, Madam Ambassador. I know that there are other questions that we would like to ask, but we also have some other witnesses who have come a long way and are very patiently waiting for their turn. Thank you for your attendance.

Ambassador HILLS. It is a pleasure to be with you. And if there are other questions, as you know, I am very happy to answer them away from this mike.

The CHAIRMAN. Surely.

Ambassador HILLS. Thank you.

The CHAIRMAN. Thank you. I would say for the next round, since we all had our opening rounds and so on, that we limit the questions to three minutes.

And the next witness will be Hon. Michael Farren, the Under Secretary for International Trade, Department of Commerce. Mr. Secretary, if you would come forward, please. Mr. Secretary, we are pleased to have you. If you would please proceed.



**STATEMENT OF HON. J. MICHAEL FARREN, UNDER SECRETARY FOR INTERNATIONAL TRADE, U.S. DEPARTMENT OF COMMERCE**

Secretary FARREN. Thank you, Mr. Chairman. Mr. Chairman, I have prepared a written statement, which I have submitted to the committee. I will try to keep my opening oral comments brief. I know you have other witnesses waiting. I can keep them brief, because I think Ambassador Hills did an excellent job of assessing the successes that we have had out of this trip.

I think, frankly, you did an excellent job at the outset stating what the problem is in terms of United States-Japanese trade. I agree with Senator Packwood in his assessment in what we have accomplished in dealing with that problem through the President's visit.

It may be helpful to put things in perspective to look at what we originally laid out to be the objective of the mission. And I will just read a portion of the mission statement as it was released prior to the trip.

"The mission will demonstrate the importance of open foreign markets and free and fair trade to American jobs, economic growth, and improvements in our standard of living. The mission will express the basic fact that trade is, and must be, a two-way street.

"The mission is not a trade negotiation. Discussions will address broad interests, based on the need for open markets and the willingness and ability of American industry to compete globally on the basis of fair trade principles and quality products."

In summary, the mission's message is that open markets create jobs and provide economic growth. I think on the basis of that original objective for the mission, we were quite successful.

The mission was not meant to solve or deal with our trade problems in the course of 11 days. And, in fact, the Bush Administration has been dealing with a broad range of trade issues for the last 3 years.

The mission did, in fact, follow through on what the administration set out to do in 1989, which is to really create a business/government partnership in dealing with the issue of trade and international economics.

I think it did, for the first time, have the President go to four separate countries and put on the table the question of trade and economics as a number one priority.

I might point out that it was a four-nation trip. We were received very well in the first three countries. I think they recognized the importance of the message. In fact, they were quite receptive to the message of open markets and the interest of the U.S. business community to participate globally.

We did, obviously, get a different reaction in Japan. I think the assessment of the trip has not properly reflected the facts. In fact, I was somewhat frustrated that there was an assessment of the trip by many people, particularly in the media, before they ever had an opportunity to review the facts.

Before the plane landed at Andrew's, the trip was already being called a failure, which I think is an unfortunate judgment, because it may, in fact, have a long-term negative effect on what I think could come from what we accomplished on this trip.

The trip was not a departure from prior administration policy. We did not want to move towards managed trade, by any means, and we did not. If that were our interest, you would see government-to-government negotiations on that basis.

This trip, in fact, included the business community because we are convinced the problems of trade have to be dealt with private sector-to-private sector. And that is precisely what we laid out.

If I can, for a moment, just run through what did occur on auto parts and autos, because I know that has been focused on, and that was an area that I particularly addressed in Japan during the visit.

We laid out before we left precisely what we would like to see come out publicly at the conclusion of the President's visit. And I will point out what those issues were, and I think we were successful on all points.

In auto parts, we wanted the government of Japan to conclusively embrace the company voluntary plans that had been developed through the MOSS talks since the summer of 1990. These are voluntary.

In fact, the statement from the Government of Japan really took the form of the public announcements that the individual companies had made indicating that they hoped to achieve an annual purchase of \$19 billion in auto parts by 1994.

The CHAIRMAN. Mr. Secretary, I apologize for interrupting your statement, but we have a vote on the floor, and some of us will go to that and return as quickly as we can. Senator Riegle will continue to Chair in the meantime.

Secretary FARREN. Thank you, Mr. Chairman.

We also wanted the government of Japan to put forward a commitment for the Japan Fair Trade Commission to assess the distribution network of auto parts, the manner in which Japanese companies purchase auto parts, and frankly address the question that was raised by members today on the operation of the keiretsu. They did that.

We also wanted a conclusive commitment for the Government of Japan to proceed with a sourcing study of auto parts, which Secretary Mosbacher and his counterpart called for last fall.

We wanted an agreement on methodology; we also wanted a commitment on the verification of the facts that would come out of that study and responses from auto makers—both American and Japanese auto makers. We accomplished that.

We also wanted a clear commitment beyond the Ministry of International Trade and Industry in Japan to support an import promotion program—

Senator RIEGLE. Let me just stop you at that point. I want to refer to a comment in a journal from Ambassador Hills on the question of the auto parts issue and breaking the Keiretsu, which appeared in the Wall Street Journal.

She is quoted, and it is a partial quote, to the effect that, "if the Japanese want to buy the auto parts from Japanese transplant companies, that that would satisfy the auto parts aspect of the recent US-Japan understanding."

I am very troubled about that comment and plan, because, as you well know, the domestic content of the products of Japanese

transplant operations in the United States is quite low. In most cases it is far below the required 50 percent by U.S. law.

This raises the question of whether the auto parts' understanding is one where the Japanese, in effect, could satisfy its requirements by buying auto parts from their own Keiretsu Japanese partners.

I would be very troubled if that, in fact, is the understanding, or is the arrangement. Can you clarify the terms of the understanding regarding auto parts purchases by Japanese transplant auto companies?

Secretary FARREN. Senator, we did not draw a distinction as we reacted to the Japanese voluntary plans for \$19 billion in purchases. We did not draw a distinction between companies or plants having equity ownership by American shareholders versus Japanese shareholders.

Frankly, I think it is important for the U.S. Government to judge a job in a factory in the United States to be a job of an American worth getting equal treatment under U.S. Government policies.

Senator RIEGLE. Well, let me stop you.

Secretary FARREN. But if I can—

Senator RIEGLE. Yes. Go ahead. Then I want to follow-up on that.

Secretary FARREN. There are two things that came out on auto parts, and I would like to be able to run through the balance, too. But addressing your question, there are two things that came out, I think, that are significant. One, the \$19 billion figure is subject to debate.

As to whether or not that is significant, what implications that will have for traditional U.S. auto parts manufacturers, for that matter, what effect it will have on the domestic U.S. content for Japanese-produced cars here in the United States.

I think the sourcing study will go an awfully long way to put some clear facts on the table that will allow us to better judge the significance of that voluntary objective of the Japanese companies to purchase \$19 billion.

What was more significant, for the first time, the government of Japan, in their Action Plan—their unilateral document coming out of our discussions—indicated that the long called-for objective by the companies of 70 percent U.S. content in the transplants was something that was within the national interest of Japan. They cited it as something that was an objective, and that is worthwhile.

That, I think, will also give us a basis of judgment to work against when the sourcing study is completed. Your numbers are accepted by many; something less than 20 percent. Few accept the current Japanese numbers as being a realistic figure.

But, more significantly, I was very pleased that Senator Grassley and Senator Hatch raised the point of competition policy. We have addressed it in the Structural Impediments Initiative.

It is something that we are pleased the Justice Department participated in. Assistant Attorney General for Anti-Trust Rill has been focusing on it; in fact, he was one of the negotiators in SII.

I think what is more significant on the operation of the keiretsu is whether or not it does, in fact, violate accepted norms of competition policy, not just by the United States, but in other industri-

alized countries. And that is something that we really need to address.

And the sourcing study will go a long way to putting facts on the table on Japanese buying practices. The openness of the system—

Senator RIEGLE. Let me tell you what I have found on that. We held a hearing the other day under the auspices of the Banking Committee on the issue of auto parts supply and the keiretsu. U.S. manufacturers do quite well in the area in making auto parts and selling them to the rest of the world, as you well know.

Secretary FARREN. \$23 billion.

Senator RIEGLE. We do very well. But we have this problem where we cannot sell in Japan, despite quality products. Therefore it is obviously that there is a barrier in the way that prevents U.S. auto parts suppliers from gaining access to the Japanese market. What we are finding in this country is that premiere auto parts manufacturers are being shut down because of this situation. They are being choked to death because they cannot compete on an even basis, even in this country, against the Japanese transplant auto parts makers.

In other words, the plants that Japan has established here in the United States to do auto parts have used anticompetitive practices to kill off a large part of the indigenous U.S. industry.

I see that as both unfair, and very damaging to the U.S. economy. If the profits were accruing to American interests and remaining in our country rather than being rebated and taken back to Japan, we would have a different situation, which would be more to our advantage, economically.

Our auto parts suppliers obviously see the reverse of this scenario. The reason the Japanese are conducting business in the U.S. is that it allows Japan to accrue more financial strength over time.

I am greatly concerned that the Japanese can satisfy the auto parts understanding by buying through from keiretsu members. This practice is killing off the American auto parts firms. Yet, the President agreed to allowing keiretsu purchases, something that is greatly to Japan's liking and which will help its auto parts suppliers, while providing great harm to U.S. companies.

The general comment from Ambassador Hills seems to acknowledge a willingness to accept this reality that as long as the Japanese are buying, even if it is from the Japanese here in the United States, they are satisfying the understanding. I do not think that should be the foundation of the recent United States-Japan arrangement.

Secretary FARREN. Well, the government of Japan, in their statement coming out of the President's trip, indicated that they thought that it was important for Japanese auto makers to look to traditional American suppliers for purchases in this \$19 billion. So, they cited that themselves as the objective.

Senator RIEGLE. Yes. But was that the message that Japanese officials and businesses accepted? Is there a requirement; is there a mandate; is there a commitment; or is there a firm understanding with the Government of Japan on working at and buying from traditional American autoparts suppliers?

Secretary FARREN. These are voluntary objectives. I think it is dangerous to call any one of them a commitment.

Senator RIEGLE. That is what I was afraid you were going to say.

Secretary FARREN. The moral suasion of MITI, and, for that matter, the obligation of the companies having made those statements publicly will certainly be something we will be looking at.

Senator RIEGLE. Let me just stop you here. I have got to go, because we are about to finish this vote, and I need to make this vote. So, we will stand in recess until the first member on this side returns, which should be in a minute or two.

Secretary FARREN. Fine, Senator. Thank you.

Senator RIEGLE. So, the committee will stand in recess just for a very short time.

#### AFTER RECESS

The CHAIRMAN. If you will please be seated and cease conversation, we will get back under way. Mr. Secretary.

Secretary FARREN. Thank you, Mr. Chairman.

Mr. Chairman, on auto parts I had pointed out that we wanted a public statement on company-to-company plans which included the voluntary objectives of the companies. We achieved that.

We wanted a commitment for the Japan Fair Trade Commission to do an analysis on the auto parts area on the question of whether or not there were exclusionary business practices and Anti-Monopoly Act problems.

We also wanted MITI's program for import promotions, which includes tax incentives and financing, particularly for small and medium-sized importers, to receive greater support from the Government of Japan.

On autos, our objectives included what the auto companies had told Vice President Quayle before he left for Japan in May, which, by the way, also included business executives along on that trip: what was the number-one thing that U.S. Government could do to assist U.S. auto sales in Japan? And that was to resolve the certification and standards problems that were outstanding, in some cases, for 15 or 20 years.

In fact, the American Chamber of Commerce in Japan a few months ago had simply thrown their hands up on some of these standards problems and said they were not going to bother to discuss them anymore because they assumed they were insoluble.

We, in fact, addressed all 14 issues and the resolution of those issues has, in fact, been publicly praised by the three auto executives that were on the trip.

We also wanted the Japanese auto companies to come out with their own plans on how to open up their distribution network. They had already taken some steps to relieve some of the contractual restrictions that their dealers have. We wanted them to go further.

Frankly, we wanted the same access for American companies that Japanese companies enjoyed in the 1960's and 1970's when they set up their distribution network here in the United States.

And we did make progress, frankly, through private sector-to-private sector discussions under the auspices of the Japan Automobile Manufacturers Association, to have the three U.S. auto makers in-

vite their counterparts to Detroit this coming month to continue those discussions. To me, that does not spell the lack of progress.

We also wanted MITI to incorporate auto importers and distributors in their import promotion program, giving them access to the tax and financial incentives that they have offered more broadly within their business community.

We wanted a commitment from the Japan Fair Trade Commission to do an analysis of access to the Japanese market for foreign auto makers, restrictions on distribution that make sales of U.S. vehicles virtually impossible. There is a commitment for the JFTC to do that.

And we also wanted the broad Government of Japan to embrace what was an agreement between MITI and the Department of Commerce to do a rather detailed economic study of access to the Japanese market for foreign-made automobiles.

We had already reached an agreement on how to conduct that study. We wanted it clear that the Government of Japan itself, beyond their own Ministry of Trade and industry, was supportive of it, and wanted it concluded expeditiously.

That will go an awfully long way to put some facts on the table as to just what the nature of the problem is for U.S. auto makers.

In summary, I think in the auto and auto parts area we made real progress. I would also like to point out that in everything I have heard from the three auto executives, and, for that matter, from every auto executive that was on the trip—and I think you will hear from Mr. Galvin from Motorola shortly—was that they were extremely pleased.

In fact, they indicated that it was more than just a first step, it was a very worthwhile undertaking for them, and marked a real commitment from the U.S. Government to work in partnership with U.S. business.

We have heard repeatedly from corporations and trade associations that were represented on this trip, and more broadly, from organizations like NAM and the U.S. Chamber, that this was a successful mission.

In reflecting back just 6 months ago, if you had told me that you would have the Chairman of the National Association of Manufacturers, the National Federation of Independent Business, the Chairman of the United States Chamber of Commerce, the Chairman of the U.S./Japan Business Council, and the Chairman of every leading advisory group to the U.S. Government from the private sector along on a trip to Japan—for that matter, Asia and Australia—and that there would be no light between them on their position, that they would be equally forceful and not look at simply sectoral problems, but deal with things generically on the question of opening markets, I would have questioned whether we could have accomplished that. President Bush did. I think it is an extremely important step.

What troubles me about the criticism of the trip, we may blunt the capacity of the U.S. Government to do it in the future, and we may send exactly the wrong signal to the four countries we visited and others on what the meaning of this trip was all about.

Thank you, Mr. Chairman.

[The prepared statement of Secretary Farren appears in the appendix.]

The CHAIRMAN. Mr. Secretary, I am delighted with what I hear, insofar as progress has seemingly been made on the certification process which has been outrageous for so many years.

But insofar as the unanimity of blessings for the trip, I do not see that at all. From what I saw of the speech of Mr. Iacocca before the Detroit Economics Club, it did not sound that way to me.

Now, let me ask you another one.

Secretary FARREN. Mr. Chairman, could I comment?

The CHAIRMAN. Please. I gave you quite a bit of time.

Secretary FARREN. Sure. I understand, sir.

The CHAIRMAN. All right.

Secretary FARREN. Thank you.

The CHAIRMAN. The plans of the Japanese manufacturers to substantially increase their importation of U.S. auto parts were based, as I understand it, on the assumption that the Japanese transplants in our country were going to increase their production some 50 percent.

Why did that have to be a part of the agreement? I have been told it is. Does that not just mean that we are sort of trading, where we come out even, and that we really have not gained anything if that increase is coming from those Japanese transplants? Help me understand that.

Secretary FARREN. All right. Mr. Chairman, one, I think we have to be cautious about what the nature of the documents and the commitments were. It did not constitute a bilateral agreement. In fact, we made it very clear that what the Government of Japan had put out was a unilateral statement.

In fact, when we looked at their unilateral statement, we insisted they take out the number 20,000 automobiles, frankly, because we thought it was an absurdly low number and we were very troubled that they would put a number in there.

The CHAIRMAN. I am told it was an afternoon's production by the Big Three—

Secretary FARREN. I understand. In auto parts.

The CHAIRMAN. Yes.

Secretary FARREN. On that, we noted—in fact, we noted it publicly right after we concluded the issuance of the statement—that the important number there was the 70 percent figure on U.S. content, and that the \$19 billion number which, in fact, was assuming there would be an increase in capacity, was subject to considerable debate as to its significance, and we were much more concerned with the question of how Japanese manufacturers were getting to a much higher domestic content in their transplants.

And the commitment during the trip to go ahead with the sourcing study will give us the facts we need to judge just what the nature of that domestic content is.

The CHAIRMAN. Well, let me ask you another question, because I put myself under this limitation of 3 minutes.

We heard the Trade Ambassador talking about the gains that had been made with Japan, the changes in the market. And yet, Japan's global surplus in 1991 rose to over \$80 billion—its highest

level since 1987. Its surplus with the United States increased to \$43 billion.

Japan's exports last year grew 10 percent; its imports, less than 1 percent. Does that not also suggest that whatever progress has been made has been substantially curtailed, or stopped, or reversed?

Secretary FARREN. Mr. Chairman, what you point out is that the Japan trade issue is not a U.S.-Japan issue; it is a global issue.

The CHAIRMAN. Of course it is a global issue.

Secretary FARREN. The balance with Europe and Asia was up nearly 50 percent this year. Ours remained relatively constant. The real victims of Japanese trade policies are the developing countries that require the second-largest economy in the world to have an open market so they can export and provide their own economic growth.

The message we heard in Korea, oddly enough, was a positive one on our presence, and one for open markets. It was a message, though, of please tell the Japanese to open up their market. Korea has a \$9 billion deficit with Japan.

The CHAIRMAN. I know what they have, and I know how many Hyundai they sold to Japan last year. They sold four, as I recall. I agree; it is a global problem. But, you know, I hired up to this country, and this is the one I am concerned about. Senator Packwood.

Senator PACKWOOD. In addition to everything else Commerce does, you are involved in some export enhancement programs. What do you do with Japan? How do you try to enhance, in the Commerce Department, exports to Japan?

Secretary FARREN. Senator, we have significantly increased our trade promotion efforts. In fact, in the Structural Impediments Initiative area, we have received kudos, oddly enough, from the Japanese for the success we have had in our trade promotion efforts.

One, since the start of the Bush Administration, we have increased our staff in Japan from 45 to 61. We have increased our budget of \$3.7 million to \$4.9 million. We have undertaken a number of cooperative efforts with MITI—frankly, with MITI funding some of those efforts.

We have created a dialogue with MITI on a sector-by-sector basis. We have created a Japan Trade Information Center, along the lines of what we have done with Europe.

We have created a number of new documents that will assist U.S. business on gaining access to Japan. Secretary Mosbacher also created the Japan Corporate Program, a small group of 20 companies representing a wide variety of firms from a number of industries to serve as paradigms. And they have become very effective in highlighting our market access problems.

In fact, the issues that were raised on glass were a result of Guardian Glass being part of the Japan Corporate Program, and working with them in identifying some of the impediments that they confronted.

We frankly want to be able to show American companies that you can export to Japan. You can make money. It is difficult, but, frankly, we will have a self-fulfilling prophecy—even if we open up the Japanese market—if American companies are so turned off to



the costs and the prospects that they are not prepared to market in that country, and that is what we have tried to turn around.

Senator PACKWOOD. I walked over to the vote with Senator Baucus, and I told him the experience I had had, and he had had a similar experience.

About 2 years ago, I held hearings in Oregon looking for companies that were successful in selling in Asian markets, and usually that would include Japan.

And I was stunned by the number of companies I turned up—smaller companies. I knew the bigger ones. Ten, 15 employees, 20 employees. One of them with five employees selling some kind of a gadget you insert in your throat when you are doing an operation, which they were selling 60 percent overseas, and operating out of a town of about 300 people.

I am amazed at the ingenuity of people that get into markets. When they have got a niche and they have got a product, they can sell it.

Secretary FARREN. And we have got to get those stories out. That is important. And MITI, oddly enough, agrees with us on that, and it has been helpful.

Senator PACKWOOD. I have no other questions, Mr. Chairman.

The CHAIRMAN. Thank you. Senator Baucus.

Senator BAUCUS. Thank you, Mr. Chairman. I must say, Mr. Secretary, the experience I was referring to was not with respect to Japan.

I asked several ambassadors from Southeast Asia to come to my State, met with businessmen, and that has worked out very well. But that is Southeast Asia; it is not Japan.

I have a couple of questions. Number one, you say that this is a global problem. I agree. We are not the only country that is concerned with Japan's protectionism. I was in Europe several weeks ago. The Germans are just outraged at Japan.

If this is a global problem, why not a multi-lateral, Article 23 kind of approach. If other countries are having the same kind of problem with Japan as we are, does it not make sense to try some sort of concerted effort. The Uruguay Round of GATT, even if it is successful, is not going to address all the problems we have with Japan.

In fact, most of the problems we have with Japan are outside the GATT. So, why not an Article 23 approach?

Secretary FARREN. Well, I think now that you have seen the numbers come out, and the Japanese figures on the 50 percent increase and the balance with Europe and Asia, you may see that proposal once again coming out of Europe. You know, they did in the early 1980's suggest an Article 23—

Senator BAUCUS. That is right.

Secretary FARREN [continued]. Which asserts a denial of benefits in the GATT system. At the time, the United States opposed that. I think at the moment we perhaps still would, but I think it is pressure that Japan will ultimately confront. And I think, perhaps, that is one reason why MITI and others in the government realize this is a problem they have to address.

Senator BAUCUS. Well, I hope you pursue it, frankly. I think there has to be a concerted global effort if we are going to reach any concrete results.

My second question goes to enforcement or the lack of enforcement of any agreements, commitments, targets, whatever, that were reached on the last trip. It sounds like none of it is enforceable, except, perhaps, for the computer procurement provisions. Is that correct?

Secretary FARREN. Well, I think Ambassador Hills pointed out that ultimately if the goals that the companies have set for themselves are not achieved—and they must assume they are reasonable, they put them out themselves publicly—then that could serve as an indicator that the market is not being properly opened, and that would allow our industry or the administration to look at various trade measures.

The President himself indicated in his closing comments in Japan that we would be prepared to look at all measures to enforce the outcome of the trip.

Senator BAUCUS. Why did the agreements not seek greater commitments, looking more, to enforceability?

Secretary FARREN. Well, we are dealing with the issue of access, not setting goals or targets. They did that for themselves, which I think is a worthwhile effort for them to have an import vision rather than an export vision.

We tried very hard to stay away from hard and fast targets, and we also, at this point, tried to stay away from iron-clad agreements.

If we were going to negotiate an agreement along those lines, it would have been a very different set of discussions. They would have been very difficult negotiations.

Senator BAUCUS. Are you saying that if you had sought agreements, you would have come up with nothing because they would not want to agree?

Secretary FARREN. I personally think, Senator, at this point, the approach we are taking could end up with a lot more than we would get in trying to get government-to-government agreements.

Senator BAUCUS. Thank you.

The CHAIRMAN. Thank you. Senator Rockefeller.

Senator ROCKEFELLER. Thank you, Mr. Chairman.

Secretary Farren, both you and Ambassador Hills seem to be so explicitly concerned about not being tagged with anything that smacks of managed trade.

And it is a word which is evidently terrifying, akin to the words industrial policy or economic strategy. You talk about this agreement as company-to-company. You know perfectly well that the major companies would not agree on a company-to-company basis.

You know perfectly well that the Chairman of the largest automobile company in Japan was called into the Prime Minister's office, after having refused to go along with the deal, was told to go along with the deal at length, directly, by the Japanese Prime Minister—which is the government—and then so did. And then the press releases went out.

Now, I am not critical of that. You agree that that happened, do you not?

Secretary FARREN. I have read in the paper that that happened, Senator.

Senator ROCKEFELLER. Well, believe me; it happened. If it did happen, one, it is not necessarily such a terrible thing, is it, that the Prime Minister had to intervene, or that the President of the United States came over with an enormous entourage, with a tremendous amount at stake, both diplomatically, politically, or any other way that you want to construe it? Is it perhaps all right that that happened?

Secretary FARREN. Well, I think it is very important for Japan to have an import vision.

Senator ROCKEFELLER. Answer me simply. You know what I am trying to get at. That was a managed agreement. It was caressed by the Prime Minister's office. Accept it; do not fight it. It is the way the world is.

Secretary FARREN. I think it is within the national interest of Japan, just as after World War II, we called in our business leaders and said, begin to import, when we had a significant current account surplus ourselves.

Senator ROCKEFELLER. So, we do it ourselves.

Secretary FARREN. I think it is a good thing to have occur. If the government offers moral suasion and points out that the private sector should do it because it is within their national interest.

Senator ROCKEFELLER. Well, I think this was more than moral suasion the Prime Minister had in mind.

In any event, do you foresee any circumstance under which the U.S. Government would not make sure in the near and long-term, and on a monitored basis that everything that was suggested in Tokyo that was arrived at either company-to-company, or any other way that you choose to phrase it, will, in fact, come about?

Secretary FARREN. The President said that he would be prepared to look at any and all measures to see that the outcome of the trip was successful.

And I was criticized today in an editorial in the Wall Street Journal for making a very direct statement after the comments the other day from the Chairman of Toyota and the Prime Minister. Yes. We feel strongly that there will be a negative reaction to any lack of success in the program that was laid out during the President's trip.

Senator ROCKEFELLER. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. Senator Roth.

Senator ROTH. What I am interested in is what can we do as a government to promote exports further than we have.

Take the case of Japan. You are a small business in my State of Delaware. It is pretty hard to know what opportunities there are. In some areas, you have to make those opportunities, of course.

For example, Japan has JETRO, which, as I understand it, is sort of a government corporation that is around the world in large numbers to seek opportunity to promote opportunity to Japanese business.

What can we do in this direction to help all business, particularly medium and small business to know that there is opportunity? We passed legislation hopefully promoting trading companies. That

failed. At least we have had no smashing success with new trading companies. The big ones folded up.

How can we provide better opportunities and more information? This new publication "Destination Japan" is fine. I have no objections to this. But it is general. But tell me about specific information that helps our people begin selling. For every billion dollars of exports, we create 22,000 jobs.

Secretary FARREN. Senator, we need an effectively funded U.S. and foreign commercial service, which is why the President has called, in each successive year over the last 3 years, for a \$10 million increase in our funding. The way we have been able to increase our staff in Japan is reflective of how we have used that additional funding.

We need an effective export/import bank and financing arrangements.

We need to make trade a number one issue, which is, frankly, one very positive thing out of this trip. Trade is now, at least, a front page question. I think that is good.

We need to do more of what Secretary Mosbacher has done over the last year: thirty seminars throughout the United States, over 5,000 attendees, most of them first-time exporters; an opportunity to see what information is available from the U.S. Government and the capacity, on our part, to deliver it.

Senator ROTH. Are we seeking specific opportunities and getting that information?

Secretary FARREN. Yes. We literally offer tens of thousands of counseling sessions every year to U.S. business firms to individual companies on specific opportunities.

There is also a regular full-page advertisement in the Journal of Commerce that lists trade opportunities that our organization collects.

This is something done on a company-by-company basis, which is why the company-company efforts coming out of this trip were so significant.

Senator ROTH. My time is up. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. Mr. Secretary, thank you very much for your attendance and for your statement. It will be helpful to us.

Secretary FARREN. Thank you, Mr. Chairman.

The CHAIRMAN. Our next witnesses will be a panel of two. First, Mr. Robert Galvin, who has been a friend of mine for many years.

I think he is one of the most progressive and able business managers that I have known; a man who has an intimate knowledge of what it takes to try to crack the Japanese market. And we are looking forward to hearing about the problems and the successes and what he thinks was accomplished on the trip.

Second, Mr. Owen Bieber, a distinguished, organized labor leader; a man who has an intimate knowledge of some of the concerns and the problems facing the United States automobile industry, and we are very delighted to have him.

Mr. Galvin, if you would proceed.

**STATEMENT OF ROBERT W. GALVIN, CHAIRMAN OF THE EXECUTIVE COMMITTEE, MOTOROLA, INC., SCHAUMBURG, IL**

Mr. GALVIN. Thank you, Senator. I appreciate this hearing.

Let me start by daring to suggest what would be a remarkable outcome of this hearing. You have heard from yourself, and you are hearing from us. And I hope, incidentally, my brief statement, which has some color to it, will be actually read by each of the members of this committee.

And the outcome I hope comes out of this is that you would have the objectivity to have looked at the totality of the effect of this trip, and that you would ascribe to it a sufficient degree of endorsement and approbation of success for the good of America.

I am probably as experienced a person at acting in the realm of employing government service to open markets, and having, in a part of a company that has succeeded in that, to see in this experience that we have had, since about December the 1st, and then the trip itself, and what can be the aftermath of the trip, a seminal success—a seminal succeeding process.

To the degree that one wants to be very pedantic and look for very precise packaged situations, no, you cannot, and would never have been able to find that.

But I respectfully suggest that those of us that have been laboring in this field, and frankly trying to bring some of you—I speak of the Senate itself—along over the last 25 years on this issue—and we have all come a long ways—and administrations, that this trip, which is illustrated by the profile that I have described there, did things that were step function important for American business.

And I direct you all the way to the third of my graphics to say that, regrettably, the focus has been on what is terribly important, but it what I factor as 5 percent of the importance of this trip—it is a very important 5 percent—and that is the automobile part, that I am sure we are going to hear from Mr. Bieber about very eloquently.

But for all of the rest of American business, including setting the stage for the environment of security and democracy where we can practice our investments with confidence in Australia, Asean, Korea, and Japan is a very big benefit to this trip. Very big benefits in trade in Australia, Asean, and Korea.

For example, in anticipation of this trip, the Koreans moved much faster towards an intellectual property position that is closer to what we want. These kinds of very significant events took place.

This trip, if it is properly interpreted by American business as being the success that it truly was, that it truly is continuing and will continue to be, will energize American industry substantially.

I have all kinds of stuff here from people who have written me since I have returned and spoken to four separate audiences about this matter and had two separate press conferences.

Everybody that hears the balanced report—and this is a terribly simplistic summary of it—says, my God, I did not realize it was this good.

And I have got letters in here from competitors who say if there is that much hope that we now have the President behind us and we are going to get incrementally more energy behind the pressure that is needed to pry open markets in Japan. I will go in and make a try again. That is the kind of letters I am getting from people.

And people from audiences come up and say, gee, I am glad to hear there is some hope in this thing. I thought the way I was catching this from the press that things were not good.

So, I am not going to repeat my written testimony here. I will be glad to answer a question or two, and consult individually with any of you who have been very gracious to always be interested in what folks like us have to say.

But this trip, sir, in the eyes of the businessmen who see the whole picture and who are engaged in everything from auto parts and all the other manufacturing and service businesses, look upon this as a very, very important new platform in which Americans can move.

My last comment is I think I know the Japanese, from a trade standpoint, as well as anybody in this country. And I think I know the Japanese government officials as well.

They heard the President. They will act as a result of the influence and the pressure of now the aggregate of the entire U.S. Government being behind them. And, incidentally, the power of your concerns are very, very significant. And they happen to back up the President, for the most part.

I know what is going on in the background in MITI and in some of the companies. And I pay credit to the fact that certain companies and certain government officials are working assiduously to achieve a new level of access, and, therefore, trade in Japan.

I have never been satisfied. I have always been out in front for what ought to be the next and more aggressive stage of how much more business should be done in Japan.

But I respectfully suggest that this experience was a very strong step forward towards greater success of American business in Japan.

[The prepared statement of Mr. Galvin appears in the appendix.]  
The CHAIRMAN. Thank you very much.

Mr. Bieber.

**STATEMENT OF OWEN F. BIEBER, PRESIDENT, INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE AND AGRICULTURAL IMPLEMENT WORKERS OF AMERICA (UAW), DETROIT, MI**

Mr. BIEBER. Thank you, Mr. Chairman. I appear here today on behalf of 1.4 million active and retired members of the UAW. Let me just say at the beginning, I do not intend to look at percentages, or anything else.

I just want to talk about what I see coming out of the meetings, and the effect upon the domestic auto industry, and to point out to everyone here that that domestic auto industry plays a very, very important role in providing jobs in the type of economy that we will or will not enjoy in this country.

We appreciate having this opportunity to share our views with the committee on the discussions of automotive issues that occurred during President Bush's trip to Japan.

The Tokyo Declarations, economic and trade relations component was simply a statement of intentions and of hope, not firm commitments. We all know that since the President returned from Japan,

we have had this view confirmed in statements by Japan and the Prime Minister, and the auto company executives in both countries.

We do not expect the Tokyo Declarations Global Partnership Plan of Action to contribute to reducing the more than \$40 billion U.S. trade deficit with Japan, or the more than \$30 billion of auto trade deficit.

The U.S. trade deficit in automotive products with Japan is a serious problem for the American workers in the auto industry, and, for that matter, the entire U.S. economy.

The importance of the auto industry extends to many other manufacturing industries from textiles to robots, and to the tax base of communities all across this great nation of ours.

The UAW saw the President's trip to Japan as an opportunity to achieve meaningful progress in reducing the United States-Japan automotive trade imbalance.

We suggested that exports of cars from Japan should be reduced from the current level of about 1.8 million annually to 800,000. In the longer term, we proposed that the U.S. adopt a market share limit covering imports from Japan and transplant vehicles.

The European community has already negotiated such an arrangement with Japan. Our concerns about the future of U.S. auto industry employment were not diminished one bit by President Bush's trip to Japan.

The Plan of Action's target for increased imports of Big Three vehicles into Japan is paltry. The Japanese auto assemblers announced the possibility that as many as 15,000 more Big Three vehicles per year could be sold in Japan.

With U.S. imports of vehicles from Japan running at more than 2 million, it would take more than 133 years for this increment in U.S. exports to amount to a single year's worth of U.S. imports from Japan. This is not a prescription for balancing U.S.-Japan auto trade.

If all the expectations contained in the Plan of Action auto parts sections come to pass, total purchases of U.S. auto parts by the Japanese auto producers would increase from \$9 billion in 1990 to \$19 billion in 1994; a gain of \$10 billion.

Unfortunately, even if these expectations are met, the U.S.-Japan auto imbalance would not be significantly improved. Due to the increase in low local content transplant production, the value of U.S. auto parts imports from Japan would remain virtually unchanged in 1994.

In addition, it would be a mistake to assume that increased auto parts purchases in the United States by Japanese auto companies will increase U.S. employment. The UAW remains convinced that increased transplant production will displace Big Three production and not the imports.

And if this, indeed, is the case, then the additional purchases in the United States by the Japanese auto producers will be more than offset by reduced Big Three purchases.

The far higher value of domestic sourcing for a vehicle by the Big Three compared to the transplants accounts for this result.

The products made in the United States by the Big Three companies are not 100 percent U.S. value, and we fault them for their sourcing of parts abroad. But they are far higher in local content

than the transplant vehicles, and that is why American jobs in the auto parts industry have been lost as transplants replaced traditional U.S. vehicles.

And that is why the \$8 billion increase in local sourcing for the transplants will not provide any relief to the domestic auto parts industry.

As if this were not bad enough news for the U.S. auto parts industry workers, it appears that the Japanese auto companies intend to direct the bulk of the additional purchases in the U.S. to the Japanese parts companies that have moved production to the U.S. and have traditionally supplied the Japanese auto assemblers through their Keiretsu ties.

Thus, the increased local sourcing by the transplants may not create jobs for workers at traditional U.S. parts companies. It is for these reasons that the UAW has characterized the results for automotive trade of President Bush's trip to Japan as nothing more than promises.

American auto workers and the American people are tired of promises. It is time for Congress to insist on balanced United States-Japan trade. The UAW supports the Trade Enhancement Act of 1992, S. 2145, introduced by Senator Riegle, and others.

That legislation would not simply set targets for improvements in bilateral trade as the Japanese government and the Japanese companies have done, and as President Bush accepted. It would require Japan to reduce its trade surplus with the U.S. by 20 percent each year for 5 years.

And if Japan fails to meet these reductions, a quota would be imposed on the number of vehicles that can be imported into the U.S. by Japanese companies.

Mr. Chairman, I have got about—

The CHAIRMAN. Mr. Bieber and Mr. Galvin, I did not mean for you to be cut that short. So, if you want to take some more time, you do it. And I will get back to you.

Mr. BIEBER. Thank you, Mr. Chairman.

It is time for Congress to take the contribution of the automotive industry to the nation to heart. We believe that prompt, favorable consideration of the Trade Enhancement Act of 1992 would accomplish that.

In conclusion, Mr. Chairman, I appreciate the opportunity to present the views of the UAW on the President's trip to Japan, and the need for effective action to reduce the United States-Japan automotive trade imbalance.

I also want to thank you and the members of the committee for giving us the opportunity to be here this morning.

Mr. Chairman, I have submitted a much longer statement. I would ask that that be incorporated into the record. I would be happy to try to answer any questions that you, or other members of the committee might have.

[The prepared statement of Mr. Bieber appears in the appendix.]

The CHAIRMAN. Mr. Galvin, would you like to add to your statement?

Mr. GALVIN. No, Mr. Chairman.

The CHAIRMAN. Let me start out by asking you the first question then. Because I quite agree with you, I do not know any other busi-



nessman who has had as much experience in trying to break into that market, and in doing it with some success.

But I cannot help but remember back to the semiconductor agreement in 1986 and what that agreement was with the Japanese. And 4 years after that was signed, the U.S. industry testified before this Committee that Japan had not met its commitments to it. Why do you think it will be different this time?

Mr. GALVIN. Well, first off, sir, that was only the second time that such class of negotiation had ever taken place, that I know of. I had the first industry-to-industry negotiation with the Japanese for any industry in 1983, and we got acquainted with the process.

The semiconductor agreement that I personally negotiated with Tanahachi and his associates from business in 1986 was the second exercise of process. I respectfully suggest the process is excellent.

We did not get the full results done, but now, for the first time, we have an agreement in this administration that they ought to more aggressively use private sector-to-private sector negotiations. I think the third time through we will do it better.

So, I focus, sir, on the process. We incidentally accomplished a hell of a lot more because we had that process than we would have otherwise accomplished, because you do have to pry open the markets in Japan. Once you get there, you can earn and keep your position.

So, agreed; I am disappointed that we are not at 20 percent yet. I think we will get a lot closer as a result of this trip than we would have gotten if there had not been this trip. I think people understand they have got to move harder and faster.

I say now let us put on the all court press. Let us have the auto parts manufacturers sit down with their customers, as they are ready to do. They like this general principle of what we are doing here.

I cannot talk to the car makers. Auto parts people want to sit down with their customers and do more than what had been presumed in the deal. I am not disappointed to hear people say that there is not a firm target. I think the objective should be lots more than \$10 billion in terms of auto parts. Let us go after it.

So, I say that we have the makings now of a process like the semiconductor agreement to use in five or ten industries, including the service business, sir. That does not get enough attention. Lots of opportunities in services.

But in manufacturing, clearly, we could do a lot more and with the backing of this Congress, which is just marvelous the way you people have really dug into this class of issue, and now with the presence of a President and key people like Mike and Carla, et cetera, and Moskow, who did a marvelous job for the USTR when he was over there, I think there is a great deal of promise that we can accelerate this situation.

The CHAIRMAN. Tell me. You hear so many Japanese officials talk about how the problem is that we are not competitive, that we lack quality. How do you respond to that on semiconductors and telecommunications?

Mr. GALVIN. Well, the Japanese have to posture everything. I am sure you know, and some of your associates know, the character and the quality, and it is good character and good quality of Japa-

nese—it is their character and quality. They have to posture all these kinds of things.

But privately, they recognize that we are meeting them and beating them in all kinds of markets in the world, and we are serving them very ably in many, many, many, many categories of products.

And, when we are given the chance—Americans in general—and then work hard, we match up to them. So, that is a bit of rhetorical obfuscation, sir.

And behind the scenes, the people that count recognize that there are suppliers out there that could meet their needs. And if they are forced into buying and they all need to be forced—do we understand the character of the Japanese?

None of them can give up anything unless they are forced, because they have to keep harmony with all the rest of society.

The CHAIRMAN. I really had some questions for you, too, Mr. Bieber. But maybe I will be able to come back to those. Go ahead.

Senator PACKWOOD. Mr. Galvin, what are the principle products Motorola sells in Japan now?

Mr. GALVIN. Well, we are a very large supplier of cellular telephones, and we are a very large—I brought this along for the sake of having a display—a very large supplier of—

The CHAIRMAN. We ought to charge you for a commercial. [Laughter.]

Mr. GALVIN. I did not start the question, sir.

Senator PACKWOOD. Are those cellular telephones the little portable things where it opens up and we use them here? It is a portable phone.

Mr. GALVIN. It is a portable phone.

Senator PACKWOOD. All right. Now, let me ask you something. You do pretty well in Japan with that?

Mr. GALVIN. Yes, sir.

Senator PACKWOOD. As I recall, five or ten years ago, you were saying you could not get into the market on those.

Mr. GALVIN. That is correct.

Senator PACKWOOD. How did you do it?

Mr. GALVIN. We went to the U.S. Government and Bob Strauss went over and pounded the table and got Dr. Shinto to give us a request for quotations. And then we went over and we overcame every damn obstacle that they put in our path with regard to specifications and met the specs and got the order.

Senator PACKWOOD. And now you are doing swimmingly.

Mr. GALVIN. That is right. But you have to force the market open.

Senator PACKWOOD. I understand. It can be done.

Mr. GALVIN. It can be done.

Senator PACKWOOD. This is the normal answer I get from my businesses in Oregon: we have succeeded at it. It is roughly the same answer. I remember the experience of a lumber manufacturer. He was a Swiss man, never been involved in lumber before. He came and opened up a mill in Oregon. He was not doing very well. He decided he could sell in the Japanese market, he thought.

And for 3 years—he lost money every year. The Japanese had inspectors in his own plant, that he paid for. But he would cut it to

their dimensions and he was cutting good wood, because they wanted exposed post beam construction.

He has finally made it, and he sells 90 percent of his market in Japan. It took him 3 years to get in, and it took him 5 years to turn a profit. But he is doing quite well at it.

Mr. Bieber, let me ask you a question. Do you think in terms of autos and auto parts and related things to automobiles we ought to have a reasonable balance of trade with Japan?

Mr. BIEBER. Do I think we should have?

Senator PACKWOOD. Yes. Yes.

Mr. BIEBER. Of course.

Senator PACKWOOD. In automobiles.

Mr. BIEBER. Yes.

Senator PACKWOOD. Why?

Mr. BIEBER. Well, because I think when you look at the automobile industry, the importance of it to our country, that it cries out that we not just let this important piece of our economy go by the way side.

In addition to that, I see other areas in which other governments insist upon that fairness in trade, which gives them an opportunity to get into other markets. I look at the European community as one.

Certainly they are not leaving a situation where somebody can come in, take whatever they want of the market, and not play fairly in reverse.

Senator PACKWOOD. But you answered my question about automobiles. Would your answer be the same industry-by-industry, that in each industry there ought to be roughly a balance of trade with Japan?

Mr. BIEBER. Well, let me say this. Let me answer it this way. If somebody can suggest to me—and I have heard all the testimony this morning—how you are going to work out balance of trade with Japan unless you do something with automotive, I need to be shown that. Because when you look at 30 billion or 40 billion, it says to me you have to do something in auto or you are not going to work it out.

Senator PACKWOOD. And that is the reason, not because that you happen to represent the UAW and the autos are hard hit.

Mr. BIEBER. Senator, let me say this. I heard another Senator who is not here this morning take a back-handed crack at the UAW, and I will answer him. By the way, he is in error, because the UAW led the parade in that managed medical care situation.

Senator, the UAW and the auto workers do not operate within a vacuum. We cannot be successful or a failure without the rest of the country being successful or a failure.

And if you look at the importance of the American auto industry, I would suggest that my concern for that industry is also a concern for the future of this county, because that is a big lynch pin of our economy.

Senator PACKWOOD. That has a stunning similarity to Charlie Wilson's statement of 40 years ago, about what is good for the country is good for General Motors. It came out, he said, and vice versa. And the famous statement was what is good for General Motors is good for the country. That is not quite what he said. But

what you are saying is what is good for the UAW would be good for the country.

Mr. BIEBER. No. What I am saying very simply is that to try to suggest that this is only a UAW problem could not be further from the point.

The point is that the American auto industry is the lynch pin of our economy, and it is important to the future of this country. Unless we want to, in fact, continue down the road that we are, and that is, do away with the domestic auto industry.

And it does not take an expert to come here and tell you what you get: third world economies. The last time I looked, that was not very good for anybody, including the leaders of those countries.

The CHAIRMAN. We will have another round.

Senator PACKWOOD. Thank you, Mr. Chairman. That is all right.

The CHAIRMAN. Senator Baucus.

Senator BAUCUS. Thank you, Mr. Chairman. Mr. Galvin, you have done well in Japan. You said a few years ago you had a tough time, and Bob Strauss went over and pounded the table, and you met all the specs, and so forth.

In your candid judgment, why has the auto industry not done the same?

Mr. GALVIN. I cannot answer for the automobile people. They have got some superb spokespeople.

Senator BAUCUS. But you are a businessman; you know Japan.

Mr. GALVIN. Yes.

Senator BAUCUS. What has happened?

Mr. GALVIN. Well, our experience is not a bad role model, and that is that one has to go and force open markets. And maybe that is not what the energies are addressed to. And then, of course, you have to offer what the customer wants.

Senator BAUCUS. Mr. Bieber, your answer?

Mr. BIEBER. Well, first of all—

Senator BAUCUS. Briefly, because I have another question.

Mr. BIEBER. I will try very briefly. First of all, I would point out that Mr. Galvin points out with the help of the American government, they were able to do some things. We have not been able to do that. Quite frankly, we have a situation where we have not been able to get a fair shot. We produce parts. You know, the thing I think everybody has to understand—

Senator BAUCUS. I understand. If I might, please, because we do not have a lot of time here. Let us—

Mr. BIEBER. Well, I mean, but I—

Senator BAUCUS. I am with you.

Mr. BIEBER. All right. You may be with me. I think there is an important point. Mr. Chairman, I would like a bit of time myself if I can come back to make that point.

Senator BAUCUS. All right. The point is this. I agree with you that we need a very strong, vibrant U.S. auto industry, and it is good for America.

I just think we have to develop our manufacturing process, that we have to produce more products in America that we can sell to Americans and sell to people overseas. And the auto industry is certainly a cornerstone of the productive effort we must make.

Now, without getting into who is at fault here, without getting into questions of blame as to why the U.S. auto industry is in such dire straits.

But putting blame aside for a moment, let us talk about solutions. How do we get the U.S. auto industry strong so that 30-40 percent of the cars bought in Japan are American cars, instead of 30 percent of the cars bought in America being Japanese.

What should the auto industry and the UAW be willing to do in exchange for some kind of relief? That is, if there is a VRA, if we address transplants in some way, what do you think the industry should do in exchange to show that the American people are not getting a pig-in-a-poke?

To what degree should we say to the executives, bring down your compensation? It is my understanding that in 1992, the total GM executive compensation will equal the total GM profits. The same dollar amount.

I was in Germany not long ago. BMW makes all their cars in a way so the steering wheel can be on either the right-hand side or the left-hand side.

Do you think it is unreasonable for the Congress, if it encourages the administration to do something for the industry, to, in exchange, say, all right, X percent of your profits have to go back into investment, you have to cut back your executive compensation, you have got to do all these things to show that you are really doing what has got to be done so that three, or four, or 5 years from now we can lift the VRA?

Mr. BIEBER. Well, let me add to—

Senator BAUCUS. Well, my time is up. If you could just in one or two sentences add to that.

The CHAIRMAN. No. You go ahead and answer the question.

Mr. BIEBER. He asked the question. You ought to let me answer it.

Senator BAUCUS. Well, I am not the Chairman. Maybe the Chair will let you.

The CHAIRMAN. You go ahead.

Mr. BIEBER. Thank you, Mr. Chairman. First of all, let me say this. The UAW, nor this current president of the UAW, nor all of his predecessors have to take a back seat to anybody in talking about their displeasure with the high compensation of CEOs.

And I, quite frankly, am happy to hear other people concerned about it this morning. So, anything you want to write that takes that into consideration, you will have my support. And they all know that, because I have told them that many times before.

Senator BAUCUS. What else?

Mr. BIEBER. Now, let me make the point. You raised a good point. You said BMW builds a car that you can put a steering wheel on either the right-hand side or the left-hand side. If we are given an opportunity to sell some cars in Japan, we can do the same thing.

But, Senator, I have to say in all fairness, if I was a CEO of an American automobile company, I would not have made the investment for a right-hand drive car to sell in Japan when I cannot get into the market. So, give us an opportunity to force an opening of that market and the American products can compete.

I want to also point out another thing which is big, and that is the auto parts industry. Now, I keep hearing about they can sell. You cannot sell unless you can get into it. You cannot get into the transplants here.

Why? Because their answer merely is our parts do not meet up to the quality of Japanese standards. Then someone tell me how we sell those parts in Europe that go into that same BMW car? The Saginaw Steering Gear plant in Saginaw, Michigan makes steering devices.

Our export to Europe has doubled—has doubled. And those same devices go into those cars. Quality is high enough for BMW, but somehow it is not high enough for the Japanese to look at in the Japanese market, or here in the United States.

Senator BAUCUS. Well, my time is up. You did not really answer my question, but my time is up now. That is all right.

The CHAIRMAN. All right. We will give you another shot. All right. Let's see. Next we have Senator Roth.

Senator ROTH. Thank you, Mr. Chairman. One of my concerns, Mr. Galvin, is that many people stop in my office who are involved in international operations full-time, represent their major companies, say, in the Pacific Rim.

They come back and tell me that one of their concerns is that their parent company—their home office—does not put enough support and attention to trade. That, in their opinion, the American market continues to be the first concern and international trade only secondary.

Is that a problem? Is there anything we can do about that?

Mr. GALVIN. There are managements that have that perspective and that certainly will restrain most companies from being successful. I respectfully suggest that we could do some things to change that motivation around.

I started my testimony here a few minutes ago by saying one of the nicest things that could occur, if you could possibly stomach it, is to say, you know, there was more benefit out of it than we realized on this trip, and we think American business should take greater heart and have a greater sense of confidence that you can succeed in Japan. We will back you up. Even the President says he is going to back you up more.

I think that would awaken a substantial increment of that block of American managements who have apparently been obliged to say, as apparently the car companies might have been obliged to say, hey, we do not see enough hope that we cannot put our investment there.

Some of us moved ahead boldly and said, let us throw caution to the wind, and we succeeded. I think more people have to understand that now that they have got support of the follow-on of the Bob Strausses, they are going to get some really good benefits.

Senator ROTH. Mr. Bieber, I agree with you that a viable auto industry is essential to our economy. And, as I said earlier, it is my judgment that we are producing in the United States some pretty damn good cars. But the problem seems to be one of perception.

That one illustration where, I think it is Toyota—I may have the wrong car—is being produced at the same facility that a General

Motors car is being made. And according to the story, the Japanese car sold extraordinarily well; they could have sold a lot more. But the American car, produced by the same workers, incidentally, at the same facility, does not sell. What can we do to correct that perception?

Mr. BIEBER. Well, Senator, you are absolutely right. Some of those high-quality cars are produced in your State. And you are absolutely right in the example you give. It is two, actually, not one.

One is a situation in Fremont, California where the Prizm is produced, along with the Corolla. Same parts, run and produced by the same people.

The other is the Diamond Star Joint Venture in Illinois between Chrysler and Mitsubishi. I have been in both of those plants. Identical parts, run down the same line, put together by the same people, and it is true the Japanese model has outsold the domestic model.

Senator Baucus, before you leave, let me also say I agree with you on the reinvestment.

And so, it is a perception problem. Quite frankly, we get a lot of jollies in America out of, you know, sort of kicking our own backsides. And I marvel when I get into these discussions. I will say to someone, well, why do you say the foreign car is better? Well, in 1968 I had X type of American car. Well, compare it to 1968.

In 1968, the Japanese could not sell a car here either because they had a poor car, and we had a poor quality car.

But let us look at 1992 to 1992. The incidence of problems per 100 is almost identical, and it is almost zero. We build a very high-quality car.

And I say the same thing to the media. Quit kicking the hell out of the American product. I agree with you that we have a problem there, and it is a perception problem.

And I think it behooves all of us to become salesmen. And for whomever it was that said nobody called him this morning, I think it was Senator Chafee, if I can be of help to anyone, I would be happy to use my good office.

Senator ROTH. Well, my time is up. But as I said earlier, I wish the American consumer would begin looking first at American products.

Mr. BIEBER. I join you.

Senator ROTH. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Chafee.

Senator CHAFEE. Thank you, Mr. Chairman.

You know, Mr. Bieber, it seems to me that you present a very unusual argument for a salesman. If I get what your saying, it is if we can sell enough cars in Japan that need a right-hand drive, then we will produce a right-hand drive vehicle.

Well, I have never had a salesman come to me and say, if you make such and such a requirement, we will produce it for you. I like the salesman that will come to me that has the product all made.

I just think you are barking up the wrong tree if you think that the people are going to stand around in Japan and say, boy, we think that Cherokee is marvelous. If you would only put a right-hand drive, we would buy it.

I might say there is a great demand for right-hand drive vehicles all over the world, and I just recently came back from a conference in Jamaica. In Jamaica, it makes you weep.

Ninety percent of the cars sold in Jamaica currently are Japanese. And so, if you are waiting for the demand to get there before you put the steering wheel on the right-hand side, you are going to have a long wait, I suspect.

Mr. BIEBER. No. I certainly did not want to imply that. First of all, the right-hand steering wheel is going to be inserted into the Probe, which will be sent back to Japan.

We have a helping hand there, by the way, because Mazda produces that car; a good quality car built by UAW workers. And so, that is a helping hand in getting that car imported back into Japan. There is somewhat of a selfish motive on the part of Mazda to do that.

The point I was making, Senator, was this: that when you say we do not build a right-hand drive car, that is correct. But we also sell a lot of American cars in Europe where a lot of the countries also have right-hand drive.

What I was trying to say was if you are looking at a market that is totally closed, and I do not think anybody can really argue that that market has not been closed—5,000 vehicles into it last year certainly represents not an open market by any stretch of the imagination—then you would look, as any good business people would, at what you put into an investment. Right?

My point is, if we had right-hand cars lined up from here to San Francisco, under the current rules and the current policy, they would not get into Japan, whether they are right-hand, left-hand, or middle.

Senator CHAFEE. Well, I do not want to debate this forever, but it seems to me that it is tough for you to say that when others who have worked hard on it, like Mr. Galvin, and has produced the products that they want, they can sell them.

I am not just talking about his company, I am talking about Proctor and Gamble, and a host of others. But let us not debate that. Again, it seems to me that where the problem is is not in the sales in Japan. The problem is the sales in the United States of America.

I think you pointed out that statistics currently show that foreign automobiles—that is total foreign automobiles, not just Japanese—now have 30 percent of the market in the U.S.

Mr. BIEBER. Yes.

Senator CHAFEE. Am I correct in that?

Mr. BIEBER. Yes.

Senator CHAFEE. The great bulk of those foreign vehicles are, no question, Japanese.

Mr. BIEBER. Right.

Senator CHAFEE. And the problem goes right back to the one you said, which was, your folks produced lousy quality and now—

Mr. BIEBER. No. I am not going to accept that, that our folks produced lousy quality.

Senator CHAFEE. All right. Then—

Mr. BIEBER. I challenge you then to show me that—

Senator CHAFEE. Let me finish.



Mr. BIEBER.—the statistics that say that.

Senator CHAFEE. Well, that is what led to the downfall of the sales of American-made vehicles. And it does all well and good for us to sit around and kick the Japanese, but we had better look at ourselves. You are producing good quality cars now, but you did not for many years. Thus is the perception.

I looked at a Cadillac ad the other day, and across the bottom it had words to the effect, "this will convince you that American quality is now good," or something to that effect; acknowledging that the problem was it was not price, it was quality.

Mr. BIEBER. But, Senator—

Senator CHAFEE. Do not say that the Japanese also were producing low quality, and, thus, the Americans just flipped a coin and took the Japanese. They chose the Japanese vehicles because, not price, but quality. It is taking you a long time to catch up, however, you are catching up. Infact, I believe you have caught up. But could I ask you one question specifically?

Mr. BIEBER. Well, would you let me answer what you—

Senator CHAFEE. Yes. Here is my one specific question. What rate of absenteeism does an employer have to tolerate before he can fire a UAW employee?

Mr. BIEBER. Well, let me suggest this, that that is going back to the 1940s and 1930s, that argument, because if you look at what has happened today, we do not have that kind of a problem anymore.

We have joint committees that help people, because before that, it led to absenteeism. There were problems. We have done all kinds of work jointly with the companies on that. The absentee figures are very, very low today. Very low. And first of all, the measurement—

Senator CHAFEE. Well, what about—

Mr. BIEBER. The measurement is not how soon you can fire a person. The measurement is how do you help people who have a problem, whether it is family, whether it is something else, how do you help that person continue to be a good, producing, tax-paying citizen, rather than just firing. Firing is not the answer.

Mr. Chairman, may I just have a second? Because I want to make this point, Senator. Number one, you did irritate me when you point and say that the people I represent are the cause of this—the cause of quality.

Senator CHAFEE. I understand.

Mr. BIEBER. Let me suggest to you that at the time that you go back to the poor quality, it is correct to say so were the imports. Since 1980, we have designed and developed a totally new car in this country.

It gives you an opportunity to build quality in. We have asked the people on the floor to participate in how you raise the quality of that vehicle so that today we do have a good quality product.

Senator CHAFEE. I agree.

Mr. BIEBER. People from your State help build good quality products in Rhode Island, and other places, that go into these cars and the finished product. Now, only a fool—and I do not represent fools—would suggest that you would deliberately set out to build something less than top quality.

I want to hitchhike once more on what Mr. Galvin said. Mr. Galvin has had success, but Mr. Galvin has also had the opportunity of a state-out there that says you have to move to that.

That is my problem with what we came back from with from Japan. Some of those figures are figures that we were told in 1981 and 1982 we would have by 1985. We need to say to the Japanese, this cannot continue. Free trade and fair trade. Open up your market.

The CHAIRMAN. Thank you, gentlemen. I have a hunch that you will get a chance to speak with Mr. Riegle. Senator Riegle.

Senator RIEGLE. Thank you, Mr. Chairman.

Mr. Galvin, I have great respect for you and for your company, as you well know. But I think you made a very important point that needs emphasis, and that is, you had a very powerful downfield blocker helping you.

Mr. GALVIN. Yes, sir.

Senator RIEGLE. As you told the story, your company is based in Texas, and Bob Strauss was the trade ambassador during the Carter Administration was also from your State—and someone whom you knew.

You knew you had a terrible problem with the Japanese stiffing you every single time you tried to penetrate that market.

You went to Mr. Strauss and he did the downfield blocking and pressed hard on your issues. We all know that the Japanese are very good at putting a few drops of oil in the areas where the squawks are the loudest.

Your company happened to build fine products; you had the downfield blocker you needed, and you are in that market now. I do not know what percent of your sales and profits is coming from Japan. I hope it is a substantial amount. I suspect it is not a huge amount in terms of your overall operation.

But, I daresay that if you were an entrepreneur industrialist in some other part of the country that had not had access to Bob Strauss, whom I know and respect as you do, to go in to him and lay the situation on the line, you know that you would be here singing a different tune today, you probably would not be selling your products in Japan today, either. Would you agree with that. That and the fact Bob Strauss was critical to your success in Japan?

Mr. GALVIN. Yes, sir.

Senator RIEGLE. All right. Many are aware that we do not have the direct assistance of Bob Strauss or his successors available to every U.S. industry. If we did, we would not have the problems we have with Japan.

If Bob Strauss had gone to bat for every other U.S. industry, or if we had a Bob Strauss for every industry who could go over and really confront the Japanese and get their response and a change in their business behavior, we would not be having this hearing today. We would be talking about some other subject. But, we do not have this situation.

So, in fairness, I think we ought not to take that example where you had special help, which I think you properly deserved. I think because Motorola is a state-of-the-art company, it earned the right to be able to penetrate the Japanese market with its quality prod-

ucts. I am glad that your company has been able to crack the Japanese market to some extent.

I think that this is not true, for most of American products. It is not true for our automobiles and auto parts. We sell automobiles and autoparts in a lot of different places around the world.

The only place we cannot seem to sell them is in Japan. As far as autos are concerned, our companies have produced a lot of right-hand-drive cars that come out of Europe and cannot be sold, in Japan, either. It turns out that 60 percent of the cars from abroad—the tiny number that Japan takes in—are left-hand-drive cars. So, you know, that is a red herring issue—that is a phoney issue.

But what is not a phoney issue, it seems to me, is that our country is in some real difficulty today. I am told Texas is bouncing back a little bit. I certainly hope it is.

But the rest of the country is really struggling economically. Since 1980 Japan has taken \$460 billion out of the United States. How much more scarce capital can we afford to let Japan take out of the U.S.?

Mr. Galvin, I recognize that you and Mr. Bieber, are strategic thinkers and strategic planners, who run big organizations.

I do not think you can allow your country to have that kind of a net capital drain over such a short period of time when so much of it is happening as a result of targeting of strategic U.S. industries.

If Japan targeted Motorola today, and came in here with a \$25 product and sold it for \$15, far below what you could make and sell it for, and continued under-sell month after month, year after year, you would not be in business.

It does not matter how good your product is, Japanese predators can drive you out of the market and business all together. They have done this in a number of sectors in our economy. You have seen it, evidenced by your nodding in the affirmative.

To combat this behavior, I believe we have got to have a broader strategy. We cannot just do the Bob Strauss strategy, because that is not big enough. In this respect, I would hope that we could get a consensus that business, and government, and labor could sit down around a table together, and work out an effective economic strategy for America.

I want someone like Bob Graham at the table, and someone like Owen Bieber, and someone heading our government—I wish it was Lloyd Bentsen, from Texas, instead of Bush, because I think this Chairman understands this problem—to work out the trade misunderstandings and problems our country is facing.

The reinvestment questions that Max Baucus raised as well as the need for additional help on the labor side are important pieces for us to consider in the context of any broader strategy for the U.S.; I am confident that the labor people will do their part. If some sacrifice is needed, we all know this has been done before. We did it in the Chrysler situation when we worked for the government loan guarantees.

We need a strategy for America, and it cannot be for just one company. It cannot only be Bob Strauss breaking the table for Motorola.

We have got to have a strategy that gets this country back to work. We have 16 million people in this country today that want to work and cannot find work. This situation is outrageous.

Japan is going to take \$4 billion out of our economy this month, it took \$4 billion out last month and in total, the Japanese have taken \$460 billion out of the open U.S. market since 1980, while maintaining their closed markets.

At the time we are talking about trade issues and problems, and not acting, more American jobs are jeopardized. We have a national government to look after the national interest, which is the well-being and standard of living of every person in this country.

We can't afford to only help a few companies or an industry here, or an industry there; We need to address the whole broad sweep of issues affecting our country. That is why we need a national plan. We need to stop the trade cheating in our market. We also need an aggressive American plan here at home—built, designed, and carried out in this country. There is no other way to restore the economic ground we have lost. The longer we dance around this question, the further behind we are going to be, relative to other economies in the global market.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator. Thank you very much.

Well, I think this has been very productive. Let me say I think that once upon a time, if I understand the definition of the word, it was probably considered "chic" to buy foreign cars. And I think there was a legitimate complaint about American quality.

But I have seen the American industry invest \$170 billion in improving productivity and quality. There has been a major change in the quality of American cars.

I think something that is going to come out of this hearing, and something out of this trip, Mr. Galvin, is an understanding of the importance of the American automobile industry to the overall economy of this country.

I think it also is going to come back in style to have loyalty to American products. And I think that lingering perception of those products not having quality is being dispelled. The difference in the quality and the number of defects between Japanese cars and U.S. cars is very slim now.

I think that message is beginning to get across. Frankly, I think that is a better way of building back the American automobile industry in trade, rather than restricting imports. I believe that.

I think those are some of the benefits that are going to come out of this trip. A better understanding of the importance of the American automobile industry, of trade, and of what is happening to the quality of our products.

If there are no further comments, thank you very much, gentlemen.

[Whereupon, the hearing was concluded at 1:25 p.m.]

# APPENDIX

## ADDITIONAL MATERIAL SUBMITTED

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### PREPARED STATEMENT OF OWEN BIEBER

Mr. Chairman, my name is Owen Bieber. I am President of the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (UAW). I appear today on behalf of the 1.4 million active and retired members of the union. We appreciate having this opportunity to share our views with the Committee on the discussions of automotive trade issues that occurred during President Bush's trip to Japan. Viewed in terms of results not rhetoric, the Tokyo Declaration's Economic and Trade Relations component was simply a statement of intentions and hopes, not firm commitments. In the time since the President returned from Japan, we have had this view confirmed in statements by Japan's Prime Minister Miyazawa and auto company executives in both countries. We do not expect the Tokyo Declaration's "Global Partnership Plan of Action" to contribute to reducing the more than \$40 billion U.S. trade deficit with Japan or the more than \$30 billion auto trade deficit.

The economic discussions in Japan covered a variety of subjects in addition to automotive trade. The Tokyo Declaration addresses each one in language that has become all too familiar in the past 10 years of huge U.S.-Japan trade imbalances. The announcements on paper products, flat glass, Japanese government procurement of computers and legal services all have one thing in common: they "should" increase opportunities for U.S. exports to Japan by reducing the complexity of Japanese import procedures for foreign producers and increasing "market access." My favorite, Mr. Chairman, is the reference to the "intensified efforts" of the Office of the Trade and Investment Ombudsman to "improve market access" by resolving complaints about Japanese standards and certification procedures. **Automotive problems in this area have been among the issues claimed to have been resolved in every Japanese government trade package announced since 1983.** Now we are told they will once again be resolved in the wake of the latest discussions.

The U.S. trade deficit in automotive products with Japan is a serious problem for American workers in the auto industry. We strongly believe that it is also an important problem for the entire U.S. economy because of the significance of the auto industry to many other manufacturing industries, from textiles to robots, and to the tax base of communities across the Nation. The more than \$30 billion auto trade deficit with Japan—has become a near constant in the U.S. trade picture.

The UAW saw the President's trip to Japan as an opportunity to achieve meaningful progress in reducing the U.S.-Japan automotive trade imbalance, and we gave the President a specific proposal to meet this goal. In a letter to the President dated December 27, 1991, we proposed that the current level of exports of cars from Japan should be reduced from about 1.8 million annually to 800,000. This would make a sizable dent in the trade imbalance. In the longer term, we proposed that the U.S. adopt a market-share limit covering imports from Japan and transplant vehicles with low levels of local content assembled by the Japanese auto companies in this country. The European Community has already negotiated such an arrangement with Japan. It sets a limit of 16 percent of the market through the end of this decade. The share of the U.S. market held by the products of Japanese auto companies is more than twice that level.

The desperate condition of the domestic industry justifies reducing Japan's exports of vehicles and parts to this country. Hundreds of thousands of American auto workers lost their jobs in the 1980s due to the increase in imports, the growth of local assembly by the Japanese companies (transplants) and the restructuring of the

industry. During the ongoing deep recession, hundreds of thousands more jobs have disappeared. They will return only if the economic and trade policies of the Bush Administration change. Frankly, Mr. Chairman, we are extremely pessimistic about such a change taking place.

Our concerns about the future of U.S. auto industry employment were not diminished one whit by President Bush's trip to Japan. A brief review of the results of that trip in the area of automotive trade will demonstrate the basis for this assessment.

First, the target for increased imports of Big 3 vehicles into Japan is paltry. The Japanese auto assemblers announced the possibility that, if everything goes right, if the Big 3 make substantial investments in design and engineering for the Japanese market (including building right hand drive models), they could sell as many as 20,000 Big 3 vehicles in Japan in fiscal year 1994 (ending March 31, 1995). The Japanese companies are already selling about 5,000 of these vehicles, so the increase would be 15,000 per year. With U.S. imports of vehicles from Japan running at more than 2 million, it would take more than 133 years for this increment in U.S. exports to amount to a single year's worth of U.S. imports from Japan. This is not a prescription for balancing U.S.-Japan auto trade.

Even the use of the term "target" for these Japanese import plans may be optimistically misleading. The Japanese auto manufacturers, according to the document released by the two governments, "have expressed . . . their willingness to help expand the sales of US automobiles." Toyota's announcement states that it is "prepared to negotiate with General Motors about the possibility of retailing GM vehicles in Japan . . . Such an arrangement might reasonably be expected to yield sales of 5,000 vehicles a year."

These statements are not elements of a trade agreement with enforceable commitments. They are nothing more than public relations jargon designed to sidestep the real question: what will Japan do to reduce the auto trade imbalance? To that question, there is no answer in the announcements about vehicle imports into Japan.

The auto parts element of the Global Partnership Plan of Action is a bit more complex than the vehicle section, but no more reassuring. If all the expectations contained in the Plan of Action take place, total purchases of U.S. auto parts by the Japanese auto producers would increase from \$9 billion in 1990 to \$19 billion in 1994, a gain of \$10 billion. Auto parts purchased for the U.S. transplant operations of the Japanese firms would grow from \$7 billion to \$15 billion, up \$8 billion, while exports from the U.S. to Japan would increase from \$2 billion to \$4 billion.

The first paragraph of the Plan of Action includes the assumption that transplant vehicle production in the U.S. will grow by 50 percent from 1990 to 1994. This means growth from 1.5 million vehicles to about 2.3 million. With imports of built-up vehicles into the U.S. effectively unrestricted, we believe this increase will come at the expense of sales by the Big 3 producers, not imports from Japan. It is in this context that the promised increases in purchases of U.S. auto parts by Japanese producers and their impact on U.S.-Japan trade must be considered.

Let me first discuss the impact these increased purchases of U.S. auto parts could have on U.S.-Japan trade. The UAW has criticized the transplants for their high levels of imported parts. In the document released in Tokyo, the Japanese auto producers claim that 50 percent of the transplants' parts are sourced locally and 50 percent are imported. The figures for local sourcing are higher than we believe to be the case. Accepting these numbers for a moment, for the sake of argument, it is apparent that two things will happen if transplant production increases by 50 percent. First, the amount and value of imported parts that are assembled into the transplants will grow. Second, local purchases will increase. The increased local sourcing has been the only component of this increase in transplant production that the Japanese companies, the Japanese government, the President and some U.S. auto parts and supplier companies have mentioned in their descriptions of the talks in Japan. That leaves out the import increase.

The Japanese companies also stated in the Tokyo plan that, for their U.S.-assembled transplants, "in terms of percentage of local procurement in the total purchase of parts, the percentage is expected to increase from about 50 percent in FY 1990 to about 70 percent in FY 1994." Since local sourcing in FY 1990 of \$7 billion accounted for 50 percent of parts value in the transplants, then imports of parts also amounted to \$7 billion. Even if local sourcing were, in fact, to increase to 70 percent, the overall value of U.S. auto parts imports from Japan would remain virtually unchanged in FY 1994 due to the increase in transplant production. **In other words, because of the planned increase in transplant output, the promised increases in local sourcing of auto parts will not result in any meaningful reduction in the overall amount of auto parts imports (and hence will not reduce the trade deficit with Japan).**

The only reduction in the auto parts trade imbalance projected by the announcements from Tokyo would come from increased Japanese imports of auto parts from U.S. suppliers. Here, the current level of imports is so low that its doubling from \$2 billion to \$4 billion is hardly cause for celebration. Yes, the UAW would be pleased to see an increase in auto parts exports to Japan, but the size of the increase described in the Japanese action plan, if it occurs, will not make much of a dent in the auto trade imbalance. And, as with other items addressed in the talks, there is absolutely no commitment to the higher export figure; it is simply "expected" to occur.

Now, let me turn to the impact on U.S. auto industry employment and production of the "expected" increase in U.S. sourcing by the Japanese companies for their transplant production. Again, we believe the announcements are less than what they appear to be. The employment impact that results depends on whether increased transplant production displaces Big 3 production or imports from Japan. In addition, the impact on the U.S. economy will be different if the new work goes to traditional U.S. parts firms or to newly transplanted parts firms from Japan that are part of each Japanese auto company's network of "keiretsu" suppliers.

Since imports from Japan have kept a high and quite stable share of total U.S. sales as transplant production has increased, the UAW is convinced that increased transplant production will displace Big 3 production, not imports. **If this is, indeed, the case, then the additional purchases in the U.S. by the Japanese auto producers will be more than offset by reduced Big 3 purchases.**

The far higher value of domestic sourcing per vehicle by the Big 3 compared to the transplants accounts for this perverse result. There is an incredible statement in the Toyota press release regarding its targets for U.S. auto parts purchases. It says, "The huge volume of local purchasing at Toyota's U.S. plants is evident in their high levels of local content, which compare favorably with the levels at the Big Three U.S. automakers." Mr. Chairman, I challenge Toyota to defend that statement with hard evidence. The products made in the U.S. by the Big 3 companies are not 100 percent U.S. value, and we fault them for their sourcing of parts abroad. But they are far higher in local content than the transplant vehicles. That is why American jobs in the auto parts industry have been lost as transplants replaced traditional U.S. vehicles. And that is why the \$8 billion increase in local sourcing for the transplants will not provide any relief to the domestic auto parts industry. It will be more than offset by decreased parts purchases by the Big Three, if they continue to lose market share to the Japanese producers.

There is one more point I would like to make concerning the Japanese announcement about increased U.S. purchases. There is a curious paragraph that states, "In making these procurements, special consideration will be given to the U.S. parts industry, which is currently under a difficult situation." The only possible procurements being considered in this paragraph are U.S. purchases, so why is "special consideration of the U.S. parts industry" included? The only explanation I can make is that the Japanese auto companies intend to direct the bulk of the additional purchases in the U.S. to the Japanese parts companies that have moved production to the U.S. and have traditionally supplied the Japanese auto assemblers. This pattern of purchasing reproduces the keiretsu supplier relationships that prevail in Japan. Apparently "special consideration" must be needed to give traditional U.S. parts suppliers a bit more of the business than they would get without it. A University of Michigan study found that traditional U.S. auto parts suppliers only received 40 percent of the local parts sourcing of the largest transplant producer, Honda, while Japanese parts companies accounted for 60 percent. This means that the increased local sourcing by the transplants will not create jobs for workers at traditional U.S. parts companies. Their plants are increasingly likely to close. These closings will displace workers and disrupt communities across the country. We have seen more than enough of this, Mr. Chairman, to know that it is extremely harmful to the individuals affected and wasteful of investments made over long periods in machinery and structures.

It is for these reasons that the UAW has characterized the results of President Bush's trip to Japan for automotive trade as nothing more than promises. At this time, Mr. Chairman, American auto workers and the American people are tired of promises. They expect their government to represent their interests in preserving good jobs, improving their living standards and establishing trading relationships that generate fair, balanced trade. These goals were not furthered by the President's trip. It is time for Congress to insist on balanced U.S.-Japan trade. Year after year, market access negotiations have failed to address the claims of competitive U.S. producers that they do not receive fair treatment from Japanese firms. The time for more "market access" agreements has passed. We need effective, enforceable meas-

ures to bring balance to U.S. trade with Japan and, especially, to the automotive trade that accounts for three-quarters of the overall U.S. deficit with Japan.

The UAW supports the Trade Enhancement Act of 1992 (S. 2145), which has been introduced by Senator Riegle and others. That legislation would not simply set "targets" for improvements in bilateral trade, as the Japanese government and Japanese companies have done and as President Bush accepted. It would require Japan to reduce its trade surplus with the U.S. by 20 percent each year for 5 years. If Japan fails to meet these reductions, specific limits would be imposed. In particular, a quota would be imposed on the number of vehicles that can be imported into the U.S. by Japanese companies. The quota would decrease by 250,000 vehicles each year. It would decline further to offset any increase over the current level of production of low local content Japanese transplants. These quota reductions could be diminished only if imports of high content U.S.-built vehicles into Japan increased and/or transplant producers increased substantially their purchases of parts from traditional U.S. suppliers.

Mr. Chairman, the U.S. auto industry is at a crossroads. The recession in the early 1980's cost hundreds of thousands of auto workers their jobs; the current recession is producing similar dangers. The transplants are not a substitute for the traditional domestic vehicles in terms of jobs generated, technological development supported, U.S. manufactured goods purchased or taxes paid. It is time for Congress to take the contribution of the automotive industry to the Nation to heart. We believe that prompt, favorable consideration of the Trade Enhancement Act of 1992 would accomplish that.

In conclusion, Mr. Chairman, I appreciate the opportunity to present the views of the UAW on the President's trip to Japan and the need for effective action to reduce the U.S.-Japan automotive trade imbalance. I would be pleased to answer any questions you and members of the Committee may have.

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#### PREPARED STATEMENT OF SENATOR BILL BRADLEY

Thank you, Mr. Chairman. I appreciate the opportunity to discuss the Administration's attempts to deal with our trade deficit and current economic woes.

I believe, Mr. Chairman, that President Bush's recent trip to Japan was historic—for the first time, an American President stipulated that both our problems and the solutions to them are located outside the United States.

That is remarkable admission, one that has generated great debate about the symbolic impact of America going, hat in hand, to beg for concessions from the Japanese.

And while that symbol is disheartening, focusing on it may divert us from the real calamity of President Bush's trip: that he believed he could go to Japan to fix our economy.

There is no one in this room who does not know that this trip was a political exercise, not an economic mission. But President Bush insists he returned from Japan with agreements that would reinvigorate the American economy.

This is not true. But more to the point, it could not possibly be true. The premise was false. It was as if President Bush announced that he was going to the Sahara desert to bring back water—what he wanted simply doesn't exist where he went.

We do have trade problems with the Japanese, and they do need to be corrected. Of highest priority is the question of access; American businesses face a wide array of obstacles as they try to break into Japanese markets, barriers which are unique to Japan and its economic structure.

The closed business practices of the keiretsu are a specific challenge. I met with a businessman last week who related the difficulties he faced breaking into the Japanese market, confronting a distribution system dominated by long-term relationships between suppliers who do not allow penetration.

Addressing such systemic inequities is the foundation of good trade policy; demanding concessions in a by-industry, by-country manner is not.

The Bush Administration's attempt to create a new mercantalism only highlights the real problem: the United States is in a slow-motion depression, burdened by a disinterest in long-term planning, global opportunities, infrastructure and education. President Bush does not want to address structural issues, so he creates scapegoats. One month it's credit card rates, the next its bank regulators, now it's Japan.

Mr. Chairman, the world has changed. Political freedom and the liberalization of trade have created untold global opportunities. Three billion people have entered the world marketplace in the past few years alone as a result of the collapse of communism and the crumbling of market barriers. We must either take advantage of



this or be consumed by it—and unless we get our own house in order, the result will surely be the latter.

We must abandon the luxury of diversion. The Japanese Speaker must not resort to calling American workers "lazy," President Bush must not ignore the failure of his own domestic policies, and we must all ignore the easy embrace of protectionism.

None of this gets us anywhere. I look forward to hearing from the Administration today, to get their views on what specific steps we can take to improve our trade relations with Japan and the world as a whole.

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PREPARED STATEMENT OF SENATOR JOHN H. CHAFEE

Mr. Chairman, I would like to thank you for providing us with an opportunity to examine the results of the President's recent trip to Japan. The press reports have only focused on certain aspects of the trip and have not provided a complete picture of the negotiations that were concluded in Japan.

It is clear that the Japanese have been out of step with the progress that has been made in the world trade community over the last several years. They have not opened their markets to all of our products while our markets have been completely open to their products.

At the same time, we have made some progress in certain sectors. Our trade deficit has been reduced by more than 30% since 1987 and our exports to Japan have increased by more than 700% during that same period. While more progress must be made to open their markets, our increased exports to Japan over the last 3 years have supported approximately 400,000 American jobs.

I believe this trip was another important toward free market trade between the two largest economic powers in the world. I think James D. Robinson III, CEO of American Express said it best: "This is the first time the U.S. has come out united—the Commerce Department, the Treasury, the President, the business community—to declare that trade is a national priority on a par with our security interests."

The action plan that was agreed to by President Bush and Prime Minister Miyazawa will further promote bilateral trade and economic strength between our two countries. It will expand markets for U.S.-made goods and produce American jobs by breaking down trade barriers and eliminating trade protectionism.

As a result of the one on one meetings between the President and Prime Minister Miyazawa, we were able to resolve over 50 standards problems that have impeded access to Japanese markets for American businesses. The two countries also completed important negotiations to open the Japanese public sector market for main-frame computers. In addition, a framework was developed for negotiations during the next few months to open several other important Japanese markets, including paper goods and flat glass.

The agreements on Japanese standards will provide the American auto manufacturers with a real opportunity to make progress in exporting autos to Japan. However, the American auto manufacturers must be willing to invest the capital necessary to produce cars that built for the Japanese.

The most important change that must be made to American cars is to convert them to right-hand drive. We cannot hope to sell cars in Japan when they are only built with left-hand drive. I understand that Chrysler has already committed to develop a right-hand drive Jeep Cherokee to be exported to Japan. This is an important step in opening the Japanese market to autos manufactured in this country.

I know that many Americans, including many Members of this Committee, believe the Japanese need to do more to reduce our enormous trade deficit, but I hope we will be able to avoid protectionism. We must continue our efforts to open foreign markets by eliminating trade barriers rather than resorting to bad ideas like managed trade or protectionism. In addition, government and industry in the U.S. should concentrate on making America more competitive.

I look forward to hearing the views of our distinguished witnesses on the results of the President's trip to Japan. Thank you, Mr. Chairman.

## PREPARED STATEMENT OF J. MICHAEL FARREN

## INTRODUCTION

The President's business mission was a pathbreaking Presidential initiative bringing together business and government to convey a message of U.S. commitment to compete globally in open markets. The composition of the mission showed the broad commitment of U.S. business and workers to provide quality products in the global market. The mission illustrates that business, commercial interests, and jobs are part and parcel of our relations with other nations, as international economic performance becomes ever more vital to the long-term health of our economy.

The Administration has worked tirelessly since 1988 to open the markets of Japan, Korea, and other east Asian nations to U.S. exports. Some examples of previous market opening efforts of this Administration in the Pacific include: semiconductors, construction (major projects), and supercomputer agreements with Japan; and telecommunications and tariff reduction agreements with the Republic of Korea. As I will detail in my country-specific remarks, we advanced our goal of market opening throughout the region in areas like intellectual property rights, trade in services, and trade in goods such as computers, paper, glass, autos and auto parts.

Reflecting the importance of the Asian market, this trip marks the first time a U.S. president has led a delegation of business leaders on a mission focused on business and commercial issues. But it is not the first time this Administration has focused on commercial development and market opening. It is a continuation of a series of similar missions by the Vice President and Secretary Mosbacher. In May, the Vice President took a business mission to Japan where he focused on increasing U.S. access to the Japanese auto parts markets. In August, he led a delegation of business leaders to Latin America. Secretary Mosbacher has led ten trade missions overseas since early 1989. He has made five trips to help push for open markets in Asia, visiting eight countries. Three trade missions were included in Secretary Mosbacher's visits.

Why was the Asia Pacific region chosen as the first destination of a Presidential Business Delegation? Two way trade with Asia totalled almost \$300 billion last year compared to about \$190 billion in two way trade with the European Community (EC). The Asia-Pacific region is the fastest growing economic area of the world and shows no signs of relinquishing this title in the near future. For instance, growth in the Four Tigers averaged 8.7 percent in the 1980s; while the ASEAN nations grew at an annual rate of almost seven percent in the same period. Almost every major country in the region is engaged in major development projects which represent tremendous prospects for U.S. firms. Japan is engaged in a \$3.1 trillion infrastructure development program announced under SII, and Taiwan is investing \$300 billion to modernize its infrastructure. For these and other reasons, the region's importance to the U.S. economy and the opportunities offered for U.S. products and services should only increase in the 1990s.

The President was accompanied by CEOs who represented the broader interests of the U.S. business community through membership in various trade organizations, including the National Association of Manufacturers and the U.S. Chamber of Commerce. Corporate leaders from several small firms, particularly the chairman of the National Federation of Independent Businesses which represents over half a million small businesses, also joined the delegation. We also had three winners of the Malcolm Baldrige

Quality Award along, which included two small business winners. Finally, we had representatives from our Japan Corporate Program, a program jointly sponsored by MITI and the Department of Commerce. Upon their return, delegation members briefed colleagues in the business community on commercial conditions and opportunities in the four countries visited.

#### AUSTRALIA

The U.S. consistently maintains a trade surplus with Australia. Australia was our eleventh largest export market in 1990, taking over \$8.5 billion in U.S. exports. U.S. merchandise exports in 1991 are estimated to be at roughly the same level, with the U.S. having an estimated \$4.4 billion surplus. We are Australia's second largest trading partner. America is the largest foreign investor in Australia, with cumulative direct and portfolio investment in excess of \$36 billion.

The objectives of the Presidential Trade Mission to Australia were to highlight the benefits of a long-standing U.S.-Australia trade alliance and assure the Australians of our continued and strong commitment to the region and to the multilateral trading system.

The Presidential Business Delegation visited Sydney, Canberra, and Melbourne. The business delegation met with Australian government and business leaders and discussed such topics as the need for a successful conclusion to the Uruguay Round and opportunities for trade and investment in several sectors ranging from services to energy and minerals. Long-standing U.S. concerns regarding intellectual property rights, local content requirements, and government procurement were also raised with Australian government officials. To diffuse Australian criticism of the U.S. Export Enhancement Program (EEP), President Bush met with Australian farm leaders and stressed the need to work together to limit agricultural subsidies through the Uruguay Round.

In his speech to the joint session of the Australian Parliament, President Bush announced his proposal to negotiate a bilateral Trade and Investment Framework Agreement (TIFA) with Australia. The Australian government has responded positively to the President's proposal and negotiations are expected to begin shortly. Once the TIFA is in place, the consultative mechanism will provide the U.S. with a useful forum to resolve various bilateral trade issues and promote bilateral trade and investment.

#### SINGAPORE

Trade has been the life blood of Singapore for centuries. Lacking abundant natural resources, Singapore has prospered on the strength of an inexpensive and productive labor pool, location, and prudent economic management. The U.S. is Singapore's largest trading partner. In 1991, two way trade is expected to exceed \$18 billion. The U.S. is the largest foreign investor in Singapore; over 800 American firms operate there.

The reception in Singapore was warm and cordial. In fact, the Delegation was asked to make certain that we repeated the practice of bringing a business delegation on future visits because the degree of cooperation between the two business communities is very important to our overall relationship.

The visit of the Presidential Business Delegation to Singapore successfully accomplished its three major objectives. First, it highlighted to U.S. business the excellent export opportunities provided by the Association of Southeast Asian Nations (ASEAN),

whose members have among the highest economic growth rates in the world. Second, it reinforced our strong ties with Singapore, one of our largest trade and investment partners in Asia, and demonstrated our commitment to free trade. And third, because Singapore has traditionally been a gateway into Southeast Asia, this visit demonstrated to the other members of ASEAN -- Brunei, Indonesia, Malaysia, the Philippines, and Thailand -- that the United States Government and private sector will remain involved in the region.

During his visit to Singapore, President Bush announced a number of significant initiatives. First, he and Prime Minister Goh Chok Tong announced that the United States and Singapore agreed in principle to sign a bilateral investment treaty, which will further reinforce our substantial investment ties. An interagency delegation will go to Singapore in late February to begin exploratory discussions on this treaty. That delegation will also hold bilateral trade talks as called for by the Trade and Investment Framework Agreement (TIFA), which our two governments signed in October 1991. These talks will focus on four issues: market access, services, intellectual property protection, and antidumping and countervailing duties.

Second, the President announced the lifting of the sixteen year long trade embargo against Cambodia. This action thus allows American individuals and firms to assist in the reconstruction and growth of the Cambodian market.

Third, he highlighted the upcoming trade-promotion tour of the U.S. Ambassadors to ASEAN. The President and the Secretary of Commerce also brought together the Business Delegation with the U.S. Ambassadors to ASEAN and with business representatives from the region to acquaint American industry with the trade and investment opportunities provided by ASEAN. And fourth, the President announced the establishment of the U.S.-Asia Environmental Partnership, which will bring together U.S. Government agencies, the U.S. business community and non-governmental organizations, and their Asian counterparts to address the serious environmental challenges facing Asia.

#### KOREA

Korea is the largest of the Four Tigers, and has a phenomenal record of economic growth over the past several decades. Our trade deficit with Korea has decreased from nearly \$9 billion in 1987 to a little over \$4 billion in 1990, and an estimated \$1.5 billion last year. The U.S. remains the Republic of Korea's largest trading partner, absorbing 25 percent of Korea's exports, down from 30 percent in 1990. Korea is our sixth largest export market. The U.S. is Korea's largest foreign investor, with \$2.1 billion invested at the end of 1990.

During President Bush's visit to Korea, he and President Roh reviewed our bilateral economic relationship. While a Presidential Business Delegation is rather unique for the U.S., it is not unusual for many countries in Europe or Asia. In fact, President Roh pointed out to President Bush that he has been leading similar missions for some time, and was pleased that the President "stole" the idea from Korea. President Bush commented that although Korea has made progress in removing visible barriers to trade, foreign firms still face significant difficulties in doing business in Korea. He pressed Roh to address such fundamental market access problems as non-transparent standards and regulations, cumbersome customs procedures, restrictive financial policies, and a frugality campaign that has often had an adverse affect on imports.

To promote the further growth of our bilateral economic relationship and improve market access, the two Presidents announced an initiative to "study and recommend ways to make it easier to do business together." They tasked the Economic Subcabinet, which is the principal consultative mechanism on trade issues between the U.S. and Korea, to serve as the focal point for discussions on this initiative. The next meeting is being scheduled for Washington in March.

Under the new initiative, the Subcabinet would identify topics to be investigated and agree on terms of reference for a joint working group for each topic. We are now in the process of developing suitable topics for discussion and action. We believe that the Presidential commitment on both sides will ensure steady progress in the reduction of trade barriers.

Liberalization in financial services was specifically addressed by the Presidential Business Delegation in their meeting with President Roh. Furthermore, given the concern of American business over Korea's restrictive financial and investment policies, Treasury Deputy Assistant Secretary for Developing Countries, James Fall, was sent to Korea as a follow up to the President's call for a response to these issues. This is a part of the Treasury Department's ongoing series of bilateral Financial Policy Talks (FPT) with Korea's Ministry of Finance. Some progress has been made in FPT. For example, the Korean Government opened the country's stock market to foreign investment on January 1 and recently announced plans for interest rate deregulation and the easing of foreign exchange controls.

#### JAPAN

It is impossible to discuss the economic importance of the Asia Pacific region without talking about Japan. Some speakers, in seeking to expand on the Four Tigers analogy, have referred to Japan as Asia's "elephant." Others have referred to it as the original Asian Tiger. No matter what verbal imagery we may assign to it, Japan remains the region's dominant economic presence.

A great deal of attention has been focused on our bilateral trade relationship with Japan over the past several years. Japan is our second largest trading partner (after Canada), and is our second largest export market (also after Canada). The U.S. and Japan are the two largest economies in the world, together comprising over one third of the total world economy. Japan is now the second largest investor in the United States (after the United Kingdom), and is the third largest source country of outward investment in the world.

While the U.S. trade deficit with Japan has dropped 30 percent since 1987, and U.S. exports to Japan are up 70 percent in the same period, the macroeconomic and other factors which have traditionally been relied upon to bring our worldwide trade accounts into balance have not been effective in correcting our chronic merchandise trade deficit with Japan. For instance, our trade surplus with the European Community increased from \$6.3 billion in 1990 to an estimated \$17.0 billion in 1991. This was largely a result of economic recovery and the concomitant new market opportunities within Europe, and of the competitiveness of U.S. products. However, despite a strong Japanese economy over the same period, our bilateral merchandise trade deficit has stubbornly remained above \$40 billion since 1985, including an estimated \$42.5 billion deficit last year. Japan's share of our overall merchandise trade deficit has risen from 40 percent in 1990 to an estimated 65 percent in 1991.

Our bilateral trade deficit with Japan is symptomatic of a larger problem, one that impacts both American and Japanese workers and consumers. The Japanese economic system -- especially in key sectors -- is largely (and by design) self-contained, and exhibits specific and unique structural impediments to the free flow of goods and capital. Because of the singular challenges posed by the Japanese market, this administration has worked hard to develop specific approaches to cultivate and ensure commercial opportunities for U.S. business, including:

- o Aggressive pursuit of market-opening agreements in key sectors in which U.S. businesses have been shut out;
- o The Structural Impediments Initiative (SII) has been developed and expanded to address structural barriers to trade, such as inadequate public infrastructure investment, restrictions on large retail store openings, lackluster enforcement of anti-competition laws, keiretsu, and other exclusionary business practices; and
- o Greatly enhanced trade promotion and business counselling efforts, including the Japan Corporate Program and the expanded Japan Export Information Center.

Over the past year, as Japan's world trade surplus increased markedly, tension grew in Japan's overseas markets. Last fall, the "Business Initiatives for Global Partnership," or Business Global Partnership (BGP), was announced. The President's visit was well timed to take advantage of this effort in its formative stages, as that effort can significantly benefit U.S. commercial interests.

The Tokyo Declaration and the Global Partnership Plan of Action, of which the Business Global Partnership is an important part, outline the significant results of the trip. With a focus on creating specific business opportunities, these steps should increase U.S. export opportunities. Compared to any other economic package resulting from a single presidential effort, this represents a substantial success.

The Tokyo Declaration clearly and emphatically states that the United States and Japan are resolved to enhance openness and oppose protectionism. The Japanese government will expand efforts to stimulate imports as outlined in the Global Partnership Plan of Action (part II). The United States and Japan have expressed support for efforts by Japanese companies participating in the "Business Initiatives for Global Partnership" (BGP). The BGP is a private sector initiative to expand imports through company developed voluntary action plans. We are encouraged by the announcement that 23 leading Japanese companies in the electronics, auto, and machine industries will increase imports from the world over JFY 1990 levels by \$10 billion in JFY 1993. MITI and the USG will monitor the progress of the plans and ensure that U.S. firms take effective steps to benefit from this initiative.

The GOJ will employ tax incentives to promote imports by Japanese companies and encourage local procurement by Japanese affiliated companies operating abroad. The BGP will also enhance Japan External Trade Organization (JETRO) activities which assist foreign firms in establishing contacts with Japanese companies.

The BGP creates expanded opportunities for U.S. suppliers to trade with Japanese companies and will assist U.S. firms in pursuing export contracts and business arrangements under the voluntary action plans recently announced by 23 Japanese firms. We anticipate that many of an additional 88 Japanese companies

and 22 industrial associations (which account for approximately 50 percent of Japanese trade) will soon announce voluntary import plans.

Japan has also agreed to many specific measures under the BGP to promote imports and increase foreign direct investment. Cooperation by USG and GOJ financial institutions will create additional opportunities for U.S. companies to work with Japanese firms on projects in developing countries.

Specific sectoral achievements include:

#### Computers

There is a wide disparity between the foreign share of Japan's private sector computer market and the foreign share of the public sector market. For example, industry figures show that foreign manufacturers currently hold 41 percent of Japan's private sector mainframe computer market but only 6 percent of the public sector mainframe market. At the national government level, foreign market share is only 0.4 percent.

U.S. and Japanese negotiators concluded a new procedural agreement on Japanese public sector computer equipment and services procurement, which requires public sector entities in Japan to follow open and competitive procedures when procuring such equipment or services. U.S. industry has praised the agreement. It is estimated that this agreement will bring an additional \$2 - \$3 billion a year in U.S. computer sales to Japanese public sector entities.

#### Paper

Japan is the world's second largest producer and consumer of paper and paperboard products. While it relies heavily on imports for its raw materials, imports from the U.S. in 1990 of printing/writing papers (higher value added papers) accounted for only 0.2 percent of total Japanese consumption. This is true despite the best efforts of competitive U.S. paper producers over a period of years to penetrate the Japanese market.

The government of Japan has agreed to complete ongoing market access negotiations with the U.S. Government by March 31, 1992. Steps involved in this agreement will be combined with efforts by Japanese paper distributors to increase their procurement of competitive U.S. products under the BGP initiative. In addition, the Japan Fair Trade Commission (JFTC) will conduct a survey on competitive conditions in the paper sector. We anticipate that this survey will address what we believe are long-standing anti-competitive and exclusionary activities on the part of Japanese manufacturers and distributors of paper and paperboard products. Once barriers are removed, we estimate that U.S. exports could increase \$400 million annually.

#### Glass

Japan is the world's fourth largest market for flat glass. Only three Japanese companies produce flat glass. All are members of well established and strong keiretsu. The overwhelming difficulty for U.S. exporters has been penetrating the keiretsu network and closed distribution system. Steps the Government of Japan has agreed to take to increase market access for competitive foreign firms to export flat glass to Japan include the following:

- o MITI will facilitate the efforts of foreign firms to increase sales in the Japanese market;

- o Japanese companies will be encouraged by MITI to include imports of flat glass under their Business Global Partnership plans;
- o JFTC will survey conditions in the glass market from a competition policy perspective;
- o All Japanese glass manufacturers will be encouraged by MITI and the JFTC to put in place anti-monopoly compliance programs by February 1992. A stated goal of such compliance programs is to open the distribution system for glass to competitive foreign glass manufacturers;
- o The Ministry of Construction will facilitate efforts of foreign firms to meet Japanese building standards for flat and other glass building materials.

#### Semiconductors

The President's trip also resulted in a reaffirmation of the 1991 U.S.-Japan Semiconductor Arrangement. That agreement recognizes the expectation of U.S. industry that foreign market share in Japan will reach more than 20 percent by the end of 1992. This figure is not a guarantee. In 1990, Japan's semiconductor market was valued at about \$20 billion. Current foreign market share in Japan is 14.3 Percent. Foreign sales will have to increase by about \$1.2 billion by the end of this year to reach a 20 percent market share.

#### Non-automotive Standards

The forty-nine non-automotive related standards and certification issues raised by U.S. companies in various industries have been resolved or will be resolved through the office of the Trade and Investment Ombudsman's (OTO) intensified efforts. These steps will improve market access in sectors such as industrial machinery, chemicals, transportation equipment, processed food, cosmetics, and pharmaceuticals. The Government of Japan will continue to address market access issues raised by foreign companies and others through the OTO.

#### SII

The Structural Impediments Initiative (SII) has been a key element in our trade policy dialogue with Japan since it was announced in July 1989. SII produced many meaningful commitments on the part of the Japanese government. Progress has been significant in some areas, but in others greater efforts are needed. SII is critical to our firms' ability to sell in Japan. There can be no level playing field if exclusionary business practices, investment restraints and business biases against imports exist.

A successful SII complements the President's specific commercial goals in Japan. We have agreed with the Japanese government to reinvigorate SII. The dialogue will broaden, new commitments will be undertaken and old ones will be implemented fully. We hope to have our next meeting within the coming month.

#### Autos and Auto Parts

Automotive trade with Japan in 1991 comprised an estimated 70 percent of the overall bilateral trade deficit. Comparatively speaking, in 1987 (the peak deficit year) automotive trade was 56 percent of the bilateral trade deficit. The 1991 U.S.-Japan automotive trade imbalance accounted for about 45 percent of the worldwide U.S. merchandise trade deficit.



Both U.S. auto parts and vehicle manufacturers have less than one percent of the Japanese market while maintaining significant market shares in other foreign countries -- even those which possess indigenous, competitive automotive industries. Indeed, excluding trade with Japan, we estimate the U.S. would show a \$5 billion surplus in auto parts in 1991. Ford and GM sold over 3 million cars in the highly competitive European market last year. Japanese vehicle manufacturers have been reluctant to procure U.S.-made parts although the products are of high quality and are competitively priced. The U.S.-Japan auto parts price survey conducted in the spring of 1991 showed that U.S. parts, both installed and uninstalled, are in many cases 200 to 300 percent less expensive than the Japanese equivalent.

In the vehicle sector, access to the distribution system in Japan has been a significant barrier to market access. During the visit, each of the five major Japanese automotive manufacturers indicated their intention to provide access to their dealership network for U.S. auto manufacturers through company to company arrangements. These actions build on earlier announcements by Japanese automotive manufacturers to no longer require prior notification or consultation from their dealerships before the dealers undertook dual dealership arrangements.

Outstanding standards and certification issues identified by U.S. industry have also been significant impediments preventing U.S. firms from gaining further access to the Japanese market. Several issues have been in existence for more than a decade. Combined with both the contractual restrictions effectively preventing Japanese auto dealers from "dualing," i.e., carrying a competing manufacturer's product, and with exorbitant land prices in Japan (which effectively preclude the establishment of independent distribution networks), U.S. manufacturers have not had effective distribution opportunities.

We reached a resolution of a majority of standards issues, and in a few months all of the issues will be resolved. Twelve of the fourteen outstanding issues have been resolved completely, and of the remaining eight issues, six are in a resolution process, i.e. we have reached an understanding on how to finalize them. The remaining two issues will be resolved shortly.

Specifically, the expedited method for importing vehicles into Japan, known as the "preferential handling procedure," now has a potential higher unit cap of 3,000 units per model. Previously, the limit had been 1,000 units. Also, Japan agreed to accept auto emission test data from the U.S. (U.S. vehicles still tested to Japanese standards), which reciprocates U.S. practice.

MITI has announced tax and financial incentives under the Business Global Partnership, and the joint MITI-DOC vehicle trade opportunity study is progressing. The contractual relationship between dealers and auto manufacturers has been revised and now no longer includes a clause requiring dealers to hold consultations with the manufacturer prior to handling competing products. The Japan Fair Trade Commission (JFTC) also announced its intention to initiate a survey of competition in the automobile and auto parts sectors before the end of March, 1992.

In the auto parts sector, the Japanese automotive manufacturers announced voluntary plans to increase parts purchases by \$10 billion by 1994. This is an increase from about \$9 billion in JFY 1990 to \$19 billion in 1994. These are significant numbers and represent a step in the right direction.

The U.S. and Japanese governments also reached agreement on the technical aspects of the joint sourcing study which will be underway this spring. The first phase of the study will examine the sourcing patterns of the U.S. and Japanese vehicle manufacturers, including Japanese transplants in the U.S. The second phase will examine the origin of the subcomponents used by the first tier suppliers in manufacturing parts sold to the automaker. The study will be useful in providing benchmarks for claims of increasing U.S. content by Japanese manufacturers.

In the private sector, the Big Three announced their intention to meet again with the CEOs of the five major Japanese auto manufacturers. The visit was also an opportunity for the other members of the delegation to open a dialogue with their counterparts in Japan.

#### CONCLUSION

As the President said upon his departure for Asia on December 30: "The sharp lines that once separated foreign and domestic policy have been overtaken by a new reality. If we want to put people to work here at home, we've got to expand trade and to open markets."

That's what this trip was all about. It was not meant as a trade mission, winning contracts for specific companies. It was not conceived as a trade negotiation, aimed at solving individual problems, although we did make excellent progress in various areas as I have discussed above. It was quite simply a mission designed to bring trade and economic concerns to the forefront of our bilateral relations with these countries. As the President has stressed in the past, economic security in the New World Order will be as important as military security. American industry is willing and able to play the same important role in the pursuit of economic security as it did in the pursuit of military security. American industry and American workers are willing and anxious to compete globally on the basis of fair trade principles and quality products. That was the message we brought to Australia, Singapore, Korea, and Japan; and by that measure, the mission was a success.

### MINISTRY OF TRANSPORT

KASUMIGASEKI, CHIYODA-KU,  
TOKYO, JAPAN

Tokyo, 23 Jan. 1992

The Honorable  
J. Michael Farren  
Under Secretary for International Trade  
U.S. Department of Commerce  
Washington, D.C. 20230

Dear Mr. Farren:

In response to President Bush's trip to Japan in early January, 1992, the United States and Japanese Governments reached agreement on measures to facilitate the application process for the Japanese Type Designation Approval (TDA) concerning the import of U.S. manufactured vehicles into Japan. At that time we agreed to exchange letters between the Japanese

Ministry of Transport (MOT) and the U.S. Department of Commerce (DOC) outlining these measures and the responsibilities associated therewith.

The MOT will actively assist the U.S. company to ensure a smooth application process. The first time each U.S. manufacturer applies for TDA, MOT will offer counseling and assistance to the U.S. company for a smooth and expeditious application process. MOT understands that DOC will cooperate in these efforts. In this respect, the MOT is ready to send a mission to explain TDA system so that the utilization of this system by U.S. automakers may be further promoted. The MOT understands that the U.S. Government will encourage U.S. automakers to utilize the TDA system as much as possible.

The MOT is committed to incurring travel and other related costs of MOT officials associated with the testing, in U.S. manufacturer's facilities, of U.S. vehicles submitted for application to the TDA system for export to the Japanese market in compliance with Japanese standards. MOT is also committed to incurring travel and other related expenses of MOT officials associated with the examination of the U.S. official testing institute for the purpose of its designation.

Two months after the Type Designation application has been filed with the MOT, the MOT will notify the applicant in writing of its application status. At that time MOT will also inform the applicant of action, if any, that needs to be taken to complete the approval process.

The MOT has, so far, taken measures to simplify the TDA system, for example,

- Shortening of examination periods
- Acceptance of data from foreign official testing institutes
- Drastic simplification of documents required for acquiring TDA

The MOT will be ready to continue to streamline the TDA system as far as possible and as problems arise.

The U.S. and Japanese Governments will continue to work for the international harmonization of motor vehicle standards. The MOT and DOC and other appropriate U.S. government agencies will work together to facilitate U.S. companies' integration into the TDA system. The U.S. Government will encourage U.S. manufacturers to utilize the Japan External Trade Office's (JETRO) Automobile Department in New York as a local contact in addition to MOT's Vehicle and Component Approval Division, Road Transport Bureau, and MOT's Automobile Type Approval Test Division, Traffic Safety and Nuisance Research Institute as necessary to resolve any potential problems which could arise in the future.

In this regard, a fruitful and cooperative U.S.-Japan relationship will be maintained and enhanced in the future through deeper mutual understanding.

Sincerely,



Kiyoshi Terashima  
Vice Minister for  
International Affairs

P.S.

Attached is the list detailing the status of auto standard issues, produced on a non-paper basis on Jan. 9, 1992. We will be following up on these issues. We will be working with you in the near future.

Auto Standards  
status of the 14 points

Six Issues in Resolution by OTO:

1. issue: engine exhaust emissions test (OTO 453)  
resolution: MOT will accept data that official test institutes in the U.S. conduct according to Japanese emission control test modalities. MOT will start discussions with the USG EPA on technical aspects of these procedures.
2. issue: PHP (Preferential Handling Procedure) (OTO 454)  
resolution: Preferential Handling Procedure (PHP) can be applied up to 2000 units per year for each type. Furthermore provided that application for Type Designation (TD) is submitted by the applicant at the time when the number of vehicles to which PHP is applied reaches 2000, PHP can be applied to up to a total of 3000 units per year for each type until the procedure of TD is completed.
3. issue: catalytic converter overheat warning system (OTO 457)  
resolution: MOT will enter into technical discussions with USG agencies to resolve this issue.
4. issue: exterior rear-view mirror (to OTO 12/26/91)  
understanding: MOT will accept foreign technical standard data which American carmakers are now furnishing for U.S. exports to Europe as equivalent to the corresponding test procedures in Japan.
5. issue: head restraint test (OTO 456)  
understanding: MOT will accept foreign technical standard data which American carmakers are now furnishing for U.S. exports to Europe as equivalent to the corresponding test procedures in Japan.

6. issue: complete on/off function of front turn signal lamps (OTO 459)  
 understanding: The USG and GOJ agree to co-sponsor and cooperatively support discussion to develop a fixed variation of intensity standard for turn signal lamps in the ECE WP 29.

Six Issues Solved Technically As Of 1/1/92

7. issue: brake test (never submitted to OTO)  
 U.S. request: eliminate test and accept U.S. standards and manufacturer's certificate  
 status: resolved
8. issue: lighting device test (OTO 461)  
 U.S. request: eliminate test and agree to common standards  
 status: resolved
9. issue: chassis stamp - vehicle identification number (never submitted to OTO)  
 U.S. request: accept U.S. practice  
 status: resolved
10. issue: steering impact test (air bags) (never submitted to OTO)  
 U.S. request: accept U.S. test  
 status: resolved
11. issue: side-slip test (never submitted to OTO)  
 U.S. request: eliminate test or use more modern testing equipment  
 status: resolved
12. issue: commonized vehicle inspection at local Land offices (never submitted to OTO)  
 U.S. request: that Japan adopt a single vehicle inspection system nationwide  
 status: resolution in implementation

Two Issues to be Resolved Imminently

13. issue: light-alloy wheel test (aluminum wheels) (OTO 460)  
 U.S. request: accept U.S. SAE test as functional equivalent and allow manufacturer to certify  
 status: SAE standards solution within 3 months
14. issue: rear side marker lamp must be within 400 mm of the car's rear end (OTO 458)  
 U.S. request: eliminate requirement or relax to the standard of the rear reflector (over wheel)  
 status: ECE WP 29 solution within 3 months

# DESTINATION JAPAN

A Business Guide for the 90s

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## JAPAN COUNTRY FACT SHEET

## PROFILE:

A. Population:	123.61 million
B. Religions:	Shintoism, Buddhism, Christianity 1 percent
C. Government:	Type: Parliamentary Democracy Head of Government: Prime Minister Kiichi Miyazawa
D. Language:	Japanese

## ECONOMY:

	<u>1988</u>	<u>1989</u>	<u>1990</u>
A. GNP (\$B, Nominal)	2,916	2,890	2,964
B. GNP Growth Rate (real, 1985 base)	6.2	4.7	5.6
C. GNP per capita (in dollars)	23,750	23,448	23,971
D. Government spending as a percent of GNP	15.8	15.6	15.4
E. Inflation (CPI, 1985 base, percent)	0.7	2.3	3.1
F. Unemployment (percent)	2.5	2.3	2.1
G. Foreign Exchange Reserves (\$B)	97.7	84.9	77.1
H. Average Exchange Rate (\$1=)	128.15	137.96	144.79
I. U.S. Economic Assistance	0	0	0
J. Output/hour manufacturing (1985=100)	90.7	92.8	94.6
K. Domestic Demand (percent growth)	7.6	5.9	5.8
L. Household Savings Rate (percent)	14.3	14.1	13.8

## TRADE:

A. Total Japanese Exports (\$M)	265,917	275,175	286,948
B. Total Japanese Imports (\$M)	187,354	210,847	234,799
C. Total U.S. Exports (FAS value, \$M)	322,426	363,812	393,893
D. Total U.S. Imports (customs value, \$M)	440,952	473,211	494,903
E. U.S. Exports to Japan (FAS, \$M)	37,725	44,494	48,585
F. U.S. Imports from Japan (customs value, \$M)	89,519	93,553	89,655

**Principal U.S. Exports:** automatic data processing machines and office equipment; wood, in the rough or roughly squared; aircraft, spacecraft, and associated equipment; seafood products; semiconductors and other electronic components

**Principal U.S. Imports:** motor cars and other motor vehicles, automatic data processing machines and office equipment, parts and accessories of motor vehicles, scientific optical equipment, and semiconductors and other electronic components

**Best U.S. Export Prospects:** Pharmaceuticals, telecommunication services, marine fishery products, biotechnology products, medical equipment and supplies, industrial chemicals, aircraft and parts, architectural/engineering/construction services, sporting goods, computer software and services, and building products.

## Foreign Supplier Share of Japanese Imports in 1990:

1. S.E. Asia:	23.3 percent	3. E.C.:	14.9 percent	5. Indonesia:	5.4 percent
2. U.S.:	22.4 percent	4. Middle East:	13.2 percent	6. Australia:	5.3 percent



**BOP Current Account Balance:** 1989: \$57.16 billion  
1990: \$35.79 billion

**Trade Balances with leading partners, 1990 (\$B):**

1. U.S.:	41.07
2. S.E. Asia:	28.12
3. E.C. (including the Federal Republic of Germany):	18.49
4. Federal Republic of Germany:	6.30
5. Republic of Korea:	5.75
6. Middle East:	-21.46

**IMPORT POLICY:**

1. **Tariffs:** The average Japanese tariff is low, but on specific items, particularly foodstuffs and leather goods, both tariffs and quotas are trade restrictive. Japan has recently eliminated the import quotas on beef and citrus, as well as the quotas on many processed foods.
2. **Taxes:** Since April 1, 1989, the commodity tax has been replaced with a general consumption tax of 3 percent, 6 percent on autos, which is levied on the c.i.f. plus duty value.
3. **Licensing of Technology:** Until recently, a report had to be filed with the Ministry of Finance and other competent ministries through the Bank of Japan before signing a licensing contract. In practice, the investor was notified that the Japanese Government had no objection within one hour following notification, if the proposed investment was in unrestricted industries. However, as part of the U.S.-Japan Structural Impediments Initiative Agreement, this prior notification requirement has been replaced by ex post facto notification for investment in unrestricted sectors. More stringent regulations apply to "designated technologies" which have been determined to have significant influence on the security of the nation and the national economy.

**INVESTMENT:**

**Foreign Ownership Restrictions:** A 100 percent foreign capital is allowed in principle except for the following sectors: broadcasting; telecommunications; electric power generation; domestic rail and air transportation; arms; gun powder; atomic energy; aircraft; space development; narcotic manufacturing; vaccine manufacturing; security guard services; agriculture, forestry, and fisheries; petroleum refining and marketing; leather and leather product manufacturing; and mining.

**Total U.S. Direct Investment in Japan (cumulative):** 1988 \$16.9 billion, 1989 \$18.5 billion, 1990 \$20.9 billion.

**Principal Foreign Investment Sectors in Japan (1950-1989):** Machinery, chemical, commerce/foreign trade, services, real estate, petroleum, banking/insurance, and metals.

**U.S. Share of Foreign Direct Investment in Japan:** 50.5 percent (as of March 31, 1990)

**Principal Foreign Investors in Japan (JFY 1989):** United States, the Netherlands, Federal Republic of Germany, Switzerland, United Kingdom, and Hong Kong.

**Japan's Foreign Direct Investment in U.S. (cumulative):** 1988 \$53.4 billion, 1989 \$67.3 billion, 1990 \$83.5 billion.

## FOREIGN TRADE OUTLOOK -- ECONOMIC OVERVIEW

The Japanese economy continues to experience success despite the recession in the United States. Since 1987, Japan has enjoyed strong economic growth, highlighted by low inflation and unemployment and led by strong domestic rather than external demand. The real GNP growth rate in 1990 was 5.6 percent. Japanese monetary policy played an important role through 1989 in sustaining expansion of Japanese domestic demand, while falling import prices and a measure of deregulation kept inflation at bay. Troubled stocks and more stringent monetary policy have not yet dampened perceptibly the strong growth in all components of domestic demand, except housing. Consumer spending and corporate investment are the mainstays of the current boom.

More and more U.S. companies are realizing that the best way to respond to Japanese competition at home and in world markets is to become involved in the Japanese market. Not only is Japan the world's second largest economy (\$2.96 trillion) after the United States, it is the largest economy in Asia and the second largest market for U.S. exports after Canada. Japan has a highly educated and efficient labor force, a stable government, an economy driven by high levels of household savings and capital investment, a huge and growing domestic market, and continuing growth exceeding that of the United States. Not only are there opportunities for U.S. companies in the Japanese market, but market entry into Japan should be a vital part of any company's international marketing strategy.

Over the next several years, Japan will offer many new business opportunities -- in infrastructure build-up, as the tremendous economic growth has brought a need for airports, roads, bridges, and housing; in leisure, as the Japanese worker finds more time and money to spend off the job; in retirement communities and health care with the "graying" of Japanese society; in changing and broadening consumer tastes, as the average Japanese consumer has become more cosmopolitan with greater exposure to foreign products; and in Japan's large Official Development Assistance (ODA) projects.

## THE JAPANESE ECONOMY

The Japanese economy, rebuilt from post-Second World War ruins, was the world's second largest economy in 1990. Persistently huge external trade imbalances have evoked steadily mounting international economic and political pressures on Japan to adopt policies that accelerate structural adjustment. Frustrated trading partners point out that Japan is also home to inefficient transport, agricultural, construction, and distribution sectors which are sheltered from foreign competition. Transition to greater competition in these sectors is under way -- too slow to satisfy trading partners, but remarkably rapid in Japanese eyes.

Imports into Japan are increasing, and the share of imported manufactured goods has risen from about 20 percent in 1982 to about 48 percent in 1990 (SITC categories 5-8). Japanese external balances, after a four-year upward spiral, declined in yen terms in 1987, and in dollar terms since 1988.

Following Japan's reversal of its easy monetary policy in late 1989, a climb in interest rates brought capital costs from historic lows to levels more comparable with those in the United States. Together with a change in expectations of earnings, the higher interest rates prompted reduced net capital outflows from Japan. Japanese monetary policy tightening coincided with two distinct periods of broad equity market depreciation, the first in the early spring of 1990 and the latter following the Iraqi invasion of Kuwait in August 1990.

Japan has pursued relatively tight fiscal policies since 1982 to constrain growth in government debt, which had expanded to about 35 percent of nominal Gross National Product (GNP) in that year. However, under pressure from other Group of Seven (G-7) countries to contribute to the reduction of international imbalances, the Japanese Government in June 1987 initiated a \$35 billion multisector public works spending package and followed up with tax cuts worth about \$10 billion. Building on economic growth which began late in 1986, the package helped to reduce fiscal drag on the economy. In the June 1990 report on the U.S.-Japan Structural Impediments Initiative (SII) Agreement, the Japanese Government agreed to formulate a ten-year plan to boost social infrastructure spending significantly.

In cooperation with the United States, Japan is playing a leading role in increasing Official Development Assistance (ODA) flows, and became the world's largest donor in 1990. Japan has committed to double ODA to at least \$50 billion over the five-year period from 1988 to 1992 and to improve the quality of that aid by boosting the share of grant and untied aid.

Japan ended most foreign exchange controls in the 1970s, culminating in a major simplification of the Foreign Exchange and Foreign Trade Control Law in 1980. Currently, pursuant to the international understanding launched under the 1985 Plaza Accord and refined since then, Japan actively coordinates economic policies with the United States and its other G-7 partners. The appreciation of the yen since 1985 has increased the price competitiveness of American products and is contributing to the reduction of Japan's enormous external trade imbalances. At this point, although import price reductions have had some impact in moderating domestic price levels, there remains room for further improvement in terms of benefits for consumers. This situation could stimulate additional demand for imports.

## WHY EXPORT TO JAPAN?

You have heard about the great market potential in Japan for goods and services. There are three basic reasons why your firm's products and services should be in the Japanese market.

First, Japanese consumers, both individual and corporate, are spending in record amounts. This recent phenomenon is in addition to the high levels of capital investment and research and development (R&D) outlays of the private business sector, and continues to fuel Japan's economic growth. Already, many European and Asian competitors are pursuing this trend and have come to Japan in force.

Second, there is a massive infrastructure buildup under way in Japan as it strides into the 21st century. Trillions of dollars are to be spent on airports, bridges, roads, port development projects, heliports, buildings, telecommunications systems, resorts, retirement communities, marinas, conference centers, and medical and science cities. Furthermore, the U.S. Government has negotiated an agreement with the Japanese Government to ensure more opportunities for American firms in the Japanese construction market.

Third, entering the Japanese market should be regarded as an indispensable part of the global strategy of your business -- and without a global strategy, it will be very difficult to remain competitive in your domestic market over the long term. Your firm should be in Japan (1) at a minimum, to gather information on the Japanese competition and new Japanese technology; (2) to exploit the growing Japanese market; (3) to compete with your Japanese competition in Japan, thereby enhancing your competitiveness and your market share ultimately in the United States; and (4) to establish relationships with Japanese business and government entities to enable your company

to work in Japanese-financed development projects in third countries. Japan's Official Development Assistance (ODA) program is now one of the world's largest providers of U.S. Agency for International Development (AID)-type grants and loans. Finally, experience gained in Japan responding to the severe demands of Japanese customers can result in improvements to your products made and sold throughout the world. The observation that if a company can sell in Japan, it can sell anywhere, is basically true.

### **YES, THERE ARE DIFFICULTIES, BUT THEY CAN BE OVERCOME!**

So you have heard about great opportunities in Japan and its necessary role in your firm's international marketing strategy. You have also been warned of the great difficulties your firm will face. You have been told that your goods may be treated unfairly, that you will have to adapt your product to the Japanese market, and that the distribution system in Japan is too mysterious and complex. Beyond these problems, you recognize that you will face impenetrable cultural barriers. However, only some of this is true to a limited degree, and these perceptions should not deter you from taking advantage of one of the world's largest and richest markets.

Unquestionably, Japan is a difficult market to crack and, as in most countries, there are cases of protectionism. Nevertheless, Japan is not the "closed market" of even a decade ago. There are now very few formal barriers to trade in the form of quotas and tariffs. For those who have a quality product and are willing to undertake the high cost of initial market entry in the world's most expensive country, it is possible to achieve a substantial market share and to make significant profits. The regulatory system is still complex, but the Japanese Government has substantially removed the legal and administrative restrictions on imports and foreign investment in Japan that traditionally made doing business there difficult for U.S. businesses. In fact, the Japanese Government has shifted its position towards encouraging imports and promoting investment. However, some knotty regulatory barriers and discrimination do still exist. When a company cannot solve such problems independently or through legal advisers in Japan, the U.S. Government, and particularly the U.S. Department of Commerce, can often provide assistance. U.S. companies should not be afraid of retaliation by the Japanese bureaucracy for seeking fairness and transparency in Japanese administrative regulations. There are difficulties, but upon closer inspection, they are not as formidable as they first appear. With a little hard work, they can usually be overcome. Many U.S. firms now realize that they can no longer afford not to make a commitment to the Japanese market. The ultimate benefits of getting established in one of the world's largest, most advanced, and dynamic economies, more than repay the initial effort and long-term commitment.

### **MARKETING STRATEGY**

The key to your success in Japan is the commitment of your resources -- including your time, money, and personnel -- to develop a market for the long term. If you prepare well, exercise patience, and demonstrate commitment, then you will likely reap substantial benefits from your efforts. There are six key points that every American firm wishing to do well in Japan must know, understand, and remember before entering the market:

**Product:** The acceptance of your product in the Japanese market is based primarily on its quality and after-sales service, not its price (although this is still an important consideration). Your product may sell well in the United States and other countries, but that does not mean it will be well received in Japan. The Japanese are the most discriminating shoppers in the world. The Japanese

are very quality-conscious. Strict delivery dates must be met. Customer-oriented service is a decisive factor. The Japanese consumer looks for innovation in technology, design, style, and fashion. Both your product and corporate image are critically important.

**Preparation:** Substantial preparatory homework is required. You must make an effort to know the market for your product and your potential competition in that market. You must carefully monitor the activities of Japanese competitors and Japanese Government regulations and development programs. Furthermore, you must be ready and willing to modify your product to meet local marketing requirements. This modification would include metrification of products, manuals, and sales literature. These steps may be necessary in order to meet some regulatory condition or simply to conform to the personal preferences of the Japanese consumer or end-user. Your firm would do no less when selling in the United States. You should have all relevant product literature translated into Japanese. This may prove expensive, but it is necessary.

**Presence:** In almost every case, you **MUST** have a presence in the Japanese market if your firm is to succeed. This can be in the form of a representative -- an individual or organization that serves as a middleman representing you and your product, or an actual physical presence by your firm -- a liaison or branch office, subsidiary, or joint venture. Whichever option you choose, a presence is absolutely essential. Your firm needs someone in Japan to advertise your product, take orders, resolve potential delivery problems or bottlenecks on the Japanese side, work with distributors, replace defective or broken goods, and implement after-sales service. You need someone to physically import the product, to arrange payment, and to keep you informed of what is happening. This last point is often neglected by exporters. Products come and go in Japan. What is an advanced product or in fashion today can be outmoded and unfashionable tomorrow. Your firm must be continuously kept aware of market trends and product developments in Japan to remain competitive.

**Culture:** An understanding of the Japanese business mentality and a willingness to accommodate Japanese consumer preferences are extremely important. Simply put, learn about Japan -- about its culture, history, and business practices. One of the most common mistakes American firms make in Japan is that they do not listen to their people in Japan. It is wise to listen to your Japanese representative when he or she makes a suggestion. Your representative is in the best position to know what is going on in Japan, and therefore, to recommend the best course of action. Demonstrate prudence, but do not disregard the comments or suggestions made by your representative in Japan. A lack of responsiveness by you may result in an arriving shipment not being cleared through customs or poor sales.

**Education:** Many products from the United States fit into a cultural or an industrial environment that may not currently exist in Japan. This uniqueness is what often gives U.S. products the edge. However, you often must educate your customers about the product's purpose, use, and quality.

**Patience:** Entering the Japanese market requires a long-term approach; negotiations are likely to be lengthy, initial costs are high, and returns may be slow in reaching profitable levels. Do not expect immediate results. Only by exercising patience will you succeed. A number of firms have failed in Japan only because they lacked a sustained commitment and prematurely withdrew from the market.

### *Distribution and Sales Channels*

The Japanese distribution system is very different from our own; it is as inefficient as it is complex. There are two basic methods of distribution for potential exporters to Japan. One is to use the existing distribution channels of a trading company, manufacturer, or wholesaler. The other is to set up your own distribution system -- which could be very expensive initially, but more efficient over the long term. The decision as to which approach to follow must be based on an assessment of product characteristics, the potential market size, the structure of the market (buyer universe), the degree of complexity of the existing distribution channels, and your firm's resources, as well as your willingness and ability to commit them to the development of the Japanese market.

If the market is one in which there is a large number of smaller end-users located throughout the country, it may be necessary to rely on a network of wholesalers. Where the buyer universe is relatively concentrated among a limited number of large firms, marketing may be direct or through a single intermediary. A key factor for you is to answer the question, "Who has control over the channels of distribution which provide access to my market?" Your firm must understand existing distribution channels in order to utilize them or develop an innovative approach. To reach your potential customers, you may have to rely on a trading company or wholesaler who controls related distribution channels for your product.

Japanese distribution practices are often markedly different from those in the United States. Multiple layers of middlemen may be involved in a system of highly institutionalized marketing channels linking producers, retailers, and end-users. Wholesalers and retailers in Japan significantly outnumber their counterparts in the United States. Many elements of the distribution system have fewer than ten employees, cannot provide their own credit or maintain large inventories, and often have financial, ownership, or exclusive arrangements with major Japanese manufacturers, industrial groups, or trading companies. Distribution channels in Japan vary considerably from industry to industry and product to product with particular differences between consumer and industrial goods.

In some capital goods sectors, Japan has a number of small firms which function as subcontractors for larger manufacturers. Small and medium-sized firms, employing fewer than 300 persons, supply the majority of manufacturing industries with most of their products. To sell to these firms, it is often necessary to follow a multilayered distribution system. You need to determine the identity, locations, and needs of your customers before choosing the distribution channel. Your representative can be of tremendous aid in identifying and accessing the proper distribution channel.

### *Introducing Your Product to the Japanese Market*

The first move your company must make before entering the Japanese market is to determine whether or not there is in fact a market for your product. Second, you must have a market strategy. The Japanese customer is the most demanding in the world. Poor quality, inferior packaging, and second-rate customer service will not be tolerated. In addition, when doing business in Japan, what is considered unnecessary fluff in most countries is vital for the success of your company. You are trying to sell more than your product to the Japanese. Your company's image, reputation, and reliability are critically important. The Japanese insist on knowing your company's history, goals, and vision for success. Perception and image are everything in Japan. The more information they know about you and your company, the more comfortable they will be in dealing with you. Communication is vital. Your potential Japanese agent/distributor/representative must be reassured that you are making a permanent commitment to the Japanese market. If you have not convinced him or her of your seriousness, your product will receive minimal consideration.

You should designate a manager who is responsible for Japan operations. Ideally, the Japan portfolio should be the manager's sole responsibility; and if not resident in Japan, he or she should visit Japan at least four times a year. In addition, when selling the product, a company representative who knows the product should be in Japan to answer specific technical questions or hold seminars and conferences. Too often, when a potential Japanese customer asks a technical question about a U.S. product, the American company's marketing representative cannot answer the question. Providing an informational brochure in Japanese is a good beginning, but quite often it is not enough. The inability of your sales representative in Japan to answer technical questions about the product indicates to your potential customers a lack of pride in your product. They will take their business elsewhere.

The Japanese often praise the innovative design, technology, and creativity of American products. However, many times they are critical of the low quality of the product or the reluctance of American companies to alter their product to meet Japanese consumer tastes. Japanese consumers will carefully examine the stitching of clothing and will notice if the color fades when washed. If they detect a flaw, they are unlikely to purchase the product. American companies cannot stand pat in the Japanese market either. Too often, an American company will have a good product that captures Japanese interest, but the company does not continue to develop or modify the product to meet the specific needs of the Japanese consumer. Meanwhile, Japanese and Asian competitors will take the product, copy it, and improve it -- offering it at a cheaper price.

The type of product that you are interested in exporting to Japan will largely dictate the direction you will take. Listed below are a few suggestions on how to expose your product to the Japanese market. Please note, and this is of the utmost importance to succeed in Japan, that your goal here is to introduce yourself to your potential Japanese counterpart -- your partner, if you will. This partner is the organization, company, or person with whom you, the exporter, will work. Your partner's role in this arrangement is to introduce and sell your merchandise to the Japanese consumer or end-user. However, your cooperation, attention to detail, and involvement are the primary conditions for their success, and yours.

**The Agent/Distributor Service:** The U.S. Department of Commerce offers the Agent/Distributor Service (ADS) which is an overseas search to identify potential representatives for your product in the Japanese market. U.S. commercial officers in Japan prepare a list identifying up to six Japanese prospects who have expressed an interest in representing you in the market. Since the processing time at the U.S. Embassy ranges from 30 to 45 days, you should allow for sufficient lead time. An additional benefit from this service is that the U.S. Government is introducing your firm to a potential Japanese partner. Proper introductions by third parties are an integral part of doing business in Japan, and many Japanese firms are reluctant to do business without an appropriate introduction. When filing for the ADS, you should give as much information as possible about what is unique or different about your product. Information on your company's function, history, and goals is equally important. The ADS does not include a search for a licensee or joint venture partner. Contact your local U.S. Department of Commerce district office for more information on the ADS.

**The Comparison Shopping Service and Market Research:** The Comparison Shopping Service (CSS) is a more comprehensive service for those companies which are prepared to make a more serious initial commitment to the Japanese market. The CSS is a custom market research service designed to help firms such as yours get the precise information you need to assess a given export market. The CSS can provide key marketing facts about your specific product which cannot be found in broader industry surveys.

The CSS provides answers to nine key marketing questions about your product in Japan: (1) Does the product have sales potential in the market? (2) Who is supplying a comparable product locally? (3) What is the usual sales channel for getting this type of product into the market? (4) What is the going price for a comparable product in this market? (5) Are purchasers of such products primarily influenced by price or other competitive factors, such as credit, quality, delivery, service, promotion, brand, etc.? (6) What is the best way to get sales exposure in the market for this type of product? (7) Are there any impediments to selling this type of product in this market, such as quotas, duties, or local regulations that might impede sales? (8) Who might be interested and qualified to represent or purchase this company's product in the market? and (9) If a licensing or joint venture strategy seems desirable for this market, who might be an interested and qualified partner for the U.S. company?

Answers to these questions are obtained from on-the-spot, personal interviews conducted by private sector market research firms in Japan. The researchers conduct a CSS survey by interviewing knowledgeable local sources, such as importers, distributors, end-users, or local producers of comparable products. The final CSS survey will be completed and sent to you in approximately 60 days. For further information, contact your nearest U.S. Department of Commerce district office.

There are many industry subsector analysis reports that have been written by the U.S. and Foreign Commercial Service of the U.S. Department of Commerce and Japan External Trade Organization (JETRO). For a list of market research reports available, contact the Japan Export Information Center (JEIC) at (202) 377-2425. In addition, if your firm wishes to contract for more detailed market research, contact the JEIC to obtain a list of market research and business consulting firms in Japan.

**Trade Shows/Missions:** These events offer excellent opportunities to introduce your product to the market, expose your company and products to a large number of potential customers, enhance and build your company's image, educate the market about your products, learn about the needs and expectations of the customer, and learn about the competition. The U.S. Department of Commerce regularly schedules showings of American products and invites interested Japanese buyers to attend. For more information, contact your local U.S. Department of Commerce district office or the U.S. Department of Commerce's Japan Export Information Center (JEIC). The various types of trade shows include the following:

**TRADE EVENTS:** Overseas promotions that are organized and recruited by the U.S. Department of Commerce. The shows are industry specific and are of usually two types. Solo Exhibits are shows which are initiated and staged by the Commerce Department and which feature only U.S. exhibitors and their products. International Trade Fairs are shows in which the Commerce Department establishes a U.S. section or pavilion, featuring U.S. products and exhibitors. Cost of participation in trade shows vary, but for companies that have the resources, trade missions can be one of the most cost effective ways of developing an export market. For more information, contact the Office of International Operations at (202) 377-8422.

**MATCHMAKER TRADE DELEGATIONS:** Overseas sales promotion trips arranged and recruited by the Commerce Department. Matchmakers are week-long, industry specific trade delegations. They are often planned in conjunction with a recognized international trade fair. Commercial specialists at the U.S. Embassy in Japan match American suppliers in one-on-one interviews with potential agents, distributors, and/or joint venture or licensee partners -- depending on the market penetration strategy of the U.S. firm. Mission members are responsible for their own expenses and a contribution to defray general mission expenses. For more information, contact the Office of Marketing Programs at (202) 377-4231.



**FOREIGN BUYER PROGRAM:** Trade missions of Japanese buyers who visit U.S. domestic sales promotion events arranged and recruited by the Commerce Department. Foreign Buyer Shows present a broad range of products and services with good prospects for increased international sales. For more information, contact Export Promotion Services at (202) 377-0871.

**State Representative Offices in Japan:** Thirty-eight U.S. states have their own representative office in Japan. These offices are designed to promote exports from and encourage investment in their respective states. You should contact your state government in order to determine what assistance it can provide you. For a list of state representative offices in Japan, contact the Japan Export Information Center at (202) 377-2425.

**Industry Trade Associations:** You should contact your trade association for information on exporting to Japan. U.S. trade associations often have international departments or affiliations which can provide information on marketing; testing, standards, and certification; and intellectual property protection. Members of the association serve as excellent sources of information and may be able to introduce your company to a potential partner in Japan. Also, your association may have a good working relationship with a counterpart association or office in Japan. Some U.S. industry associations with offices in Japan include the American Electronics Association, the Motion Picture Association of America, Inc., the Pharmaceutical Manufacturers Association, the U.S. Semiconductor Industry Association, the U.S. Electronics Industry, and the U.S. Automotive Parts Industry.

**Export Trading/Management Companies:** Trading and management companies are trade intermediaries or middlemen that provide clients with a variety of export trade services. Each trading company is unique in the combination of services it offers and the products it handles. Some trade intermediaries deal in a wide range of trade facilitation services while others specialize in a few. Such services can include, for example, advertising and promotion; consolidation of the shipments of a number of suppliers to lower freight rates; supplying freight forwarding and international documentation; finding suitable distributors and interested overseas buyers; providing credit checks on overseas traders and buyers; market research; translation; and taking title of the goods. Available through U.S. Department of Commerce district offices is a publication titled Export Yellow Pages that lists contact information on 1,000 U.S. export trading companies. The choice between using a Japanese or an American sales agent/distributor should be based on informed knowledge of the market.

Japan has more than 6,000 trading companies. Japanese trading companies include many small, specialized firms "senmon shosha" that represent the primary Japanese equivalent to U.S. trade intermediaries. Japanese trading companies also include general trading companies, "sogo shosha," that represent the vanguard of the Japanese economy. The sogo shosha account for 50 percent of Japan's exports and 60 percent of imports. The nine largest Japanese sogo shosha have a combined annual sales volume of about \$700 billion. For the year ending March 1989, the Mitsui sogo shosha alone had \$126 billion in trade transactions.

Sogo shosha are organized along industry lines, not along geographical lines. Each sogo shosha is part of a large industrial conglomerate ("keiretsu") centered around a major bank. Most have manufacturing subsidiaries or affiliates and serve as conduits for technology transfer through licensing agreements negotiated for their manufacturing subsidiaries. Sogo shosha deal with a multitude of products -- Mitsui, for example, handles as many as 20,000 different items.

Sogo shosha act as trade intermediaries between buyers and sellers at all stages of product and trade flow -- from upstream raw material extraction, through production, to downstream distribution to the end-user. The sogo shosha search for volume growth in value-added, bulk commodity products.

They are willing to play whatever role is necessary to make the project or transaction work -- trade catalyst, joint partner, consortia organizer, and support of major project management. Sogo shosha have vast communication networks and have an extensive presence in foreign markets. For example, one sogo shosha has 190 offices worldwide with 20 in the United States alone.

It is not unusual that 60-70 percent of a sogo shosha's assets are committed to financing suppliers and customers. Sogo shosha derive financial strength from their keiretsu's bank (often a major stockholder). Bank loans are used to acquire or establish firms to obtain a production base or enter resource development. The sogo shosha also reloan funds to clients. In 1987, the sogo shosha provided over \$26 billion in trade credits and \$47 billion in long-term loans and credit guarantees.

Sogo shosha tend to handle bulk items such as agricultural products, industrial materials, and textiles. In the case of a product other than a bulk commodity or raw material, the use of a specialized trading company or senmon shosha should be considered. These smaller firms limit themselves to a narrow range of products and handle most phases of the product's journey through customs to the end-user. They often can provide greater assistance for products which require after-sales service such as electronic instruments and medical equipment.

The third distinctive type of trading company is the "captive" type, which is owned by manufacturers or merchandisers. It performs foreign trade functions for particular manufacturers and is primarily of interest to firms that wish to export to their parent companies.

Japan's general trading companies have established an Export Promotion Office for U.S. Manufactured Goods to advise American companies interested in trading with Japan and other foreign countries. The companies' trade experts are located at 105 offices in 19 U.S. cities. These offices are linked individually by a computer system that can give manufacturers and exporters information on markets, financing, laws, regulations, exchange rates, and other factors with a bearing on trading decisions. For a list of these offices in the United States, contact the Japan Export Information Center (JEIC) of the U.S. Department of Commerce at (202) 377-2425.

**Japan Chamber of Commerce and Industry:** The Japan Chamber of Commerce and Industry (JCCI) offers manufacturing directories, phone numbers, contacts, and lists to help a U.S. company find the most appropriate partner in Japan for a joint venture or product distribution. In addition, many of the regional chambers of commerce and industry in Japan publish trade opportunities or bulletins with foreign products and companies listed. Since 1984, the JCCI has had an office in Kansas City, Missouri which can advise your company about opportunities in the Japanese market and provide information on Japanese companies interested in possibly doing business with your firm. The Osaka Chamber of Commerce and Industry (OCCI) and several municipal and business groups sponsor the annual Global Opportunities Convention (G-BOC), which is held in Osaka, Japan. G-BOC provides an excellent opportunity for your company to be introduced to potential Japanese business partners. American companies can contact the JCCI for additional information on G-BOC. JCCI contact points are located at:

JCCI  
Commerce Tower Suite 2323  
911 Main Street  
Kansas City, MO 64105  
Phone: (816) 221-6140  
Fax: (816) 471-6523

JCCI  
2-2 Marunouchi 3-chome  
Chiyoda-ku, Tokyo 100  
Japan  
Phone: 011-81-3-3283-7660  
Fax: 011-81-3-3216-6497

OCCI  
 2-8 Hommachibashi  
 Chuo-ku, Osaka 540  
 Japan  
 Phone: 011-81-6-944-6403  
 Fax: 011-81-6 944-6409

**Japanese Department/Chain Stores:** In the consumer sector, an important feature of buying patterns has been low consumer mobility combined with high population density. Surveys indicate that most Japanese consumer purchases occur within a closely defined neighborhood, with the result that a large number of Japan's retail outlets are neighborhood stores accounting for roughly half of all retail sales. Most of these are served by three or more wholesalers, resulting in "pyramid pricing." The emergence and growth of self-service discount stores and "superstores" are helping to reduce the amount of layering and price markups. In addition, department and specialty stores are increasing their volume purchases from abroad. Department stores in Japan typically carry 500,000 items and make 80-90 percent of purchases from as many as 1,500 wholesalers, many of which supply goods on consignment. Some stores are establishing central purchasing offices, and many of the large superstore and department store chains now have direct buying offices in the United States:

Daiji, Inc.  
 Suite 215  
 1025 West 190th Street  
 Gardena, CA 90248  
 Phone: (310) 515-0141  
 Fax: (310) 515-1086

Daimaru, Inc.  
 1114 Avenue of the Americas  
 New York, NY 10036  
 Phone: (212) 730-7138  
 Fax: (212) 840-7645

Daimaru California, Inc.  
 19401 South Vermont Ave., A-204  
 Torrance, CA 90502  
 Phone: (310) 516-9716  
 Fax: (310) 516-9578

Hankyu, Inc.  
 2951 28th St., Suite 3010  
 Santa Monica, CA 90405  
 Phone: (310) 396-8710  
 Fax: (310) 396-3026

Isetan Co., Ltd.  
 666 5th Avenue, 12th Floor  
 New York, NY 10103  
 Phone: (212) 767-0300  
 Fax: (212) 767-0307

Matsuzakaya America, Inc.  
 460 East 3rd Street  
 Los Angeles, CA 90013  
 Phone: (213) 626-0133  
 Fax: (213) 626-7936

Mitsukoshi, Inc.  
 465 Park Avenue  
 New York, NY 10019  
 Phone: (212) 753-5580  
 Fax: (212) 355-7161

Seibu Corp. of America  
 55 East 59th Street  
 New York, NY 10022  
 Phone: (212) 826-1144  
 Fax: (212) 826-1148

Taka-Q Co., Ltd.  
 115 West 57th St., 3rd Floor  
 New York, NY 10019  
 Phone: (212) 489-4720  
 Fax: (212) 664-0138

Takashimaya, Inc.  
 1290 Ave. of the Americas, Rm 1731  
 New York, NY 10104  
 Phone: (212) 265-2577  
 Fax: (212) 265-1539

Tokyu Department Store Co., Ltd.  
 24712 Madison Street  
 Torrance, CA 90505  
 Phone: (310) 530-8207  
 Fax: (310) 530-4173

The retail market is in the process of change. Significant alterations in Japan's Large Scale Retail Store Law have eased restrictions on opening new stores. There has been a substantial increase in the number of applications to open new retail stores since the reforms have been announced. Import clearance procedures at airports and seaports have been simplified, and plans are in place to improve and expand facilities in these areas.

Faced with deregulation and changing patterns of consumption, many Japanese companies are modifying marketing and sales strategies to take advantage of these developments. Imports are already benefiting from these trends as seen in increased sales by Japanese department stores and other mass merchandisers and by a variety of new retailing ventures that match changing Japanese lifestyles. There are also indications that some distributors are modernizing and consolidating operations.

**Other U.S. Governmental Assistance:** See section titled "Where to Get Market Information and Trade Leads."

**The Japanese Government:** See section titled "The Japanese Government."

### *Choosing a Business Partner in Japan*

Selecting the appropriate partner in Japan is probably the single most critical factor for your success in the market. Your partner should be someone with whom you can communicate comfortably -- someone who can teach you the subtleties and finer points of the product market in Japan. Your partner should be able to answer most of your questions regarding the sale of your goods. He should be able to recommend alterations on your product which are required by government regulation or which will make your product more attractive to the Japanese consumer. You need to maintain a constant dialogue with your Japanese partner for an effective relationship. You need to be a good listener. You should also anticipate and respond to the needs of your potential customers. If you are not successful in establishing a good working relationship and trust with your Japanese partner, you will not succeed in Japan.

Occasionally, an American exporter wishes to change agents/distributors/representatives. The reasons for this decision may vary. If the U.S. product does not sell well within the first year, the American exporter often incorrectly assumes that their Japanese partner has not done his or her job. However, there are other factors which must be considered such as lack of patience on the American firm's part, poor product quality or after-sales service, or an unwillingness to meet Japanese consumer tastes. If you have established a good working relationship and trust with your partner, you should be able to determine what the real factors are. Remember it is difficult to change partners in Japan. Business in Japan is driven by personal relationships. Terminating the relationship between you and your Japanese trading partner may alienate you from the business community. Furthermore, it is very difficult to keep a search for another partner secret from the original partner. The impact on the existing relationship and overall business in Japan could be fatal.

The following is a 12-point checklist for your company in choosing a trading partner in Japan:

- (1) Does your prospective partner have knowledge and expertise in your product area, and an established network in the specific area that you want to sell to?
- (2) Can you use the distribution network that your partner owns?
- (3) What is the quality of your partner's employees, and what team will be working for you?
- (4) What is the size of the sales force, and what percentage of their time will your product receive?
- (5) What is your partner's corporate culture? Are you his/her first experience with an international company?
- (6) What geographic coverage can your partner provide? Can he/she help you deliver the product outside of the major cities?
- (7) How does your partner handle strategic planning? Has he/she performed a thorough analysis of what it will cost to handle your product?
- (8) How is your partner positioned in the marketplace and what are his/her long-term goals? Are these compatible with yours?
- (9) What is your partner's attitude toward advertising and investment? Is he/she a savvy marketer?
- (10) Is there a conflict of interest between your product and your partner's product?
- (11) Do you have support from the senior management of the Japanese company and are they accessible to you?
- (12) Does the contract provide adequate intellectual property protection for your firm?

### *Which is the Best Entry Mechanism for Your Company?*

Selecting your best entry method requires an assessment of the potential market size, the structure of the market, the complexity of existing distribution channels, your firm's resources, and your willingness and ability to commit to the Japanese market.

In evaluating the alternatives for market entry, you should carefully weigh the alternative costs of various distribution options against the potential market for your products. The type of product that you are interested in exporting to Japan may make your decision easy. You should choose a business partner who will profit from marketing your product or service and who is experienced in importing your product line.

### *More Advanced Market Entry Alternatives*

Beyond the agent/distributor relationship, if your firm is interested in establishing a permanent presence in the Japanese market, other options include setting up a representative or branch office, subsidiary, or joint venture. In choosing an entry option, your company should consider many points, including the volume and type of business to be carried out, costs, and the degree of control you wish to maintain. Not every entry alternative will suit your company.

You can also enter the market by appointing a Japanese manufacturer of a complementary product line as your representative. This type of representation allows you to take advantage of product compatibility with the Japanese firm's own lines and to utilize its distribution and service network. Such arrangements have frequently led to mutually beneficial relationships, including licensing agreements and joint ventures for partial or full manufacturing of products in Japan. Some foreign firms use a freight forwarder to handle some of the details of importing, such as arranging for transportation and customs clearance. Necessary technical services can be arranged through contracts with specialized technical or engineering firms which possess the required capabilities.

### *Establishing an Office in Japan*

If your company can afford to do so and is serious about doing well in the Japanese market, you should strongly consider the establishment of a representative or branch office in Japan. This sort of presence will allow your firm the most direct control of its operations in Japan and will help ensure the quality of after-sales services. This office can gather information on the competition, emerging new technologies, and developing market trends.

**Representative Office:** A foreign company that wishes to collect information or to facilitate contacts in Japan should consider establishment of a liaison or representative office. This liaison office may be established to develop market data, provide information to potential clients, and refer customers to distributors or trading companies that can accept orders. The office can also work with distributors to develop the necessary promotional and service mechanism. It is not necessary to obtain special approval from the Japanese Government to establish a liaison office, but it must have no income and is therefore not allowed to handle orders directly. Moreover, this option is free from Japanese tax burdens. The liaison office may function by providing guidance and support to an agent, and managing all marketing activities except for the formal sale.

**Branch Office:** To go a step beyond a representative or liaison office, you can establish a sales or branch office. A branch office can engage in trading, manufacturing, retailing, services, or other business. Until recently, to set up a branch office, a company had to file a notification with the Ministry of Finance through the Bank of Japan between 3 months and 30 days before the office was established and register with the Ministry of Justice within 3 weeks of the opening of the office. However, as part of SII, this prior notification requirement has been replaced by ex post facto notification for investment in unrestricted sectors. A special license still must be obtained from the appropriate Japanese ministry to engage in business in certain sectors. These include broadcasting; telecommunications; electric power generation; domestic, rail and air transportation; arms; gun powder; atomic energy; aircraft; space development; narcotic manufacturing; vaccine manufacturing; security guard services; agriculture, forestry, and fisheries; petroleum refining and marketing; leather and leather product manufacturing; shipbuilding; banking; and mining. A sales office may take and fill orders, and is liable for payment of Japanese taxes. A sales office may carry out a full marketing program, including arranging for advertising, recruiting a sales force, and carrying out all necessary promotional activities.

Other alternatives include incorporating your own subsidiary company in Japan, joining with a Japanese company in a joint venture arrangement, or acquiring stock in a Japanese corporation. These options are likely to be much more complicated and involve more time and expense, but they can offer an effective means for a company to manufacture locally, guarantee better protection for proprietary information, and penetrate some markets which have subtle but substantial barriers to imports.

A major problem for smaller U.S. firms entering the Japanese market is the high cost of establishing a permanent presence which allows for the follow-up capability necessary to achieve full market potential. You may wish to consider arranging for representation through the use of the previously mentioned Agent/Distributor Service, your contacts established at a trade show or mission, your state's representative office in Japan, or your industry's trade association. Another approach is to pool resources of several firms which have complementary product lines and a desire to operate in Japan. Such a group might establish a marketing association, consortium, or jointly owned export management company, and set up a sales and service office in Japan. This operation may take the form of a liaison office which handles contacts with agents, distributors, and customers. Considering the importance of brand image in Japan, group members may wish to consider adopting a group logo

which would be a universally recognized and accepted identity for their product line. This approach is not widely used by U.S. firms in Japan, but has been successfully employed by a number of European groups. Another alternative is to piggyback your product with a complementary product line of a firm which is successfully exporting to Japan.

In evaluating the alternatives for market entry, you should measure the projected sales and potential market share for your products against costs of various distribution options. In Japan, the justification for working with an intermediary is lower cost while sacrificing direct market feedback and long-run profit potential.

For additional information on establishing an office in Japan, refer to the following publications:

Setting Up a Business in Japan: A Manual (1991), Japan External Trade Organization (JETRO), New York Office -- (212) 997-0400.

Guide to Investment in Japan (1991), Industrial Bank of Japan (IBJ), Washington, D.C. Office -- (202) 835-0455.

Guide to Direct Investment in Japan (1991), Japan Development Bank (JDB), Washington, D.C. Office -- (202) 331-8696.

Establishment of a Representative Office in Japan (1990), Japan External Trade Organization (JETRO), New York Office -- (212) 997-0400.

Direct Foreign Investment in Japan (1987), American Chamber of Commerce in Japan (ACCIJ).

Setting Up & Operating a Business in Japan: A Handbook for the Foreign Businessman (1988), by Helene Thian, published by the Charles E. Tuttle Company.

Establishing a Business in Japan (1986), U.S. & Foreign Commercial Service, U.S. Embassy Tokyo, Unit 45004, Box 271, APO AP 96337-0001.

### ***Licensing***

Licensing product technology is an alternative with considerable appeal. A firm can immediately contribute to its bottom line with little investment or direct cost. What is often overlooked, however, is the missed opportunities and indirect costs of licensing.

Licensing is a very limited form of market participation. High potential returns from marketing and manufacturing efficiencies are lost, and very little market information is gained. Often licensing agreements prove to be short-lived as the licensee develops the ability to become a competitor to the licensor in all markets. Indirect costs of managing and policing the licensing agreement are also often overlooked. There are many cases of licensees under-reporting sales and under-remitting royalty payments.

The key to success in a licensing agreement is having a partner whose goals coincide with your own. Indirect expenses should be anticipated, and the contract should provide for a cross-technology exchange between licensor and licensee. Important to the management of a licensing agreement is having a well-qualified individual assume responsibility over the management of the contract. This individual should maintain close contact with the licensee and stay abreast of the Japanese market by visiting Japan periodically. A carefully constructed and executed licensing agreement can prove

beneficial, but the risks and costs should be anticipated.

Until recently, according to the Foreign Exchange and Foreign Trade Control Law, nonresidents who planned to execute or amend any agreement with Japanese nationals for the import of technology had to give prior notice to the Ministry of Finance through the Bank of Japan and any other ministry exercising jurisdiction over the affected industry. In practice, the investor was notified that the Japanese Government had no objection within one hour following notification, if the proposed investment was in unrestricted industries. However, as part of an SII commitment, this prior notification requirement has been replaced by ex post facto notification for investment in unrestricted sectors. Technology transfer agreements may normally be executed except in those cases involving the transfer of specially regulated and/or designated technologies, in which case a report must be filed with the Ministry of Finance and the appropriate Japanese ministries.

Special regulations apply to the following sectors based on the U.S.-Japan Treaty of Friendship, Commerce, and Navigation and the Code of Liberalization of Capital Movements of the Organization for Economic Cooperation and Development (OECD): broadcasting; telecommunications; electric power generation; domestic rail and air transportation; arms; gun powder; atomic energy; aircraft; space development; narcotic manufacturing; vaccine manufacturing; security guard services; agriculture, forestry, and fisheries; petroleum refining and marketing; leather and leather product manufacturing; and mining.

Moreover, the Japanese Government has specified the following 12 areas as the designated technologies which have significant influence on the security of the nation and the interest of the national economy: aircraft, arms, gun powder, atomic energy, space development, electronic computers, electronic parts for electronic computers for next generation, appliances for laser processing and light communication, innovative materials, salt electrolysis by nonmercurial methods, petroleum production at sea bottom, and leather and leather products.

In addition to the regulations mentioned above, international technology assistance contracts are subject to screening by the Japanese Fair Trade Commission (JFTC). The licensor and licensee are required to file jointly the report of the licensing agreement with the JFTC within 30 days after the conclusion of the contract. The JFTC is authorized to act if the contract may be interpreted to constitute unreasonable restraint of trade or unfair business practices. The U.S. Government has sought the removal of this discriminatory filing requirement in the SII.

### ***Franchising***

The franchising industry has become a multibillion dollar business in Japan. Originally developed in the fast food area, it has expanded into a variety of new sectors. In 1989, there were 626 domestic and foreign franchising chains in Japan with aggregate total sales of 7 trillion yen (\$49 billion) at 131,267 outlets (franchised -- 115,750; directly operated -- 15,517). The number of franchising chains, 626, is about one-third of the franchise chains in the United States.

In general, the details of a master franchise agreement are not disclosed. However, certain similarities among franchise agreements exist. Most U.S. franchisors usually do not try to recruit actual shop operators in Japan directly from the United States. Instead, U.S. firms concentrate their efforts on finding a master franchisee, which is usually either a Japanese company or a joint venture between the U.S. franchisor and a Japanese company, or in some cases, a wholly owned subsidiary of the U.S. company. The master franchise holder is then responsible for the actual recruitment of Japanese franchisees. Usually, the master franchisee will pay the U.S. company a lump-sum payment which is payable over a certain period of time, in addition to royalty payments which average around



5 percent of the sales. Since the quality and nature of services are quickly changing to suit market demand in Japan, the life cycle of a new type of service organization or fast food chain tends to be relatively short. Typically in Japan, once consumer interest or need is successfully identified several companies with similar capabilities rush into the market and generate fierce competition. Therefore, U.S. franchising operators should consider entering the Japanese market only after preparing a feasibility study, developing a long-term investment plan, and carefully evaluating the timing and life cycle of the particular good or service.

### ***Direct Marketing***

A relatively recent development has been the significant growth of direct marketing in Japan. According to Japan Direct Marketing Association (JADMA) estimates, total sales revenue of its members in JFY 1988 (Japan Fiscal Year -- April 1, 1988 - March 31, 1989) was \$8.8 billion, an increase of nearly 31 percent over the previous year.

U.S. direct marketers enjoy the benefit of a well-educated Japanese populace with a high level of discretionary income and a great curiosity about the United States. Interesting, unique, well-made, brand-name items, adapted to Japanese tastes or sizes, sell well in Japan. The following are two marketing methods which illustrate how U.S. products are being successfully sold through direct marketing in Japan:

One marketing approach is to use a non-duty-free-catalog aimed at travelers. Japanese going overseas on holiday desire to minimize the time spent shopping for "obligatory" gifts and souvenirs for friends, relatives, and co-workers. Japanese consumers will often know before going overseas the gifts that they want to buy. Many travel magazines describe in detail the "best shops" in the major U.S. cities that Japanese should visit. Airline companies and travel agents have been aggressively promoting catalog sales of non-duty-free imported goods, especially cosmetics, accessories, gifts, and food (excluding most brand-name luxury goods, which have an exclusive agent in Japan). Travelers place the orders before departing and the goods are delivered to their home after they return. These goods are imported just like other imports (customs-cleared, customs duty paid, and consumption tax paid), so the price is higher than if purchased by the traveler overseas, although usually lower than the retail price at department stores in Japan. The primary value of this service is convenience. There is great opportunity for firms with an innovative approach for reaching and servicing this market.

Another marketing method is to utilize the foreign catalog sales corner at 50 major Japanese post offices. This approach, employing the so-called International Mail Order Support Service (IMOSS), allows customers to select merchandise from a foreign company's catalog, pay for the merchandise by international mail order or credit card, and receive shipment directly from the seller located overseas. There is no need for the direct marketer in this case to stock inventory in Japan.

One negative market condition affecting direct marketing is that the Japanese consumers desire to inspect a product prior to purchase. Successful Japanese catalog companies maintain a showroom where the customer can examine the product before ordering. Also, some of the largest catalog sales operations are managed by well-established department stores and other reliable retail chains.

Japanese consumers are demanding about the condition and packaging of goods. Everything must arrive in perfect order, just as if they had purchased the item in a store. It is very common that goods are returned for claims of damage. Direct marketing should not be seen as a way to get around the Japanese customer's expectation of strong after-sales product support.

Without a well-established position, it is unrealistic for a U.S. company to expect to rent a mailing list, send an English-language catalog directly from the United States to Japanese individual customers, and be inundated with orders placed by these customers. U.S. companies aiming to enter this market should at least be prepared to make an investment in service functions such as market research and product support. In addition, a representative in Japan can act as a liaison with the U.S. supplier to handle receipt of claims, customs clearance, public relations, and the preparation of a Japanese-language catalog. Warehousing and delivery can be managed by the representative as well.

**The Japan Direct Marketing Association:** In response to the recognized need for assistance in the direct marketing field and with the guidance of the Japanese Ministry of International Trade and Industry (MITI), the Japan Direct Marketing Association (JADMA) was founded as Japan's first and only officially recognized direct marketing association on October 11, 1983. The aims of JADMA are: advancement of a standard of commercial ethics in the direct marketing industry; promotion of fair business practices; consumer protection and education; a systemized structure for settling consumer complaints; modernization of the direct marketing industry; representation of the trade's interests with appropriate government agencies; conducting seminars and developing educational programs; collection and distribution of information from both domestic and international sources; and greater contact and cooperation with related trade associations overseas. In addition, JADMA conducts research aimed at exploring the future potential for utilizing new media forms by the direct marketing trade. JADMA's address is:

The Japan Direct Marketing Association  
No. 32 Mori Building, 3-4-30 Shibakoen  
Minato-ku, Tokyo 105 JAPAN  
Phone: 011-81-3-3434-4700  
Fax: 011-81-3-3434-4518

### *Pricing*

The acceptance of your product in the Japanese market is based primarily on its quality and after-sales service, not its price. However, pricing analysis is a critical aspect of marketing in Japan for your company. Markups at the various levels of the Japanese distribution system have caused some imported items to be priced at levels which are noncompetitive with Japanese domestic products, even though the landed price of the imported product was comparable. Prices of competitive Japanese products can usually be taken as a starting point for tracing back through distribution channels the appropriate margins for each link in the chain. You should carefully examine the margins which are provided by both the domestic and foreign competition and compare the cost of establishing your own channels. Negotiations with a prospective agent should be conducted to determine a realistic selling price which would include reasonable and acceptable markups. Your company should also attempt to eliminate from its export price all purely domestic costs involved in marketing the product in the United States.

### *Advertising*

Successful marketing in Japan of your product requires appropriate advertising and market research. In many instances, you can rely on your trading partner for assistance.

American exporters often find that advertising strategies that succeeded in other countries will not work in Japan. Advertising which appeals to the emotions and senses rather than logic is successful

in Japan. As a homogeneous and extremely literate country with a highly concentrated population, Japan is well-suited for the use of mass media advertising. With almost instantaneous communication emanating from Tokyo and several regional communication centers, advertising through mass media plays an important role in marketing in Japan.

Television, radio, and both mass circulation and specialized newspapers and magazines are available for advertising. There are a large number of general and specialized business publications available for reaching the target audience for the marketing of such goods as industrial products. Transit advertising in railway cars and buses is particularly common because of the high degree of reliance on public transportation, and the long commute encountered by many Japanese workers. Outdoor advertising is also popular and use of direct mail promotions is growing at a rapid pace.

The Japan Fair Trade Commission regulates sales promotion with rules regarding the value of premiums which can be offered in connection with sales promotion, the type and content of product labels, and the claims which manufacturers can make about their products in advertisements. Local governments have strict rules governing the design, size, and usage of outdoor advertising.

For a list of American and Japanese advertising and public relations firms in Japan, mailing and mailing label services, or a selected list of business publications in which your firm could advertise, contact the Japan Export Information Center at (202) 377-2425.

### *The Japanese Consumer*

Your company should carefully consider the characteristics and preferences of the over 123 million consumers in Japan. Japanese consumers are the most discriminating shoppers in the world. They have become increasingly sophisticated in their tastes and demand high quality and good after-sales service in the products they purchase. After-sales service in Japan is an "attitude." It is not uncommon for a Japanese manufacturer to apologize for a breakdown in a piece of machinery it serviced two years ago when the customer returns to purchase another product. The Japanese also continue to be rather brand-conscious, but a trend toward individuality has been noticeable in recent years. The Japanese make greater demands in terms of the appearance of a product. Packaging is a very important factor in marketing. For example, the gift-giving market in Japan is very large. However, great emphasis is placed upon the packaging with less importance placed on the gift itself (typically in the \$10-\$15 price range). In addition, for trade shows, the presentation of the product and the booth is as important as the product itself. Remember, image is everything in Japan.

The standard of living in Japan is relatively high, although housing standards and the amount of leisure time are lower than in other industrialized countries. Medical care in Japan is good, a nationalized health care system is in place, and the Japanese life expectancy is among the highest in the world. The Japanese education system is topnotch and the literacy rate is approximately 99 percent.

According to the Japan External Trade Organization (JETRO), Japanese families tend to spend the largest part of their monthly income on food (27 percent), followed by hobbies and leisure (12 percent), housing (5 percent), and clothing (5 percent). Monthly expenditures on leisure have been increasing recently as the Japanese economy becomes more consumer-oriented. Homes in Japan, particularly urban areas, are very small. This fact should be taken into account by your company because the lack of storage area in most homes limits the amount and size of Japanese purchases. Furniture and appliances therefore must be scaled down in size in order to fit into most Japanese homes. Likewise, since the Japanese tend to be smaller physically than Westerners, clothing and shoe sizes should be scaled down to fit the local standards.

The consumer market in Japan is segmented according to factors such as age, sex, income level, and lifestyle. While the mass media's nationwide influence and standardized education have contributed to the homogeneity of the Japanese population, regional differences exist in areas such as climate and cuisine. Tastes vary tremendously depending on age and sex in Japan. Like their American counterparts, Japanese young people tend to enjoy trendy items. Japanese college students have more leisure time than junior or senior high school students. The average male white-collar worker in Japan spends a portion of his salary on dining, alcohol, lunch, golf, cigarettes, hobbies and leisure. A noteworthy trend of equivalent wage earning females is that they spend more money than their male counterparts. These women, along with single males and students, are leaders in consumer spending in Japanese society due to their high incomes and large discretionary spending habits. After men join the work force, they become more conservative and usually have less money for discretionary spending. Until marriage, young working women usually live at home. Once married, they tend to leave their jobs in order to manage their households, including the family budget. Another significant change in the consumer market is the graying of Japanese society as more and more Japanese are nearing retirement. Retired persons tend to have more leisure time and more discretionary income.

### *How to Please the Japanese Consumer*

The following tips should help you satisfy the needs of your potential customers:

**Give a High Level of Support to Customers.** In virtually every product or service sector, markets in Japan are competitive to a degree unknown in most other countries. Consequently, Japanese buyers, agents, and distributors at all levels of the distribution chain are accustomed to receiving a higher level of support than many foreign suppliers normally provide. Suppliers commonly provide comprehensive personnel services, including actual staffing of retail points of sale and training of the buyers' personnel. Suppliers also work with buyers to help develop uses and applications for products.

**Know Every Detail.** Because large numbers of companies are struggling to increase market share in all sectors, they have become adept at identifying small niches in their sector and being the first or best at creating products meeting specialized demands in those niches. Successful differentiation of your product is necessary to set your product apart from the competition.

**Design for the Market.** The fragmentation of sectors into a multitude of small, specialized niches and the willingness of Japanese companies to create products to fit those niches means suppliers must work closely with all levels of the distribution chain to provide products specifically designed for their target market. In the United States, a market is often created for a product; in Japan, the product must be tailored for a specific market.

**Expect Small Orders at First.** Small initial orders are a natural outgrowth of competition, differentiation, and the Japanese willingness to design for the market. The companies and people involved with a new product must assure themselves that the item will meet the specific needs of the customer by testing the market.

**Emphasize Quality.** Attention to quality standards is perhaps the most important aspect of the Japanese market. The Japanese are accustomed to high quality and they insist on it. The concept of quality applies not only to the product, but to its presentation as well. For instance, in day-to-day life, how food is presented and the way gifts are wrapped are just as important as the items

themselves. Your firm must do its homework and be sure that items translated into Japanese are properly prepared and free of grammatical and typographical errors.

**Recognize Japanese Sense of Structure.** Japanese are proud of their strong sense of unity, organization, and structure. In group meetings, your firm should make clear through its actions who is the "point person" or senior spokesperson for the group. This action often can be accomplished through the use of business cards. Exchange of business cards is a necessary formality in business meetings, and it is advisable to have them translated into Japanese on the reverse side. Also, it is often a good idea in initial meetings to outline your company's structure and history.

**Demonstrate Reliability.** To succeed in Japan, it is very important to keep promises made and to respond promptly to communications from Japanese business and trading partners, especially when problems or emergencies arise. Reliability extends to permanence in the marketplace. The Japanese need to know that you will be in the market for the long term.

## BUSINESS CUSTOMS AND PRACTICES

An understanding of and sensitivity to Japanese business and social practices is of great importance in establishing and maintaining strong and successful business relationships in Japan. Many Americans may assume that because meetings and correspondence are carried out in English, Western rules apply. While Japanese business executives do not expect foreigners to be fully knowledgeable about all business and social customs, you will find that accommodation to such customs and practices is well worth the effort. Remember, you are not just trying to sell your product, but also the image of your company and, to a large degree, yourself. Showing understanding and sensitivity will only help in your efforts to succeed in Japan and will demonstrate to your potential customers your seriousness about the market.

Japanese business executives place considerable emphasis on face-to-face contact. A personal call on a potential business partner based on an introduction will be more effective than initiating contact by a letter or a fax. The "cold approach" is definitely not the best approach in Japan. Time and time again, American firms that make such overtures find that the Japanese companies they have contacted do not reply. Rather, an introduction by an intermediary who holds significant status is of tremendous assistance in establishing business contacts and cannot be overemphasized.

Initial contacts between Japanese firms are usually formal and made at the executive level, while more detailed negotiations are often carried out at the working level. The main purpose of a first meeting is to get acquainted, establish the broad interest of the calling party, and allow both sides an opportunity to access each other to determine whether or not more substantive discussions are desirable. Do not expect to have a contract signed by the time you leave the first meeting. Remember, the objective of your first few meetings is to establish rapport and trust between the two parties. A futile attempt to pressure your potential partner into a contract will only alienate.

Business cards (meishi) are exchanged extensively in Japan and serve as a useful reference and record of contacts. The exchange of business cards, usually at the start of a meeting, helps to formalize the introduction process and establishes the status of the parties relative to each other and their place of business. You should attempt to familiarize yourself with the etiquette of exchanging cards, as well as other Japanese social practices. The traditional Japanese greeting is the bow, although most Japanese dealing with foreign business executives will expect to shake hands. A nod of the head or slight bow by a foreigner in acknowledgement of a Japanese bow is appreciated. Japanese business executives do not normally deal on a first name basis in business relationships, and

initial business and social contacts are characterized by politeness and formality.

One source of confusion in business communication may come from the Japanese language itself. The word "hai" means yes in Japanese but its usage varies. "Hai" is often used to mean "yes, I understand what you said" rather than "yes, I agree." It is usually safer to assume that a Japanese person is not making a decision but instead is acknowledging and understanding what has been said. Also, the Japanese language is less precise than English and allows the Japanese to be deliberately vague. The concept of saving or losing face is an important one, and the Japanese are able to avoid confrontation, embarrassing situations, and direct rejection by their use of indirect language.

The Japanese rely heavily on nonverbal communication. They tend to look to nuances, inferences, and signals to convey intent. Thus, while American negotiators are inclined to focus on tactics and press for agreement as a negotiating objective, the Japanese side prefers to probe, feel out the other party, and be relatively certain of the other side's position before putting forward a proposal on which both sides can agree.

Interpreters are widely used in business meetings between Japanese and foreign firms. While many Japanese business executives speak some English, the use of a good interpreter can avoid miscommunication. The effective use of an interpreter requires preparation, including the thorough briefing of the interpreter in advance on the background of the meeting, and on any technical aspects which may be covered in particular. Using an interpreter efficiently can make or break a potential business deal. Always bring your own interpreter, even if the Japanese side is supplying one and even if the Japanese side speaks English as well. Try to always use the same interpreter. Have the interpreter debrief you after the meeting on his/her impression of nonverbal signals and the mood of the meeting, and conversation among members of the Japanese side. After a meeting (or trade show, if applicable), go through the business cards and other information that you have collected. Have the interpreter translate the cards not already translated and clarify those that are, especially titles. Get the interpreter's impression on who is in charge, whether the people you have met have the ability to make decisions, and what the next move of the Japanese side may be. Speak slowly and clearly, avoid idioms or slang that may be difficult to translate, and look at your Japanese counterparts, not the interpreter, when speaking.

The group decision-making process which is universal in Japan may make it impossible to receive a prompt response. The Japanese negotiator represents a group, and until internal agreement has been reached on issues under discussion, no commitment can be made. For this reason, you should not expect an immediate answer, but should recognize that negotiations normally extend over a long period of time. It takes a longer time to cultivate business relationships in Japan than in the United States. American business executives coming to Japan expecting to settle their business in just a few days often depart in frustration, having made no progress.

The Japanese approach business negotiations in a tentative manner, developing a relationship in stages: first, a limited arrangement; then, if the relationship is mutually satisfactory, it may be expanded into a broader, more binding agreement. Since Japanese are accustomed to international business dealings, the foreign preference for more formal and structured contractual obligations is recognized. Therefore, contracts have become a universally accepted practice in foreign trade. However, Japanese business executives emphasize good faith over legal safeguards in business relationships and have little confidence in detailed contracts which attempt to cover all possible contingencies.

The Japanese preference is for broad agreements and mutual understanding, so that when problems arise they can be handled flexibly on a case-by-case basis. Thus, discussions with Japanese entities

should be comprehensive. Before entering into a contractual agreement, both sides should thoroughly and openly discuss the arrangement and their expectations to avoid misunderstandings later. Japanese prefer the security of long-term, reliable, and exclusive business arrangements. Once a commitment is made, it is for the long term, and it becomes quite difficult to break an agreement and find a new Japanese business partner.

Although all forms of payment are in general use in international transactions, an irrevocable letter of credit payable on sight is the most common form of settlement. Deferred payments in transactions with U.S. firms are comparatively rare. With Japan, trade settlements are customarily done on the basis of promissory notes, typically 60 to 120 days, and banks will provide short-term financing through discounting and rollover of notes.

In the instance of a commercial dispute settlement, the Japanese legal system tends to be slower and more cumbersome than its U.S. counterpart. In general, Japanese companies are more apt to seek out-of-court dispute settlements and avoid judicial proceedings.

The following are typical Japanese negotiating tactics:

- (1) The Japanese usually respond to the other party's proposal -- rather than taking the initiative.
- (2) The Japanese tend to single out specific elements and negotiate one element at a time -- rather than packaging a deal.
- (3) The Japanese tend to maintain a relatively quiet response mode at meetings after stating their official position. They usually allow the other party enough maneuverability in order for the other party to keep giving bit by bit.
- (4) Once a concession is made, it becomes the new baseline (without a counter-concession on their part) and they move on to the next item. Their strategy usually is to keep whittling away one concession at a time.
- (5) The Japanese use time and patience to wear down their opponent -- consciously planning on long, drawn out periods of successive meetings.
- (6) The Japanese negotiating team never has the authority to commit in a "give and take" type approach. They are usually only authorized to receive offers and communicate prior authorized consensus positions.
- (7) The Japanese tend to use the "bad guy" ploy extensively, that is, constantly referring to other organizations such as government agencies/authorities concerning requirements or required concessions.

How to respond:

- (1) Do not expect rapid progress.
- (2) Learn to be quiet and accept long pauses in discussions. Out wait the Japanese until they respond constructively to your last proposal.
- (3) Do not make successive individual concessions -- insist on a package deal.
- (4) Do not make a follow-on proposal with further concessions until the Japanese respond to the current proposal with concessions on their part. Set an agenda for the next meeting accordingly.
- (5) Do not fall for the "cultural differences" ploy. Be polite but direct. You can expect the Japanese to understand Western business practices and culture. They should be prepared to compromise and accommodate on those issues which you identify as vital and absolutely essential. However, you should likewise show an appreciation of Japanese culture. This will help facilitate negotiations.
- (6) Keep records on concessions by both parties.

- (7) Have a fluent Japanese speaker present at negotiations to preclude private discussions during meetings and to insure the translations are accurate.
- (8) Negotiate from a position of strength and confidence. The Japanese do not respond positively to real or perceived weakness, nor do they respond to idle threats and intimidation.

## BEST U.S. EXPORT PROSPECTS

Many areas in the Japanese market have substantial opportunities for U.S. exporters to Japan. Today, exporting American goods and services, as well as investment in Japan, is a wise course for many businesses planning expansion. The competition is intense, but when an American firm correctly identifies a competitive window in a Japanese product sector and has the capability to effectively export a quality product to Japan, it will likely find an opportunity for successful sales. A great effort must be made to gain initial market share. However, a firm with long-range goals is well-positioned to find eventual profitability.

The following ten product areas are considered to offer significant export opportunities to American firms. They were chosen because they offer (1) short-term growth potential or (2) a large market receptive to additional U.S. suppliers. The list highlights product areas where Japanese demand is strong, and American suppliers are competitive and have the greatest likelihood of expanding exports to Japan. For many of these sectors, a brief Industry Subsector Analysis (ISA), which provides more information, is available. For a list of ISAs, contact the Japan Export Information Center (JEIC) at (202) 377-2425.

Note, however, that the term "promising export areas" does not necessarily mean that U.S. companies in these sectors can successfully enter the market or that they are better-positioned to satisfy market demand and to take a market share over other competitors. Rather, it more specifically means that various commercial environmental factors indicate that there is increasing demand in such sectors and that after having identified the opportunities for growth, domestic companies are aggressively entering the market, as well as other Asian and European firms. Therefore, competition in promising export product areas is very intense, with domestic companies especially inclined to rush into these market sectors irrespective of the effect on short-term profitability.

The name of each product sector is followed in parentheses by: (1) estimated market size in 1991, (2) estimated market growth rate from 1991 to 1993, (3) estimated U.S. imports in 1991, and (4) estimated average growth rate of U.S. imports in 1991.

### *Pharmaceuticals*

(\$50 billion, 3 percent, \$900 million, 5 percent)

Japanese physicians and other medical specialists look to the United States for the most advanced products. However, in the over-the-counter market, U.S. brands are not very well known. Japanese drug manufacturers have stepped up their R&D activities, and European suppliers are consolidating their distribution networks. Importation and sales, as well as local production, of pharmaceuticals is one of the most tightly regulated areas. There are two interrelated Japanese governmental approvals necessary: a "shonin" for a product based on its efficacy and safety and a "kyoka" for the business of manufacturing or importing, which requires a minimum level of personnel and facilities.

Pharmaceuticals account for approximately 30 percent of Japan's total medical expenditures. Products for an aging society, including diagnostic and therapeutic drugs for elderly diseases, have high growth potential. The most promising subsectors are in-vitro diagnostic test reagents and home



tests, with an estimated market size of approximately \$2 billion and \$35 million, respectively.

### ***Telecommunication Services***

(\$60 billion, 8 percent, \$2.7 billion, 10 percent)

The Japanese Telecommunications Law (TBL) was liberalized to allow competition with the traditional common carriers, Nippon Telegraph and Telephone (NTT) and Kokusai Denshin Denwa (KDD). As a result, there are some 40 Type I (common) carriers competing with them. The TBL also allows one-third foreign equity participation in the common carrier business. In particular, Regional Bell Operating Companies (RBOC) should have an excellent opportunity to participate in Type I business. The market for land mobile communications services will grow rapidly in the future, which should present further opportunities in the next generation of services for cordless telephones. A most promising subsector is cordless telephone licensing/Japan-wide services with an estimated market size of approximately \$800 million.

### ***Marine Fishery Products***

(\$30 billion, 1.5 percent, \$2.5 billion, 12 percent)

Demand in this sector remains basically strong. The total Japanese domestic catch in 1990 decreased from 1989 by 9 percent to approximately 11 million metric tons. Notable decreases are seen in sardines, 12 percent to 3.6 million tons; Pacific mackerel, 47 percent to 248,000 tons; Alaskan pollock, 23 percent to 883,000 tons; squid, 28 percent to 532,000 tons; bonito, 12 percent to 299,000 tons; and tuna, 7 percent to 278,000 tons. Total imports in 1990 improved by 6 percent to about \$11 billion from 1989. Imported seafood comprised approximately 30 percent of total seafood consumption. Notable increases were seen in fresh and live seafood such as shrimp, salmon, and tuna. Processed seafoods, such as eel and pollock roe, also increased. The top seafoods imported from the United States include frozen Pacific salmon (\$650 million), frozen snow crab (\$260 million), frozen surimi (\$240 million), frozen sablefish (\$110 million), frozen king crab (\$100 million), frozen salmon roe (\$93 million), frozen cod/pollock roe (\$90 million), frozen herring (\$75 million), frozen cod (\$70 million), and live or fresh sea urchin (\$67 million). The most promising subsectors include fresh and frozen salmon (an estimated market size of approximately \$2 billion), frozen crab (\$850 million), and frozen mackerel (\$100 million).

### ***Biotechnology Products***

(\$700 million, 15 percent, \$10 million, 10 percent)

Japanese look to the United States for innovative technologies and products in this field. Historically, Japan has had good fermentation technology. Large nontraditional biotechnology companies which have abundant financial resources are also making inroads. It is widely believed in Japan that biotechnology could trigger a second technological revolution, following in the wake of the electronic revolution. According to the Bioindustry Association, the market by the year 2000 will be approximately 15 trillion yen (roughly \$107 billion at 140 yen/US\$). Both the Japanese Government and private sector are accelerating their R&D in biotechnology. The most promising subsectors include pharmaceuticals and chemicals, with market sizes of approximately \$460 million and \$100 million, respectively.

**Medical Equipment and Supplies**

(\$10 billion, 5 percent, \$1.5 billion, 10 percent)

Japanese medical professionals generally look to the United States for innovative and advanced products, but some criticize the lack of good after-sales service from U.S. suppliers. Competition from local manufacturers, followed by German and Swedish suppliers, is strong. Japanese technology is said to be superior to other countries in areas such as ultrasonic equipment and fiberscopes. The United States dominates markets for implantable devices including pacemakers, artificial heart valves, and artificial joints. Importation and sales, as well as local production of medical equipment, are tightly regulated. There are two interrelated Japanese governmental approvals necessary: a "shonin" for a product based on its efficacy and safety and a "kyoka" for the business of manufacturing and importing, which requires a minimum level of personnel and facilities. The Japanese market for products in this sector is steadily expanding. Products for the elderly and, in particular, cost-effective diagnostic and therapeutic products have high growth potential. The most promising subsectors include diagnostic imaging equipment and implantable devices.

**Industrial Chemicals**

(\$160 billion, 3.5 percent, \$6.5 billion, 10 percent)

Imports from the United States constitute approximately one-third of Japanese chemical imports. Many Japanese trading companies are aggressively seeking opportunities to develop new businesses with U.S. chemical companies, even for very small market niches. Innovation is the key factor which they want to see in these types of products. Even large trading companies, which need at least \$15 million in annual sales to sustain one employee, look for new business with as little as \$300,000 in annual sales potential. For small to medium-sized Japanese trading companies, the prospective sales figure can be as low as \$150,000. Small to medium-sized U.S. chemical companies with unique technology should have good opportunities. The most promising subsector is specialty chemicals, with a market size of approximately \$100 million.

**Aircraft and Parts**

(\$8.9 billion, 8 percent, \$4 billion, 10 percent)

The number of U.S. manufacturing firms in the aircraft sector is limited and virtually all have offices in Japan. These companies are constantly evaluating the balance between competition and cooperation with Japanese manufacturers involved in aerospace. The number of cooperative efforts among American, European, and Japanese firms has increased markedly in recent years. While the United States still maintains a commanding lead in aircraft and components, demonstrated by the U.S. bilateral trade surplus, Japanese aircraft exports have been expanding in recent years. Another important competitive factor is the entry of European manufacturers into the Japanese market. Their aggressive marketing efforts pose a possible threat to the long-standing dominance of U.S. products in the Japanese market. The most promising subsectors are military and civil aviation aircraft with market sizes of approximately \$2.9 billion and \$3.4 billion, respectively.

**Architectural/Engineering/Construction Services**

(\$620 billion, 5-12 percent, N/A, N/A)

On May 25, 1988, the U.S.-Japan Major Projects Arrangement (MPA of 1988) became effective. The MPA designated 17 major projects as special-measure projects offering opportunities for U.S. firms in architectural design, engineering consulting, construction, and goods procurement. The estimated value of these projects is \$17 billion. In June 1991, the U.S. and Japanese Governments

completed a two-year review of the MPA and reached an agreement to renew and revise the MPA of 1988. The new arrangement expanded coverage to 17 additional projects, as well as 6 pending projects. These 23 additional projects are worth an estimated \$26.7 billion. The most promising subsectors, along with an estimate of their market size in millions of U.S. dollars, are architectural services for private projects (\$7,800), resorts in western Japan (\$28,000), Sports Island (\$850), Kyoto Station Building (\$700), and Synchrotron Projects (\$300).

### *Sporting Goods*

(\$14.1 billion, 4 percent, \$365 million, 5 percent)

The import market for sporting goods has grown by 6 percent per year for the last several years, and this upward trend is expected to continue until the end of this century. Several factors are driving this growth, including resort development, an increase in leisure time, the development of new lightweight materials, and international competition such as the Olympics which are to be held in Nagano in the winter of 1998. As a result of an increased interest in nature, outdoor activities have become very popular, and the market for outdoor equipment should continue to grow. The most promising subsectors, along with an estimated market size in millions of U.S. dollars, include golf equipment (\$2,700), outdoor equipment (\$1,400), pleasure boats (\$600), and fitness equipment (\$500).

### *Computer Software and Services*

(\$19 billion, 25 percent, \$280 million, 30 percent)

A shortage of computer software engineers forces computer end-users to use packaged software more, and to seek systems software to increase productivity of software development. To enter the Japanese market, "Japanization" is a must, including localization, and translation of computer software. The software to be introduced to the Japanese market should have a good sales record in the U.S. market. The most promising subsectors include personal computer software and baseline software for mainframes, with an estimated market size of \$1.2 billion and \$1.1 billion, respectively.

Other promising export areas include the following sectors:

- (1) Building Products  
(\$6.7 billion, 3 percent, \$1.1 billion, 2 percent)
- (2) Laboratory Scientific Equipment  
(\$4.1 billion, 7 percent, \$720 million, 9 percent)
- (3) Computers and Peripherals  
(\$38 billion, 10 percent, \$2.7 billion, 10 percent)
- (4) Plastic Materials and Resins  
(\$49 billion, 5 percent, \$900 million, 17 percent)
- (5) Automotive Parts  
(\$92 billion, 5-10 percent, \$680 million, 15 percent)
- (6) Films and Videos  
(\$1.5 billion, 3 percent, \$425 million, 10 percent)
- (7) Jewelry  
(\$18.2 billion, 3 percent, \$340 million, 4 percent)
- (8) Telecommunications Equipment  
(\$15.8 billion, 5 percent, \$750 million, 35 percent)
- (9) Apparel  
(\$67 billion, 3 percent, \$185 million, 6.5 percent)
- (10) Household Consumer Goods -- Interior Industry

- (11) Machine Tools and Metalworking Equipment  
(\$56 billion, 7 percent, \$250 million, 20 percent)  
(\$7.9 billion, 20 percent, \$195 million, 30 percent)
- (12) Industrial Process Controls  
(\$3.5 billion, 5 percent, \$120 million, 8 percent)
- (13) CAD/CAM/CAE Systems  
(\$2.5 billion, 15 percent, \$1.1 billion, 20 percent)
- (14) Processed Foods  
(\$185 billion, 5 percent, \$2 billion, 7 percent)
- (15) Paper and Paperboard  
(\$56 billion, 3 percent, \$600 million, (-)1-(+)2 percent)
- (16) Electronic Components  
(\$33.8 billion, 13 percent, \$6.2 billion, 20 percent)
- (17) Electronics Industry Production and Test Equipment  
(\$17 billion, 7.6 percent, \$1.5 billion, 6 percent)
- (18) Giftware  
(\$25 billion, 5 percent, \$125 million, 15 percent)
- (19) Veterinary Equipment and Supplies  
(\$3.2 billion, 25 percent, \$200 million, 30 percent)
- (20) Automobiles and Light Trucks/Vans  
(\$90 billion, 5-10 percent, \$510 million, 10 percent)
- (21) Advanced Ceramics  
(\$7.3 billion, 9.6 percent, \$65 million, 15 percent)
- (22) Pollution Control Equipment  
(\$5 billion, 8 percent, \$10 million, 9 percent)
- (23) Cosmetics  
(\$14 billion, 5 percent, \$64 million, 50 percent)
- (24) Health Care Services  
(\$155 billion, 5 percent, \$10 million, 10 percent)
- (25) Wooden Furniture  
(\$19.2 billion, 10 percent, \$86 million, 30 percent)
- (26) Air Conditioning and Refrigeration Equipment  
(\$16.7 billion, 5 percent, \$115 million, 10 percent)
- (27) Made-Up Textile Products  
(\$9 billion, 4 percent, \$90 million, 5 percent)
- (28) Security Equipment  
(\$1.5 billion, 12 percent, \$5 million, 23 percent)
- (29) Printing and Graphic Arts Equipment  
(\$3 billion, 12 percent, \$65 million, 15 percent)
- (30) Coal  
(\$7.4 billion, 2 percent, \$755 million, (-)5-(+)2 percent)

## JAPANESE GOVERNMENT PROCUREMENT

Of the 5.6 billion SDR (Special Drawing Rights -- 1 SDR is equal to \$1.32 as of July 1991) in Japanese Government purchases of goods and services (the total public market), about 320 million SDR are open to foreign competition under the Government Procurement Code of the General Agreement on Tariffs and Trade (GATT). Government entities are interested in purchasing a wide range of goods from telecommunications and computer equipment and scientific and testing instruments to less sophisticated products and supplies.

If you want to sell under the government procurement program, you should appoint a local agent or representative (local representation, though not mandatory, is recommended strongly because of short deadlines and the necessity to submit bids and other documentation in Japanese), be prequalified by the government agency to whom you wish to sell, and then attempt to win the tender under competitive bidding practices.

Most Japanese Government entities use permanent lists of qualified suppliers under a selective tendering system. During the time period from December to February of each year, an announcement will appear in the official Japanese Government gazette, the Kampo, with information on procedures and criteria for becoming a prequalified bidder for a particular agency. In order to be placed on the lists, suppliers and/or their agents are required to apply during a specified period prior to the beginning of the fiscal year, usually sometime in January or February. Foreign suppliers are permitted to apply through the end of the Japanese Fiscal Year (JFY) ending each March 31.

Specific tender notices are published in the Kampo at various times 50 days prior to the time of bid. Under the provisions of the GATT Procurement Code, foreign companies are permitted to bid on specific invitations prior to qualification if there is sufficient time to complete the qualification procedures.

To assist your firm in competing for Japanese Government contracts, the U.S. Department of Commerce has extended its Trade Opportunities Program (TOP) to disseminate summaries of translated tender announcements. Tender announcements appear in the Commerce Business Daily on a regular basis. Tender documents can be obtained directly from the tender requestor (name and address found at the top of each Commerce Business Daily listing). However, all Japanese Government tender documents and all qualifying bids and contracts must be prepared in Japanese. Nippon Telegraph and Telephone (NTT) tenders are one of the few exceptions which can be submitted in English. The U.S. Department of Commerce district offices can help potential U.S. bidders by identifying firms that can provide translation services. The chances of successfully bidding on these tenders without some representation in Japan is very limited.

If you have an agent or representative in Japan, you can contact the appropriate Japanese Government ministry through it. If not, the following companies may be of assistance:

Mr. Robert F. Connelly  
Procurement Services Int'l K.K.  
Asahi Sanbancho Plaza #206  
7-1 Sanban-cho  
Chiyoda-ku, Tokyo 102 Japan  
Phone: 011-81-3-3234-6921  
Fax: 011-81-3-3234-6915

Ms. Eriko Tanaka  
Procurement Services Int'l, USA  
31 St. Marks Pl. #14  
New York, NY 10003  
Phone: (212) 674-2587  
Fax: (212) 541-8350

Mr. Tom Frost  
Frost International Corp.  
3007 31st Avenue  
Forest Grove, Oregon  
Phone: (503) 357-6783  
Fax: (503) 359-5650

Mr. Grif Frost  
Frost International Corp.  
1-11-3 Higashi, Shibuya-ku  
Tokyo, Japan 150  
Phone: 011-81-3-3499-5745  
Fax: 011-81-3-3499-5074

Mr. Y. Watanabe  
 Vice President  
 Fujikasei Co., Ltd.  
 Takasa Bldg. 8F  
 4-13-16 Awaza Nishi-ku  
 Osaka, Japan 550  
 Phone: 011-81-6-532-7431  
 Fax: 011-81-6-532-7435

Mrs. Mie Teno  
 Managing Director  
 Deltapoint International Ltd.  
 9-20 Ichibancho, Suite 603  
 Chiyoda-ku, Tokyo 102 Japan  
 Phone: 011-81-3-3221-1751  
 Fax: 011-81-3-3221-1753

## REGIONAL OUTLOOK OUTSIDE THE TOKYO AREA

**Osaka and the Kansai:** The Kansai is the region centered around the cities of Osaka, Kyoto, and Kobe. It boasts a population of 22 million. The six prefectures comprising the area --Osaka, Shiga, Nara, Wakayama, Kyoto, and Hyogo -- account for almost 20 percent of Japan's total economic output. The Kansai's GNP exceeds \$410 billion, which is a figure that represents approximately 3 percent of the world's output. If classified as a country, the Kansai would rank above Canada as number seven among the world's largest economies. Osaka, the largest city in the Kansai with a population of approximately 4 million, serves as the commercial hub for the entire region. The Kansai area, and specifically Osaka, is Japan's historical business center. Several major industries in Japan, including pharmaceuticals, textiles and apparel, sporting goods, and chemicals, are concentrated in the Kansai.

The Kansai is also the center for a number of major construction projects. A recent survey conducted by the Kansai Revitalization Center (KIRC) lists 822 major projects in the Kansai area valued at over 35 trillion yen (approximately \$250 billion). This major project development represents tremendous opportunities for U.S. companies. These opportunities range from design and construction services to supply of building materials and resort and leisure equipment.

Businesses in the Kansai benefit from lower operating costs, and a lower cost of living, than those in Tokyo. For example, the monthly rent for a three-room office in Osaka is \$670 compared to \$2,300 in Tokyo. A typical condominium in Osaka rents for \$800 a month compared with \$4,000 in Tokyo. Osaka is less than three hours to Tokyo by bullet train.

The U.S. Department of Commerce has an office in Osaka and is available to counsel U.S. companies on business opportunities in the region. The American Chamber of Commerce in Japan has a Kansai chapter, which has over 300 members. In addition, other groups such as the International Business Association provide strong networking opportunities.

**Nagoya and the Chubu Region:** The Chubu region is located in central Japan and includes the prefectures of Aichi, Gifu, and Mie. Nagoya, located in the Aichi prefecture, is the largest city in the Chubu area and has a population of over 2 million. The GDP of the Nagoya area alone is as large as the Republic of Korea's. The Chubu region is the home of such industrial companies as Toyota, Noritake, Brother, Makita Power Tools, and Nippon Denso. This region is currently attracting a significant amount of attention both domestically and internationally. Plans for a new 24-hour international airport have begun, and the airport is expected to be operational by the year 2005. Developments in the auto, aerospace, and new materials industries are also bringing attention to this area. A number of U.S. aerospace companies have been making significant investments in the Nagoya area. Moreover, automobile parts suppliers and other high technology companies view Nagoya as an excellent base for research and development centers.

American business people in Nagoya recently created the American Business Community of Nagoya. This group is similar to the American Chamber of Commerce in Japan (ACCJ) and seeks to provide self-help for U.S. firms doing business in this region. To date, the group has nearly 30 members, and representatives of such U.S. firms as General Dynamics, United Technologies, and Coca-Cola. The U.S. Department of Commerce recently established a new office in Nagoya to assist U.S. companies interested in investing in the area and seeking possible business opportunities in the region.

**Fukuoka and the Kyushu-Yamaguchi Region:** The Kyushu-Yamaguchi region, lying 700 miles west of Tokyo, has a land area the size of Switzerland and an economy 1.5 times that of the Netherlands and 2.6 times that of Taiwan. Local business leaders call Kyushu Japan's "Silicon Island" because of the semiconductor industry there which accounts for 42 percent of Japan's total chip output. In addition, a recent movement of the Toyota group to Kyushu, along with expansion by Nissan, will bring an estimated 10 percent of Japan's car production to this island within the next five years.

Regional business and political leaders have sought to stimulate economic growth through a wide variety of innovative development projects, including high-technology research, waterfront redevelopment, and elaborate resort projects. Public works projects in the Kyushu-Yamaguchi area will amount to approximately \$36 billion over the coming decade, and the Fukuoka area resort projects are estimated to be worth \$14 billion. Plans are being made to obtain funding from the national government to start construction of a major new international airport within the next ten years to serve as a new hub for western Japan as well as for nearby Asian countries.

Particularly good business prospects in the Kyushu-Yamaguchi region may be found in the areas of electronics and computers, architecture, design and construction, and medical equipment and technology. Exhibitions and seminars are organized by the U.S. Department of Commerce's Fukuoka office in each of these areas during the course of the year.

**Sapporo and Northern Japan:** Northern Japan, consisting of Honshu's four northeast prefectures and the island of Hokkaido, has a gross regional product larger than \$275 billion. This industry-centered region imports heavily from other parts of Japan, but U.S. products can be extremely competitive. The secondary and processing sectors need lower priced American materials and services to survive. Establishing distribution in this region is much cheaper than in Tokyo. Sapporo, in Hokkaido, lying 700 miles north of Tokyo, is also an important center of commercial activity.

The best sales prospects in northern Japan are home building materials, major project construction and building materials, food processing machinery and supplies, agricultural machinery and supplies, and tourism. Exporters of coal, logs, wood pulp, processed lumber, fish, fish products, feed grains, and all other agricultural inputs should pay particular attention to the increasing demand for domestic product substitutes. Hokkaido is a good test market for recreational and consumer goods and direct mail sales. The U.S. Department of Commerce office in Sapporo can provide consultative and facilitative services, temporary work space, simple office services, and exhibition and seminar space in its display area for American products.

## PROMINENT ECONOMIC ORGANIZATIONS IN JAPAN

### *The American Chamber of Commerce in Japan*

Founded in 1948, the American Chamber of Commerce in Japan (ACCJ) has actively sought to promote the development of commerce between the United States and Japan. In order to do this, the ACCJ works with business and government organizations in Japan and the United States to exchange ideas and opinions and seek resolution of problems and issues affecting the bilateral relationship. The ACCJ performs two important functions for its members: (1) it apprises them of the special problems they will confront while conducting business in Japan and (2) where possible, assists them in solving those problems. Residing in Japan is not a requirement for membership.

The ACCJ produces several excellent publications, including the recently published Trade and Investment in Japan: The Current Environment. Besides providing an evaluation of the current trade and investment environment in Japan, this study also identifies the key success factors for those American companies that have come to prosper in Japan, with the idea that others could use these concepts and practices to guide future strategies for Japanese market entry or expansion.

The ACCJ committee structure, through which information is gathered and disseminated to all members, is the keystone to the ACCJ's operations. For this reason, active participation in committee activities by ACCJ members is highly encouraged. Current ACCJ committees exist on the following subjects: China relations; direct marketing; employment practices; external affairs; financial services; high technology; independent business; internal affairs; investment in the United States; investments; licenses, patents, and trademarks; living in Japan; marketing; membership relations; nominating; programs; publications; public affairs policy; taxation and legislation; trade expansion; and Washington relations/Asian-Pacific Council of American Chambers of Commerce (APCAC). The ACCJ's address is:

The American Chamber of Commerce in Japan (ACCJ)  
Fukide Building No. 2  
4-1-21 Toranomon, Minato-ku, Tokyo 105, Japan  
Phone: 011-81-3-3433-5381  
Fax: 011-81-3-3436-1446

### *Keidanren*

Keidanren (Federation of Economic Organizations) was established in 1946. One of Japan's four main business organizations (the other three being Nikkeiren, the Japan Committee for Economic Development, and the Japan Chamber of Commerce and Industry), Keidanren is the most influential in Japan's economy and industry.

Keidanren's principal functions are to adjust and mediate differences of opinion among its various member industries and businesses, and to submit proposals to the government regarding policies designed to stimulate the economy. It also promotes international exchanges on business matters between private citizens. To carry out these functions, Keidanren has a number of permanent committees and consulting organizations, including committees concerned with general policy, energy, economic cooperation, and trade policy. It also has ad hoc committees on defense production and space exploration.

Internationally, Keidanren conducts an active program of economic diplomacy on a nongovernmental



level through conferences with American and European business leaders. As Keidanren is the spokesperson for big business in Japan, its proposals and demands have exerted a strong influence in Japanese political life. Its views are often sought by the Japanese Government and its recommendations given important consideration. Keidanren's address is:

Keidanren  
1-9-4 Otemachi  
Chiyoda-ku, Tokyo 100 Japan  
Phone: 011-81-3-3279-1441

### *Keizai Doyu Kai*

The Japan Committee for Economic Development (Keizai Doyu Kai) is made up of business managers and executives of various Japanese corporations. The committee's purpose is to promote progress and stability in the Japanese economy by making proposals aimed at benefiting the national economy as a whole. It avoids taking stands on political issues.

At the time of its establishment in 1946, the committee was composed of progressive business leaders and industrialists concerned with the problem of reconstruction and democratizing the Japanese economy. It was intended to provide an informal forum for developing and advancing new ideas. Membership has grown to some 1,000 business persons. Various subcommittees exist, which conduct research and issue recommendations under the guidance of a board of 200 trustees. The committee has stressed the social responsibility of business and promoted the cooperation of business and academia. It also cooperates with similar organizations in other countries and is particularly concerned with promoting the economic development of Southeast Asia. Keizai Doyu Kai's address is:

Keizai Doyu Kai  
1-4-6 Marunouchi  
Chiyoda-ku, Tokyo 100 Japan  
Phone: 011-81-3-3211-1271

## **JAPANESE TESTING, STANDARDS, AND CERTIFICATION**

One of the most important areas of concern for your company is meeting the requirements of Japanese testing, standards, and certification procedures which cover a wide range of product sectors. Unfortunately, obtaining information in these areas from outside of Japan is difficult. Japanese approval procedures are often slow and cumbersome and can be discouraging to those unwilling to make a major commitment of their time and energy. However, significant progress has been made in specific product areas in the last few years, and steps to simplify the system continue. Problems with Japanese standards and certification systems generally have fallen into one of three categories:

**Lack of Transparency:** Some of the committees that draft Japanese standards have shown reluctance to allow foreign participation. As a result, foreign firms whose products could be affected by new standards have had no meaningful input into the development of those standards. Furthermore, in many cases foreign firms do not learn the details of the new standards until after Japanese firms represented on the committees have, and thus the foreign firms lose critical lead time retooling to comply with the new standards. This situation is beginning to improve as more drafting standards committees are opened to participation by qualified foreigners.

**Lack of Acceptance of Foreign Test Data:** In the past, Japanese authorities refused to accept the results of tests conducted by manufacturers or independent U.S. test laboratories. Companies seeking certification had no choice but to submit to testing and inspection by Japanese authorities, exposing certain proprietary information. The Ministry of International Trade and Industry (MITI) now accepts test results from U.S. testing laboratories for certification of electrical appliances. A handful of U.S. labs have received Japanese Government approval to inspect factories and give type approval to U.S. products. MITI has designated the following U.S. testing laboratories to certify products as meeting Japanese safety and quality requirements:

DSET Laboratories, Inc.  
Box 1850  
Black Canyon Stage 1  
Phoenix, AZ 85029  
Phone: (602) 465-7356

Applied Research Laboratories  
of Florida, Inc.  
5371 N.W. 161st Street  
Miami, FL 33014  
Phone: (305) 624-4800

ETL Testing Laboratories, Inc.  
Route 11  
Industrial Park  
P.O. Box 2040  
Cortland, NY 13045  
Phone: (607) 753-6711

Hazelton Laboratories, Corp.  
9200-T Leesburg Pike  
Vienna, VA 22180  
Phone: (703) 893-5400

Underwriters Laboratories, Inc.  
1285 Walt Whitman Road  
Melville, NY 11747  
Phone: (516) 271-6200 ext. 877 or 614

Underwriters Laboratories (UL) is the only U.S. testing facility that has received MITI designation to conduct product testing for type approval and to approve products under the voluntary Japan Industrial Standards (JIS) system, allowing the product to be marked with a JIS symbol.

Progress also has been made in the acceptance of foreign-generated test data for health care products. Japan now accepts the results of all pre-clinical tests conducted outside of Japan, if those tests are conducted according to Japanese test protocols. However, the Ministry of Health and Welfare (MHW) is still reluctant to approve products based on clinical tests performed outside of Japan, even if these tests are conducted on Japanese people. Test data developed in Japan is required for medical implantable or invasive products or devices and pharmaceuticals.

**Lack of Harmonization with International Standards:** Japanese standards often differ from international standards or from standards prevalent elsewhere. While some changes have been implemented, Japanese standards continue to deviate from international standards in many instances. The U.S. Government continues to raise discriminatory standards cases with the Japanese authorities.

Japan also has a system of voluntary government and industry marks with specific standards requirements. Japan Industrial Standards (JIS), Japan Agricultural Standards (JAS), and other quality marks are important for winning consumer acceptance for a product and are highly recommended, but can create difficulties for foreign suppliers in those cases where they deviate from international standards.

A JIS mark on your product is a quality certification mark in Japan. It means that products with JIS marks satisfy the quality level set by corresponding Japanese Industrial Standards. Although a JIS

mark is not mandatory, it is recognized by Japanese consumers as signifying good product quality. JIS mark approval is conducted by the Japanese Government on a factory-by-factory basis. Thus, the quality is indirectly guaranteed by the Japanese Government.

Complying with Japanese standards and obtaining import certification can be arduous at times. Your company should work closely with your agent/representative/importer in Japan in order to facilitate this process. Much information on Japanese standards is only available through the appropriate Japanese governmental ministry and/or only exists in written form in the Japanese language. Therefore, it is often up to your representative in Japan to supply your firm with this type of information. Your agent/representative/distributor should carefully study the products to be imported and all regulations concerned. All relevant information should be passed onto your company since goods not conforming to regulations will not be certified to enter Japan. Furthermore, there are cases where a product is controlled by more than one law, or different laws apply to products of the same group, since each law has its legislative objective. Technical regulations are concerned not only with technical specifications of a product itself but also with packaging, marking or labeling requirements, testing, transportation and storage, installation, etc. Your company needs to identify certification requirements for your product if appropriate.

Some Japanese standards and certification information is available in the United States and is in English. To determine whether or not Japanese standards on your product exist in the United States, please contact the following organization:

U.S. Department of Commerce  
National Center for Standards and  
Certification Information  
National Institute of Standards  
and Technology  
Administrative Building, Room A629  
Gaithersburg, MD 20899  
Phone: (301) 975-4040

The National Center for Standards and Certification Information (NCSCI) provides information on U.S., foreign, and international voluntary standards; government regulations; and rules of certification for nonagricultural products. The NCSCI serves as a referral service and focal point in the United States for information about standards and standards-related information. It responds to requests for information by identifying relevant standards and/or regulations. Searches are made with the aid of various indexes, by contacting professional and standards-developing organizations, and through communicating directly with foreign standards bodies. The requester is referred to the appropriate standards-developing organization for additional (technical) information and/or copies of the document in question. NCSCI does not provide copies of standards.

The following is one private sector organization in the United States that has English translations of many Japanese standards for purchase:

The American National Standards Institute  
11 West 42nd Street, 13th Floor  
New York, NY 10036  
Phone: (212) 642-4900

Your product must be adapted to metric standards. The Office of Metric Programs of the U.S. Department of Commerce provides exporters with guidance and assistance on foreign metric import

regulations and on matters relating to U.S. transition to the metric system. It can also give referrals to state metric contacts. For information, call (202) 377-3754.

Another source of information on various Japanese standards and regulations is the publication Standards and Certification Systems in Japan -- Measures for Improving Market Access, which is produced by the Japanese Intra-Governmental Council on Standards and Certification Systems (Printing Bureau, Ministry of Finance). This publication is available in the United States from:

OCS America, Inc.  
5 East 44th Street  
New York, NY 10017  
Phone: (212) 599-4502

The Japan Standards Association (JSA) has established Kikaku Net, an on-line database which was put into operation in October 1989. The system includes two comprehensive files, one for domestic and one for international/overseas standards which have cross reference fields for each other. Many of the fields are supported both in Japanese and English so retrieval is possible in both languages. This system is a convenient tool for your business in identifying existing Japanese standards and the over 200 Japanese manufacturer's associations responsible for drafting specific industry standards. Inquiries on Kikaku Net should be directed to:

Overseas Standards Center  
Japan Standards Association  
4-1-24 Akasaka  
Minato-ku, Tokyo 107 Japan  
Phone: 011-81-3-3583-8001 (ext. 245)  
Fax: 011-81-3-3584-5159

Questions on access to Kikaku Net should be directed to:

Customer Service Manager  
Database Business Department  
Japan Information Processing Service Co., Ltd.  
2-4-24 Toyo, Koto-ku, Tokyo 135 Japan  
Phone: 011-81-3-35690-3202

The Building Center of Japan is a Japanese quasi-government organization which deals with Japanese construction standard issues. If your firm wishes clarification regarding Japanese construction standards, contact:

The Building Center of Japan  
3-2-2 Toranomon  
Minato-ku, Tokyo 105 Japan  
Phone: 011-81-3-3434-7155 (International Section)  
Fax: 011-81-3-3431-3302

The following two organizations have been designated the General Agreement on Tariffs and Trade (GATT) national inquiry points in Japan for standards information:

Standards Information Service  
 First International Organizations Division  
 Economic Affairs Bureau  
 Ministry of Foreign Affairs  
 2-2-1 Kasumigaseki, Chiyoda-ku, Tokyo 100 Japan

The Standards Information Service at the Ministry of Foreign Affairs mainly handles inquiries in the fields of drugs, cosmetics, medical devices, foodstuffs, food additives, telecommunications facilities, motor vehicles, ships, aircraft, and railway equipment. It does not answer inquiries concerning Japanese Industrial Standards (JIS) which are handled by the Japan External Trade Organization (JETRO).

Standards Information Service  
 Information Service Department  
 Japan External Trade Organization  
 2-2-5 Toranomon, Minato-ku 107  
 Tokyo, Japan

The Standards Information Service at the Japan External Trade Organization mainly handles inquiries in the fields of electric equipment, gas appliances, measurement scales, foodstuffs, food additives, etc. Those inquiries concerning JIS on medical devices, motor vehicles, ships, aircraft, and railway equipment are also handled by JETRO.

## INTELLECTUAL PROPERTY PROTECTION

If you are seeking to develop trade or to license your technology in Japan, you should take the steps necessary to obtain and protect your rights in patents, trademarks, copyrights, designs, trade secrets, and other intellectual property rights in Japan. Failure to do so can limit your potential for success.

Japan and the United States are signatories of the Paris Convention for the Protection of Industrial Property and other treaties governing the protection of industrial property rights. These treaties, however, do not automatically protect patents or trademarks your business has acquired in the United States. You will have to file applications for patents or for trademark registrations in Japan, but your U.S. rights can provide certain advantages if applications are filed promptly in Japan. A U.S. patent or trademark attorney, as appropriate, can provide advice, but you will also need to hire a Japanese attorney, preferably one with which your U.S. attorney has an established relationship, to prosecute the application for a patent or for registration of a trademark.

Japan and the United States belong to the Berne Convention for the Protection of Literary and Artistic Works and to the Universal Copyright Convention. These conventions provide automatic protection for copyrighted works, including computer programs, originating in either country or produced by authors of either country. The owner of a U.S. copyright which is infringed in Japan would be able to sue the infringer in Japanese courts. Registration for copyrighted works is not required. Japan does provide for voluntary registration of computer programs and musical works, which simplifies the evidence that must be produced in court.

U.S.-produced semiconductor chips are protected in Japan under the Japanese Law Concerning the

**Circuit Layout of a Semiconductor Integrated Circuit.** Under this law, foreign chip layout-designs should be entered in the registry maintained by the Industrial Property Cooperation Center.

Obtaining and protecting intellectual property rights in Japan can be time-consuming and costly. While the cost or time involved in acquiring intellectual property rights might seem prohibitive, lack of such rights would permit competitors both in and outside of Japan to copy your product or production process which you want to market or license in Japan and to compete with your firm in the Japanese market. Even when intellectual property rights have been acquired, pirating of technology and designs can occur in Japan, as it does in many countries, including the United States. Each company in a trading or licensing agreement should understand clearly what its rights and obligations are with respect to the intellectual property rights owned or acquired by the other. Such a clear understanding helps to create a good rapport based on mutual trust, thereby ensuring the success of the trading or licensing agreement.

In 1989, 1990, and 1991, Japan was included on the "Watch List" under the so-called Special 301 provisions of the Omnibus Trade and Competitiveness Act of 1988, because of deficiencies in its intellectual property laws and problems of a practical nature involving protection of patents, copyrights, and trademarks.

**Patents:** Japan's patent law differs from U.S. patent law in several important ways. First, under Japan's patent law, patents are granted to the first inventor to file an application claiming a particular invention, rather than to the first to invent as is done in the United States. Under the Paris Convention, the date on which a U.S. applicant filed his U.S. application will become the Japanese filing date so long as the corresponding application, in Japanese, is filed in Japan within one year of the U.S. filing date. Prompt filing in Japan is also important because printed publication of a description of the invention anywhere in the world, or knowledge or use of the invention in Japan, prior to the filing date of the Japanese application would preclude the grant of a patent on the application. Second, unlike the United States, where examination of patent applications is automatic, an applicant must request examination of his patent application in Japan but has seven years in which to do so. As is true in most countries of the world, but not in the United States, all patent applications are published in Japan 18 months after filing. If, during the examination, the Japanese Patent Office (JPO) finds no impediment to the grant of a patent for a particular invention, it publishes the patent application a second time, including any changes that have been made during the examination. Following this second publication of the application, any party may oppose the grant of a patent by demonstrating that the standards for patentability are not met by the invention.

Japan and the United States are signatories to the Patent Cooperation Treaty (PCT), which is administered by the World Intellectual Property Organization. Under the PCT, an applicant can file a single "international application" designating the PCT member countries in which a patent is sought. The international application has the same effect as filing individual national applications in each of those countries. U.S. nationals can file an international patent application with the U.S. Patent and Trademark Office of the U.S. Department of Commerce and designate Japan as one of the countries in which a patent is sought. The international patent application under this program does not obviate the need to file a separate patent in Japan. However, it does provide the applicant with certain advantages regarding time limits and translations.

It takes a long time to obtain a patent in Japan. Like patent offices in other countries, the JPO does not begin examination until 18 months after a patent application is filed, even if examination is requested at the time of filing. The shortage of patent examiners adds to the problem as does the number of patent applications filed by Japanese companies, causing a significant backlog of

applications awaiting examination. An applicant can request accelerated examination under certain circumstances, but this does not help reduce the period of examination in ordinary cases. The JPO has added some examiners to its staff and has begun to hire subcontractors to perform initial searches of patent applications. In December 1990, the JPO inaugurated the world's first electronic filing system for patent applications. These measures, however, have yet to result in substantial reductions in the time required to examine a patent application and grant the patent.

It must be emphasized that correct translation is necessary in the patent application process. The JPO shows little sympathy towards translation mistakes or typos. Companies should ensure that translations of their applications are perfect.

The average time required to examine a patent application in Japan was 32 months in 1990. That is in addition to the 18 months prior to initial publication and the 2 months following publication for opposition, indicating that, on average, it took 52 months to obtain a patent in Japan (assuming there were no oppositions filed). During the examination period, no effective legal protection will exist. By comparison, the average period required for the U.S. Patent and Trademark Office to process a patent application is 18 months. In the U.S.-Japan Structural Impediments Initiative (SII), the Government of Japan has agreed to reduce the period required for examination to 24 months within 5 years. If the application is uncontested in Japan and all requirements are met, the patent is granted and valid for 15 years from the date the application is published (but not more than 20 years from the date the application was submitted).

**Trademarks:** To provide for protection for the brand names of products, Japan enacted the Trademark Law of 1959. Under the law, the first person to file an application for a particular trademark is entitled to the registration of the mark in connection with the particular class of goods. Japan has just enacted a new law providing for the registration of service marks which comes into effect in April 1992. Currently, service marks are protected only under Japan's Unfair Competition Law. The trademark law permits the owner of a well-known foreign trademark or service mark to oppose the registration of a mark if it can demonstrate that the mark is confusingly similar to its own. One common mistake to avoid is to trademark just your product. You should also trademark the packaging and/or promotional materials that go along with your product. A trademark registration is valid for ten years from the date of registration and can be renewed indefinitely for ten year periods so long as the trademark continues to be used. If a mark has not been used for a period of three years, it can be canceled.

On February 20, 1990, Japan agreed to the Nice Agreement Concerning the International Classification of Goods and Services for the Purposes of the Registration of Marks. As is the case with patent applications, a resident agent (usually a lawyer or patent agent) must prosecute the trademark application. As with the processing of patent applications, Japan's trademark registration process is very slow. It takes an average of 4 years to process a trademark registration in Japan, compared with an average of 13 months in the United States. The only protection available for a trademark in Japan prior to registration is under the Unfair Competition Law. Under this law, the owner of the mark must demonstrate that the mark is well-known in Japan and that consumers will be confused by the use of an identical or similar mark by the unauthorized user.

**Copyrights:** Japan's copyright law is administered by the Copyright Office of the Cultural Affairs Agency, Ministry of Education. Under the Berne Convention for the Protection of Literary and Artistic Works and the Universal Copyright Convention, Japan provides protection for copyrighted works, including computer programs, for nationals of member states of those conventions and/or works first published in member countries. The protection lasts for the life of the author plus 50 years or 50 years from publication in the case of juridical entities. Registration is not required.

Japan amended its copyright law in April of 1991 to extend protection for sound recordings from 30 to 50 years, to provide a rental right for foreign phonogram producers, and to provide criminal penalties for copying previously unprotected U.S. and certain other foreign-produced sound recordings released from 1968 to 1978. The one-year prohibition against rental starts to run from the date of first sale anywhere in the world, not from the date of first sale in Japan; there is no protection for foreign sound recordings produced before 1968.

In 1988, Japan enacted legislation to facilitate the prosecution of suspected video pirates, although loopholes remain. The law must be enforced more rigorously if it is to be effective in curbing abuses which have cost U.S. owners of rights in video recordings an estimated \$200 to \$250 million each year.

**Semiconductor Chip Layout and Design:** The layout-designs of U.S.-produced semiconductor chips are protected in Japan under the Japanese Law Concerning the Circuit Layout of a Semiconductor Integrated Circuit. This law is administered by an independent registration agency, the Industrial Property Cooperation Center (IPCC). Under the Japanese law, foreign chip layout-designs may be registered in the registry maintained by the IPCC. The duration and the level of the protection is essentially the same as under the U.S. Semiconductor Chip Protection Act. Japanese layout-designs are eligible for protection in the United States under orders issued by the Assistant Secretary and Commissioner of Patents and Trademarks.

**Utility Model and Design Protection:** The Japanese utility model system parallels the patent system. It serves as an incentive to individual inventors and small and medium-sized businesses (which lack large budgets for research and development) to invent. While novelty remains an important requirement, the degree of inventiveness for a utility model is less than that required for a patent. Devices are protected as utility models, but not methods. Application procedures are similar to those for patents, but the period of protection is 10 years from the date of publication of the application and no more than 15 years from the date of application.

Japan also protects registered designs under a system modeled on the British. To be registered, a design must be industrially useful, novel, and creative. The design right lasts 15 years from the date of registration. The application for registration is similar to that for patent applications.

**Trade Secrets:** Japan enacted amendments to the Unfair Competition Law in 1990 which provide some measure of protection for theft of trade secrets such as know-how, customer lists, sales manuals, and experimental data. The law provides for injunctions against wrongful use, but not against use by innocent third party transferees of trade secrets.

If you are interested in protecting your product in Japan, you will need a Japanese lawyer (bengoshi) or patent agent (benrishi). Consult with your attorney here in the United States, the Martindale-Hubbell Law Directory, or for a list of selected lawyers and patent attorneys, contact the Japan Export Information Center (JEIC) at (202) 377-2425. Other English-language intellectual property protection publications available include:

"Patent Protection or Piracy - A CEO Views Japan," Harvard Business Review, September/October 1990, pp 58-67. Reprint Product Information and Orders: (617) 495-6192.

Patent Application Paperless System: Guide Book. Japanese Patent Office (1990).

Guideline for Accelerated Examination and Accelerated Appeal Examination System for Working-Related Patent (or Utility Model) Applications. Japanese Patent Office (July 1989).



Effect of the Japanese Patent System on American Business: Subcommittee Hearing, U.S. Government Printing Office (June 24, 1988).

Guide to Industrial Property in Japan, Japanese Patent Office (1988).

Outline of Japanese Trademark System: An Introduction to Foreigners, Japanese Patent Office (1986).

Industrial Property Rights in Japan, Japan External Trade Organization (Revised 1981).

## EXPORT FINANCING

### *Export-Import Bank of the United States*

The Export-Import Bank of the United States (Eximbank) can provide export financing assistance to American companies through the following programs:

**Working Capital Guarantee Program:** This program helps small businesses obtain critical pre-export financing from commercial lenders. Eximbank will guarantee 90 percent of principal and a limited amount of interest on loans or revolving lines of credit extended to eligible exporters. The funds may be used for such pre-export activities as buying raw materials or foreign marketing. For more information, contact the U.S. Division at (202) 566-8819.

**Export Credit Insurance:** Through its agent, the Foreign Credit Insurance Association, Eximbank offers insurance which covers political and commercial risks on export receivables. For more information, contact the Insurance Division at (202) 566-8955.

- (1) The New-to-Export Policy is available to firms just beginning to export or with average annual export sales of less than \$750,000 for the past two years. The policy offers enhanced coverage and a lower premium than usually found in regular insurance policies.
- (2) The Umbrella Policy is available to commercial lenders, state agencies, export trading companies, and similar organizations to insure export receivables of their small and medium-sized clients.
- (3) The Bank Letter of Credit Policy insures commercial banks against loss on irrevocable letters of credit issued by foreign banks for U.S. exporters.
- (4) The Multi-Buyer Policy insures all or a reasonable spread of an exporter's short- or medium-term export credit sales.
- (5) The Financial Institution Buyer Credit Policy insures individual short-term export credits extended by financial institutions to foreign buyers.
- (6) The Short-Term Single-Buyer Policy and the Medium-Term Single-Buyer Policy allow exporters to insure their receivables against loss due to commercial and specified political risks on a selective basis.

- (7) **Lease Insurance Policies** offer a lessor the opportunity to expand its overseas leasing program by providing comprehensive insurance for both the stream of lease payments and the fair market value of the leased products.

**Guarantee Program:** This program provides repayment protection for private sector loans to creditworthy buyers of U.S. capital equipment and services exports. Coverage is available for loans of up to 85 percent of the U.S. export value, with repayment terms of one year or more. Eximbank's guarantee is available for fixed or floating rate export loans in U.S. dollars or convertible foreign currencies. For more information, contact the Export Finance Group at (202) 566-8187.

**Loan Program:** This program provides competitive, fixed interest rate financing for U.S. export sales facing foreign competition backed by subsidized financing. Eximbank extends direct loans to foreign buyers of U.S. exports and intermediary loans to responsible parties that make loans to foreign buyers. Coverage is available for loans of up to 85 percent of the U.S. export value. The interest rates are the official minimum matrix rates agreed on by members of the Organization for Economic Cooperation and Development (OECD) and depend on the repayment period and the classification of the buyer's country. For more information, contact the Export Finance Group at (202) 566-8187.

**Engineering Multiplier Program:** This program stimulates the exports of U.S. architectural, industrial design, and engineering services. Eximbank will extend loans or guarantees up to 85 percent of the U.S. export value of services involving projects with the potential of generating U.S. export orders of \$10 million or double the original export contract, whichever is greater. It also will guarantee commercial financing for approved project-related costs in the host country of up to 15 percent of the U.S. export value. For more information, contact the Engineering Division at (202) 566-8802.

**Operations and Maintenance Contracts Program:** This program helps U.S. firms compete for overseas contracts to operate and maintain new or established projects. Eximbank will provide loans or guarantees for up to 85 percent of the U.S. export value of operations and maintenance transactions with repayment terms of up to five years. The contract must provide a long-term benefit to the owner, such as training local personnel to take over the operation or establishment of permanent procedures to assure good operation of the project. For more information, contact the Engineering Division at (202) 566-8802.

### ***Foreign Credit Insurance Association***

The Foreign Credit Insurance Association (FCIA) helps U.S. exporters shipping on short-term credit (up to one year) to be assured of receiving payment while extending appropriate credit terms. As an agent of Eximbank, it insures U.S. companies against the risk of nonpayment by foreign buyers for commercial and political reasons. The insurance can cover 90 percent of the commercial risks and 100 percent of the political risks or 95 percent of all risks, a decision that is made by the policyholder. For more information, contact FCIA at (212) 306-5000.

### *The Small Business Administration*

The Small Business Administration (SBA) can provide export financing assistance to American companies through the following programs:

**Export Revolving Line of Credit Program:** This program guarantees loans up to \$750,000, the proceeds of which can be used to finance foreign market development or labor and materials needed to manufacture or wholesale for export. The maximum maturity is 18 months. For more information, contact the Office of Financial Assistance at (202) 205-6497.

**International Trade Loan Guarantee Program:** This program offers small businesses that can significantly expand existing export markets, develop new export markets, or those adversely affected by import competition, loan guarantees up to \$1 million for facilities and equipment and up to \$250,000 for working capital. Maturities of loans may extend up to 25 years. For more information, contact the Office of Financial Assistance at (202) 205-6497.

**Small Business Investment Companies:** Licensed by SBA, firms whose investment strategies include export activities may receive equity capital or term working capital in excess of SBA's \$750,000 statutory limit. For more information, contact the Investment Division at (202) 205-6734.

**Business Loan Guarantee Program:** Financing for fixed-asset acquisition or general working capital purposes may be obtained; the program encourages private lenders to make loans of up to \$750,000 to borrowers who could not borrow on reasonable terms without government help. For more information, contact the Office of Financial Assistance at (202) 205-6490.

### *The Overseas Private Investment Corporation*

The Overseas Private Investment Corporation (OPIC) can provide export financing assistance to American companies through the following programs:

**Finance Programs:** Medium- to long-term financing for overseas investment projects is made available through loan guaranties and direct loans. Loans generally range up to \$6 million and are reserved exclusively for projects significantly involving U.S. small businesses or cooperatives. Guarantees, as large as \$50 million, are available for projects sponsored by any U.S. company regardless of size. OPIC's financing commitment may range up to 50 percent of total project costs for new ventures and up to 75 percent for expansion of existing successful operations, with final maturities of 5 to 12 years or more. A special small contractor's guarantee program is also available. For more information, contact Public Affairs at (202) 457-7087.

**Lease Financing Program:** This program offers loans and guarantees to foreign leasing companies in which there is a significant U.S. private business interest. Terms of the guarantee are typically from four to seven years. For more information, contact Public Affairs at (202) 457-7087.

**Small Contractor's Guarantee Program:** This program will guarantee an eligible financial institution for up to 75 percent of an on-demand standby letter of credit or other form of payment guarantee issued on behalf of a small business construction or service contractor. For more information, contact Public Affairs at (202) 457-7087.

### *The U.S. Department of Agriculture*

The U.S. Department of Agriculture (USDA) can provide export financing assistance to American companies through the following programs:

**Export Credit Guarantee Programs:** These programs are designed to expand U.S. agricultural exports by stimulating U.S. bank financing of foreign purchases. The programs operate in cases where credit is necessary to increase or maintain U.S. exports to a foreign market and where private financial institutions would be unwilling to provide financing without a guarantee. These programs guarantee letters of credit from foreign financial institutions against default. For more information, contact the USDA at (202) 720-4221.

**Market Promotion Program:** Authorized by the Food, Agricultural, Conservation, and Trade Act of 1990 and administered by USDA's Foreign Agricultural Service, the Market Promotion Program promotes a wide variety of U.S. commodities in almost every region of the world. Surplus stocks or funds from the Commodity Credit Corporation are used to partially reimburse agricultural organizations conducting specific foreign market development projects for eligible products in specified countries. For more information, contact Marketing Operations at (202) 720-5521.

### *Japanese Entities*

**The Export-Import Bank of Japan (JEXIM):** In order to increase Japan's imports, the JEXIM has expanded the scope of eligible borrowers for low-interest financing. Products of American companies are eligible for the Japanese Government import credit program. For information, contact:

The Export-Import Bank of Japan  
375 Park Avenue, Suite 3601  
New York, NY 10152  
Phone: (212) 888-9500

The Export-Import Bank of Japan  
2000 Pennsylvania Ave., N.W.  
Suite 3350  
Washington, DC 20006  
Phone: (202) 331-8547

**The Japan Development Bank (JDB):** The JDB has sharply increased low-interest financing offered to foreign companies for import-related facilities in Japan as well as for direct investment in Japan by U.S. companies. For information, contact:

The Japan Development Bank  
Center for Promotion of Direct  
Investment in Japan  
1101 17th Street, N.W.  
Suite 1001  
Washington, DC 20036  
Phone: (202) 331-8696

The Japan Development Bank  
Center for Promotion of Direct  
Investment in Japan  
575 Fifth Avenue, 28th Floor  
New York, NY 10017  
Phone: (212) 949-7550

**The Export-Import Insurance Division of the Ministry of International Trade and Industry (EID/MITI):** EID/MITI, which began operations in 1950, insures repayment of export credits. EID/MITI insurance enables commercial banks, which normally would be unwilling to assume the risk of certain types of financing, to fund overseas projects. EID/MITI has a wide range of short, medium, and long-term insurance programs for Japanese and non-Japanese exporters, importers, and

investors. For more information, contact:

Ministry of International Trade and Industry  
Export-Import Insurance Division  
1-3-1, Kasumigaseki  
Chiyoda-ku, Tokyo 100, Japan

In May 1991, the Export-Import Bank of the United States reached an agreement for cooperation with the financial institutions of the Government of Japan (JEXIM, JDB, and EID/MITI) to advance mutual objectives in: (1) expanding the role of exports in the growth of global trade, (2) facilitating the flow of trade and investment capital to developing countries, (3) assisting cooperation between suppliers and banks of Japan and the United States, and (4) increasing the volume of exports from the United States to Japan and other countries. It is expected that the cooperative application of financing support by the respective agencies will enable projects to be financed which otherwise could not proceed for lack of complete capital resources. In particular, it is expected that U.S. exports will benefit from more effective access to financing supported by the Japanese agencies.

## CUSTOMS CLEARANCE

**Customs Documentation:** While customs procedures have been simplified in recent years, a number of documents are still required for clearance through customs. These include: (1) for import quota items, an import license, usually valid for four months from date of issuance, (2) an Import Declaration Form (Customs Form C 5030), (3) shipping documents such as a commercial invoice, packing list, and an original and signed bill of lading, or, if shipped by air, an air waybill, (4) a certificate of origin if the goods are entitled to favorable duty treatment (preferential or GATT rates; in practice, shipments from the United States are routinely assessed the GATT or "temporary" rates without a certificate of origin); (5) any additional documents necessary as proof of compliance with relevant Japanese laws and standards regulations. To be certain that all required documentation is provided at the time your shipment arrives in Japan, consult with your agent importer.

**COMMERCIAL INVOICE:** All shipments regardless of value require at least two copies of the commercial invoice. The invoice must be on shipper's letterhead and signed by the shipper or an approved representative. This document is used to determine the value of goods being imported and should include: the complete name and address of the shipper, full description of goods and tariff classification, number of units shipped, unit price, total price, and country or origin of goods.

**PACKING LIST:** A packing list is recommended and should provide the following information: exact description of all items in the shipment, the gross and net weight of each package, the exterior measurements of each package, the total number of shipping containers, and gross weight and gross measurement. Units of measure must be in metric on both documents and goods.

**BILL OF LADING:** Three signed original bills of lading should be sent through banking channels, and at least two unsigned copies should be forwarded to the consignee. For goods sent by air, a standard set of ten (one original and nine copies) should be made available.

**CERTIFICATE OF ORIGIN:** A certificate of origin is required only when the goods are to be granted duty concessions under GATT or the Generalized System of Preferences. Such documents are often authenticated by a local chamber of commerce or by a Japanese

consular or diplomatic official.

**IMPORT LICENSE:** Most goods now qualify as "freely importable" and do not require an import license. The only exception is for those commodities falling under import quotas in which case the Japanese importer would obtain the license (see section on quotas).

**Packing, Marking, and Labeling:** Straw packing materials are prohibited. The Japanese Measurement Law requires that all imported products and shipping documents show metric weights and measures. There is no law requiring display of the identity of the place of origin. However, if labels indicating origin are determined to be false or misleading, the labels must be removed or corrected. Otherwise the goods will be returned to country of origin. False or misleading labels which display the names of countries, regions, or flags other than the country of origin, and/or names of manufacturers or designers outside the country of origin are not permissible.

There are no generic regulations for the marking of packages, but certain goods such as food, drugs, cosmetics, clothing, and electrical appliances are covered by specific regulations outlined, respectively, in the Food Sanitation Law, the Pharmaceutical Affairs Law, ordinances of the Ministry of Health and Welfare, and the Electrical Appliance Control Law. As such regulations apply to specific products, it is important to work with a prospective agent/importer to ensure your product meets requirements.

In general, most labeling laws are not required at the customs clearance stage, but at the point of sale. Consequently, it is most common for Japanese importers to affix a label before or after clearing customs.

**Health and Sanitary Requirements -- Inspection Certificates:** Japanese health and sanitary regulations are strictly enforced. All imported plants and soils, animals, meat, and viscera of animals must be accompanied by a phytosanitary inspection certificate issued by the government of the exporting country attesting that such shipments are free from infectious materials or diseases. Additional information is available from the Animal and Plant Health Inspection Service, U.S. Department of Agriculture, Hyattsville, MD 20782, (301) 436-8590 (Veterinary Services) and (301) 436-8537 (Plant Protection and Quarantine).

Japan's Food Sanitation Law requires that an Import Notification Form must be submitted for all food products at the time of import to ensure all standards governing foodstuffs have been met. The use of chemicals and other additives in foods is severely restricted in Japan. The additive regulations follow a "positive list" approach which indicates only those additives which are permitted, their maximum tolerable amount, and the foods in which the additives may be used. Cosmetics are governed by similar restrictions covering permissible ingredients. Additional information on specific regulations is available through the U.S. Department of Agriculture, Office of Food Safety and Technical Services at (202) 720-9408, or the U.S. Department of Commerce, Japan Export Information Center at (202) 377-2425.

**Import Quotas:** Japan has in effect two quota systems: a quantity allocated quota and a tariff quota. The quantity allocated quota is applied to imports of some dairy products, fish, grain staples, and coal. Import of these items requires an Import Quota Certificate issued by the Ministry of International Trade and Industry through an import notice system granting allocation twice a year. The quota certificate is valid for four months. Once the certificate is obtained, an application for approval is then made to an authorized foreign exchange bank which issues the import license.

A tariff quota is in effect for cheese, maize, oats, malt, preparations of cocoa without sugar, some

tomato products, pineapples, some alcohol materials used as base of alcoholic beverages, leather, and leather footwear. For items subject to an import tariff quota, a lower primary duty rate is applied until the quantity exceeds the quota threshold at which time a higher duty is assessed. To apply for the primary duty rate an importer must obtain a quota allocation in advance from the Ministry of International Trade and Industry. Current quota volumes and duty rates are listed in the yearly publication of the Japanese tariff schedule.

**Tariffs:** According to the Japanese Government, the average tariff is now one of the world's lowest at 3.4 percent. However, import duties on some agricultural items and certain manufactured goods remain relatively high. As part of their import incentive program, the Japanese expanded the list of duty-free manufactured products in April 1990 by 1,004 items and reduced the tariff on four more. Consequently, almost all machinery imports are now tariff free.

Tariffs are administered by the Customs Bureau of the Ministry of Finance. Japan is a member of the Harmonized System Convention and therefore shares the same classification system as the United States up to six-digits. Duties are assessed on the c.i.f. value (cost, insurance, and freight) at ad valorem or specific rates, and in a few instances are charged a combination of both.

Japan's tariff schedule has four columns: general, GATT, preferential, and temporary. Goods from the United States are charged GATT rates unless a lesser temporary rate has been instituted. Japan's preferential system of tariffs grants lower or duty-free rates to products imported from developing countries.

In addition to the customs duty, a 3 percent consumption tax (general excise tax) (6 percent on autos) is levied on all goods sold in Japan and payment is required at the time of import declaration. The consumption tax is assessed on the c.i.f. value of the product plus the import duty. Refer to the section on taxation for more information.

Duties and consumption tax are payable when making an import declaration at the time of customs clearance by the importer. The Import Declaration Form (Customs Form C 5030) is filled out by the importing company and is used as an import declaration as well as a tax payment declaration form.

**Sample and Advertising Materials:** Japan is a member of the International Convention to Facilitate the Importation of Commercial Samples and Advertising Materials under the ATA Carnet System. Use of a carnet allows goods such as commercial and exhibition samples, professional equipment, musical instruments, and TV cameras to be carried or sent temporarily into a foreign country without paying duties or posting bonds. A carnet should be arranged for in advance by contacting a local office of the United States Council for International Business or the New York office at (212) 354-4480. Fees are based on the value of goods to be shipped. Processing time takes generally five business days.

Advertising materials, including brochures, films, and photographs, may enter Japan duty free. A commercial invoice for brochures and literature for free distribution must have either the actual or estimated value of the cost of production. Do not use the term "no charge."

Articles intended for display at trade fairs and similar events are also permitted to enter duty free but are required to be reexported within one year. A commercial invoice for these goods should be marked "no commercial value, customs purposes only" and "these goods are for exhibition and are to be returned after conclusion of the exhibition."

**Free Trade Zones and Bonded Areas:** Japan has one free trade zone at Naha on Okinawa. In addition, there are five kinds of bonded areas: designated bonded areas, bonded sheds, bonded warehouses, bonded factories, and bonded exhibition sites. Goods may be stored in bonded areas for up to two years; however, storage fees are high. Duties are payable only when the goods are cleared through customs.

## TAXATION

Taxes in Japan are imposed by national and local governments and can be classified into four groups: income taxes, property taxes, consumption taxes, and transfer of goods taxes.

### Taxes on Income

**NATIONAL TAXES:** Income Tax (Individual Income Tax) and Corporate Tax (Corporate Income Tax)

**LOCAL TAXES:** Prefectural Inhabitants Tax, Enterprise Tax, and Municipal Inhabitants Tax

### Taxes on Property

**NATIONAL TAXES:** Inheritance Tax and Gift Tax

**LOCAL TAXES:** Automobile Tax, Mine-lot Tax, Property Tax, Light Vehicle Tax, Special Landholding Tax, Business Office Tax, and City Planning Tax

### Taxes on Consumption

**NATIONAL TAXES:** Consumption Tax (general excise tax), Liquor Tax, Tobacco Tax, Gasoline Tax, Liquefied Petroleum Gas Tax, Aviation Fuel Tax, Petroleum Tax, Local Road Tax, Customs Duty, and Monopoly Profits Tax

**LOCAL TAXES:** Prefectural Tobacco Tax, Golf Course Utilization Tax, Special Local Consumption Tax, Municipal Tobacco Tax, and Bathing Tax

### Taxes on Transfer of Goods

**NATIONAL TAXES:** Bourse Tax, Securities Transaction Tax, Registration and License Tax, Motor Vehicle Tonnage Tax, Stamp Tax, Tonnage Due, Special Tonnage Due, and Promotion of Power-Resources Development Tax

**LOCAL TAXES:** Real Property Acquisition Tax, Hunter's Registration Tax, Automobile Acquisition Tax, Hunting Tax, and Mineral Product Tax

The United States and Japan signed an Income Tax Treaty on July 9, 1972. This agreement was designed to prevent double taxation from occurring with respect to income taxes. The Japanese Government reduced personal and corporate income tax rates and introduced an indirect value-added tax (general excise tax) named the consumption tax in April 1989.

**Consumption Tax:** The commodity tax was replaced April 1, 1989 with a consumption tax of 3 percent, 6 percent on autos. The consumption tax, intended to broaden the tax base and thereby improve the Japanese Government's ability to respond to growing claims on the national purse in one of the world's fastest aging societies, evoked widespread popular opposition, as it is primarily viewed by consumers as a sales tax. The impact of the consumption tax on imports into Japan has not been severe, and imports have continued to rise strongly since its imposition. It is levied at the time of each resale, starting with customs clearance into Japan at which time it is levied on the cost, insurance, and freight (c.i.f.) value plus import tariff. Most retail sales are also subject to the 3 percent consumption tax.



**Tax Treatment of Foreign-Owned Firms:** Local branches of foreign firms are generally taxed only on income derived from within Japan, whereas domestic Japanese corporations are taxed on their worldwide income. Calculation of taxable income and allowable deductions, and payments of consumption tax are otherwise the same as those for domestic companies, with national treatment for foreign firms. The Corporation Tax Act classifies corporations as either foreign or domestic depending on the location of the head office, without regard to the place of incorporation. The U.S.-Japan Tax Treaty provides for the avoidance of double taxation.

Dividends distributed by a Japanese firm are subject to a 20 percent withholding tax. The tax treaty reduces this tax to 15 percent for U.S. shareholders. Interest payable to a nonresident is normally subject to withholding of 20 percent, but the tax treaty reduces this to 10 percent, as long as the interest is not attributable to a permanent establishment in Japan. Royalties and fees paid to a foreign licensor by a Japanese licensee are subject to a normal withholding tax of 20 percent, reduced to 10 percent by the tax treaty.

**Rate of Corporation Tax:** As of April 1, 1990, the basic rate of 37.5 percent was established for the national corporation tax. The rate is 28 percent for firms capitalized at or under 100 million yen and with a taxable income of under 8 million yen.

**Capital Gains:** Capital gains from the transfer of real property in Japan are subject to the normal corporation tax (37.5 percent). In addition, capital gains are subject to the surtax at the rate of 20 percent with regard to gains on transfer of land in Japan possessed for not more than five years (30 percent surtax if less than two years). Capital gains from the sale of securities are subject to the normal corporation tax at the rate of 37.5 percent. A special tax-exempt provision concerning capital gains on the sale of securities exists in Japan's tax treaty with the United States.

You should contact a U.S. business consulting or accounting firm in Japan for specific guidance on tax issues. A list is available from the Japan Export Information Center (JEIC) at (202) 377-2425.

## THE STRUCTURAL IMPEDIMENTS INITIATIVE

The Japanese economy is undergoing marked structural change. Fast-growing domestic demand, currently fueled by both personal consumption and capital investment, supplanted external demand as the engine of Japanese economic growth in 1985-90. This change has primarily been a market-driven response to the fundamental exchange rate realignment of the last five years. Another central factor has been the focus on deregulation of the economy, particularly the privatization of public telecommunications and railway companies and the simplification of product standards. Despite progress in this area, Japan's economy remains heavily regulated, reinforcing business practices that restrict competition and thus keep prices high. Price controls remain on certain agricultural products, and bureaucratic obstacles to the entry of new firms into businesses such as trucking, retail sales, and telecommunications also have slowed the economy's structural adjustment.

To accelerate structural adjustment, on July 14, 1989, President Bush and Prime Minister Uno launched the Structural Impediments Initiative (SII) to identify and solve structural problems in both countries that stand as impediments to the reduction of payments imbalances. Under this initiative, the U.S. side identified six areas of concern in Japan's economy -- savings and investment, land use, distribution system, pricing mechanism, exclusionary business practices, and affiliated-company (keiretsu) relationships. The Japanese side in turn proposed study of American policies in seven areas that bear on U.S. competitiveness.

In the SII Joint Report, issued June 28, 1990, both sides agreed to carry out reforms in these areas. Japan committed to spend 430 trillion yen from 1991-2000 to address social infrastructure needs, which will help correct Japan's chronic imbalance of savings over investment and foster further domestic-led economic growth. Vigorous implementation by Japan of the competition-oriented domestic economic reforms, such as toughening anti-trust enforcement, easing of limits on large stores, land tax reform, and more corporate disclosure, should help translate Japan's growing productivity into higher living standards and stimulate greater demand for imports. Already, liberalized rules for large retail store openings have led to many new store applications, including several outlets planned by one major U.S. retailer.

## **FOREIGN TRADE BARRIERS**

Over the past few years, the Government of Japan has removed most formal barriers to the import of goods and services. Import licenses, which are still technically required for all goods, are granted on a pro forma basis with limited exceptions (fish, leather goods, and some agricultural products). Japan's average tariff rate is one of the world's lowest, and Japan has offered to reduce its industrial tariffs by one-third in the Uruguay Round market access negotiations. If successful, the Uruguay Round will further reduce trade barriers in a number of areas such as agriculture, where an end to the ban on rice imports is sought; manufactured goods, where the United States has proposed the mutual elimination of tariffs for major industrial sectors; and the services sector.

In one of the most intensive periods of U.S.-Japan trade negotiations ever, U.S. and Japanese negotiators in concluded agreements to improve sales opportunities for foreign supercomputer manufacturers in Japan's public sector supercomputer market, remove restrictions for purchases of foreign commercial satellites, resolve tariff and standards issues regarding wood products, and enhance opportunities for U.S. and foreign semiconductor manufacturers to sell their products in Japan. In addition, the Government of Japan agreed to liberalize the market for telecommunication products and services, strengthen copyright protection for American music recordings, and resolve a dispute involving amorphous metals. Also, the list of construction projects covered by the Major Projects Agreement (MPA) was expanded in July 1991. The revised MPA improves the procurement procedures and has established a new complaints mechanism.

Current obstacles to selling into the Japanese market do not fit into conventional trade barrier categories. Instead of tariffs and official discrimination against imports, American exporters face a number of factors which raise costs and inhibit access. These include the tangle of government red tape, the high cost of land, an outdated and fragmented distribution system, collusion among Japanese competitors, and insular attitudes by both government and private business executives. As described previously, through the SII, the Japanese Government has committed itself to a number of steps in the areas of distribution, exclusionary business practices, and land use which should help cut the cost of new market entry for U.S. exporters.

## **U.S.-JAPAN TRADE AND INVESTMENT**

The U.S.-Japan trade deficit reached an all-time high in 1987 at \$59 billion, but has been slowly decreasing. The 1990 trade deficit was \$41 billion, a decrease of 16.3 percent from 1989. The narrowing can be attributed to a continual increase in U.S. exports, as well as a recent decrease in Japanese imports into the United States. The first year in which U.S. imports from Japan decreased was 1990. While the U.S.-Japan trade deficit narrowed, Japan's overall trade surplus increased to \$52 billion.

U.S. exports to Japan consist primarily of automatic data processing machines and office equipment; wood, in the rough or roughly squared; aircraft, spacecraft, and associated equipment; seafood products; and semiconductors and other electronic components. Imports from Japan are comprised mostly of motor cars and other motor vehicles, automatic data processing machines and office equipment, parts and accessories of motor vehicles, scientific optical equipment, and semiconductors and other electronic components.

U.S. foreign direct investment in Japan reached a cumulative value of \$20.9 billion in 1990. This is an increase of 13.6 percent from the 1989 total of \$18.5 billion. Foreign investment in Japan in 1989 was primarily in the machinery, real estate, commerce/foreign trade, chemical, banking/insurance, and services sectors. This figure is far below Japan's investments in the United States.

The Foreign Exchange and Foreign Trade Control Law and the implementing Cabinet Order Concerning Domestic Direct Investment, Etc. (Cabinet Order No 261, Oct. 11, 1980) do not require official permission for direct foreign investment. Nevertheless, until recently, the prospective investor had to give prior notification of the proposed investment to the Ministry of Finance via the Bank of Japan, and to any other ministries with jurisdiction over the industry. In practice, the investor was notified that the Japanese Government has no objection within one hour following notification, if the proposed investment was in unrestricted industries. However, as part of SII, this prior notification requirement has been replaced by ex post facto notification for investment in unrestricted sectors.

Japan provides foreign investors national treatment after entry with limited exceptions notified to the Organization of Economic Cooperation and Development (OECD). In accordance with the provisions of the OECD Code of Liberalization of Capital Movements, Japan retains restrictions in the following business categories to protect the national security and interest: for national security: arms, gun powder, atomic energy, aircraft, and space development; for maintenance of public order and protection of safety of the general public: narcotic manufacturing, vaccine manufacturing, and security guard services; and for protection of domestic industries: agriculture, forestry, and fisheries; petroleum refining and marketing; leather and leather product manufacturing; and mining. In addition, Article VII of the U.S.-Japan Treaty of Friendship, Commerce, and Navigation exempts the following sectors from the requirement for national treatment of investments: broadcasting, telecommunications, electric power generation and other public utilities, domestic rail and air transportation, banking, shipbuilding, and industries involved in the exploitation of land or other natural resources.

Investments in the sectors mentioned above are restricted. Prior to the 1980 revision, foreign investment in these areas was prohibited. Investment is now allowed, but investment and ownership may be limited under the present law. U.S. investment has taken place in these sectors, but the criteria for defining and controlling these sectors remain unclear. The fact that guidelines are not made public potentially inhibits further investment. Foreign investment in the banking and securities industries is subject to a reciprocity requirement.

The U.S. business community in Japan perceives that, in addition to the explicit legal and regulatory restrictions on foreign direct investment, further restrictions are implemented through "administrative guidance." In general, business in Japan is more regulated than in the United States, with much of the regulation taking place in private through consultations between the involved government ministry and industry. There is no counterpart to the U.S. Administrative Procedures Act in Japan requiring that regulatory laws and practices be formulated in public. Administrative regulations can impede investment, including foreign investment, in service industries such as trucking, telecommunications, and finance.

The Japanese Government continues to publish "visions" for the future development of promising industrial sectors and to provide some funds for pre-competitive research in certain industrial areas. The Japanese Government does not employ local equity requirements, export performance requirements, or local content requirements. In addition, the Japanese Government has not forced foreign individuals or companies to divest themselves of investments. Japanese law allows limited foreign landholding, and foreign investors may repatriate capital and profits readily.

The acquisition of existing Japanese companies is difficult due in part to cross-holding of shares among allied companies, and a low percentage of publicly traded common stock. The difficulty of acquisition of existing companies inhibits some foreign investment. While problems remain, the American business community perceives the Japanese Government on the whole as welcoming foreign investment at both the national and local governmental level.

Japanese foreign direct investment in the United States reached a cumulative value of \$83.5 billion in 1990. This is an increase of 24 percent from the 1989 total of \$67.3 billion. At year-end 1988, Japanese foreign direct investment in the United States totaled \$53.4 billion -- for an increase of 26 percent from 1988 to 1989. This slowing trend is due to a variety of factors: overall interest rates have risen substantially (although the impact on the manufacturing sector is not as great as others) and stock prices have substantially decreased. It has therefore become difficult for some Japanese companies to raise the necessary investment capital.

For more information on U.S.-Japanese investment, contact the following organizations:

U.S. Department of Commerce - Japan Export Information Center  
Report: Investment Climate Statement for Japan (7/90)  
(202) 377-2425

U.S. Department of Commerce - Bureau of Economic Analysis  
U.S. Foreign Direct Investment Abroad (202) 523-0612  
Foreign Direct Investment in the United States (202) 523-0641

U.S. Department of Commerce - Office of Trade and Investment Analysis  
Investment Data (202) 377-4628

## THE JAPANESE GOVERNMENT

The Japanese Government spending policy has given an indirect boost to the competitiveness of a number of Japanese industries. In the past, the government directed considerable public and private resources to targeted priority areas, but has been moving away from such industrial policy measures, partly in response to criticism by Japan's trading partners of these export-oriented policies. The Japanese Government continues to promote high technology cooperation among firms and plays a direct role in organizing these efforts, using off-budget resources and small amounts of appropriated funds to contribute to investment projects and government/private sector efforts.

The trade agencies of the Japanese Government (the Ministry of International Trade and Industry, the Japan External Trade Organization, and the Manufactured Imports Promotion Organization) are under pressure from foreign countries to implement further market opening measures. These agencies are now cooperating with the United States in the Joint Trade Expansion Program to increase American exports to Japan. Unlike past market-opening packages, the Japanese Government is now backing its pledges with substantial sums of money on a case-by-case basis for

import promotion from the United States.

**The Ministry of International Trade and Industry (MITI):** MITI is responsible for the formulation and implementation of the government's trade and industrial policy. With the Ministries of Finance, Construction, Transportation, Agriculture, and Forestry and Fisheries, as well as the Economic Planning Agency, MITI occupies a central position in what the Japanese call the economic bureaucracy. MITI is regarded as one of the three most powerful and prestigious ministries of the central government (together with the Ministry of Finance and the Ministry of Foreign Affairs). MITI has overall responsibility for trade matters, and it funds most of the government's export promotion programs. However, day-to-day management and operation of these programs is the Japan External Trade Organization's responsibility. MITI functions include both policy-making and operations. On export-related matters, it supervises the export financing programs of Japan's Export-Import Bank, operates several types of export insurance programs, supports research organizations, and facilitates various types of overseas technical and cooperation training programs.

**The Japan External Trade Organization (JETRO):** Although legally placed under MITI's aegis, JETRO administers the export programs of the Japanese Government with virtual independence. MITI subsidizes roughly 60 percent of JETRO's total annual expenditures and, technically, has final decision-making authority over JETRO management and programs. Originally established to help Japanese firms export, JETRO now also assists American companies seeking to export to Japan and promotes Japanese investment in the United States. JETRO publishes a number of market information reports and other pamphlets useful to U.S. exporters. The degree of assistance you are able to receive from JETRO may vary. Minimally, you should obtain a publication list from the organization. Other JETRO trade promotion activities include:

**EXPORT TO JAPAN OPPORTUNITY DATABASE:** This is a combination of two separate databases aimed at providing small and medium-sized overseas exporters with opportunities to do business with Japanese importers. The Potential Importer Database identifies Japanese companies and the merchandise they want to import. This data is freely accessible from each of JETRO's seven U.S. offices to help a potential U.S. exporter find a potential Japanese importer. The Potential Exporter Database provides the names of U.S. companies interested in exporting to Japan with full product descriptions. This database is available for use by Japanese importers at JETRO's Local Internationalization Centers in 49 locations throughout Japan.

**JAPANESE TOPS INFORMATION SYSTEM:** Not to be confused with the U.S. Department of Commerce TOP program, the JETRO TOPS (Trade Opportunity Service) is a closed-access database system for matching potential business partners. The JETRO TOPS system matches overseas exporters with Japanese importers from a database of tens of thousands of companies. Registered companies are provided with a list of potential business contacts. To register your company, complete the application form available at JETRO's seven U.S. offices.

**TRADE FAIRS:** Since 1985, JETRO has organized large-scale trade fairs in Japan for foreign products and services. Exhibitors in these events have benefited from JETRO's extensive network of contacts in Japanese industrial and distribution circles. In addition, JETRO has recently initiated a pilot project involving small-scale exhibitions of foreign products, exhibitions for spot sales, and import product promotion seminars in several Japanese cities. JETRO publishes a comprehensive annual directory titled **List of Trade Fairs in Japan**. For this publication and other trade fair information, call one of the seven U.S. JETRO offices.

**TRADE COMPLAINTS:** Exporters who believe they have encountered nontariff barriers or other institutional problems related to trade should contact the U.S. Department of Commerce. In addition, complaints may be brought to the attention of JETRO. When JETRO deems it appropriate, trade complaints will be forwarded to the Office of Trade and Investment Ombudsman (OTO), which was established by the Japanese Government for the purpose of settling trade grievances. Complete information about the OTO is available at all JETRO offices.

JETRO offices in the United States are located at:

JETRO, New York  
44th Floor, McGraw-Hill Building  
1221 Avenue of the Americas  
New York, NY 10020  
Phone: (212) 997-0400

JETRO, Chicago  
401 North Michigan Avenue  
Suite 660  
Chicago, IL 60611  
Phone: (312) 527-9000

JETRO, Houston  
1221 McKinney  
One Houston Center, Suite 2360  
Houston, TX 77010  
Phone: (713) 759-9595

JETRO, Denver  
1200 17th Street  
Suite 1110  
Denver, CO 80202  
Phone: (303) 629-0404

JETRO, Los Angeles  
725 Figueroa Street  
Suite 1890  
Los Angeles, CA 90017  
Phone: (213) 624-8855

JETRO, San Francisco  
Suite 501  
Qantas Building  
360 Post Street  
San Francisco, CA 94108  
Phone: (415) 392-1333

JETRO, Atlanta  
245 Peachtree Center Avenue  
Suite 2102  
Marquis One Tower  
Atlanta, GA 30303  
Phone: (404) 681-0600

**The Manufactured Imports Promotion Organization (MIPRO):** MIPRO is a nonprofit organization established in 1978 by the joint efforts of the Japanese Government and the private sector to promote the imports of foreign manufactured products by hosting various trade exhibitions and providing a wide range of market information. MIPRO's activities are broadly classified into the following three categories: (1) holding imported product trade exhibitions for buyers and the general public, (2) disseminating information regarding imported products and the Japanese market, and (3) promoting sales of foreign products to Japanese consumers to enhance their appreciation of the quality of imported goods. MIPRO operates under the aegis of JETRO and maintains an office in Washington, DC at (202) 659-3729.

## JAPAN IMPORT PROMOTION MEASURES

In January 1990, the Japanese Government announced a comprehensive three-year plan to increase Japanese imports. The import promotion package includes tax incentives for Japanese importers, elimination of tariffs on approximately 1,004 manufactured products, low-interest loans for import promotion activities and foreign direct investment in Japan, and a \$100 million grassroots import

promotion program.

Japanese manufacturers who increase their duty-free manufactured imports of capital, intermediate, and durable goods in Standard Industrial Trade Classification sections 5-8 by a minimum of 10 percent will be eligible for a 5 percent tax credit of the value of the increase in imports. Alternately, manufacturers may choose a maximum of 20 percent accelerated depreciation for imported machinery. The Japanese Ministry of International Trade and Industry estimates that the incentives will increase manufactured imports by \$3 billion in the Japanese fiscal year 1990.

A number of Japanese financial institutions have expanded eligibility to foreign companies and increased low-interest loan quotas for import promotion activities. Qualifying U.S. firms are eligible for manufactured export financing by the Export-Import Bank of Japan. Also, the Japan Development Bank will offer low-interest loans for foreign direct investment in Japan by foreign investors.

The Japan External Trade Organization (JETRO) intends to increase the number of trade and foreign buyer missions traveling to and from Japan. Many trade mission participants will be recruited by local JETRO offices. In addition, Japanese export consultants have been sent by JETRO to the United States for two years to conduct seminars on exporting to Japan and provide individual business counseling.

## **U.S. DEPARTMENT OF COMMERCE JAPAN EXPORT PROMOTION INITIATIVE**

A true test of success for any internationally oriented business is entry into the Japanese market, one of the most profitable, yet difficult, markets. Ongoing efforts of U.S. trade negotiators, incremental structural adjustments within the Japanese economy, and more recently, a significant commitment of resources by the Japanese Government to promote imports have combined to create an increasingly favorable commercial environment for U.S. business. To take full advantage of export opportunities resulting from this process, the U.S. Department of Commerce has developed an export promotion program designed specifically to assist U.S. firms in entering the Japanese market.

The U.S. Department of Commerce Japan Export Promotion Program has four main elements:

- (1) The Department identifies Japanese domestic infrastructure and Official Development Assistance (ODA) projects and alerts the U.S. business community of potential commercial opportunities. The program emphasis is on projects which involve technologies where U.S. firms enjoy a competitive advantage.
- (2) Successful penetration of the Japanese market requires long-term planning and dedication of significant resources to adapt to the special features of the Japanese market. Recognizing this, the Japan Corporate Program (JCP) has been designed to assist U.S. firms enter and/or compete effectively in the Japanese market. On November 29, 1990, the Commerce Department announced the 20 companies selected to participate in the JCP. As part of a five-year commitment to the program, the companies will arrange four visits a year to Japan, including two by their chief executives; publish their product literature in Japanese; participate in at least one trade promotion event in Japan each year; and modify products as needed to enhance sales in Japan. The Commerce Department will work closely with these firms over the next five years, providing them with market data, arranging introductory meetings with prospective Japanese buyers, and recommending market development

strategies. This kind of assistance is available to U.S. firms outside of the JCP through services of the U.S. Department of Commerce's Japan Export Information Center (JEIC) and U.S. and Foreign Commercial Service. The Commerce Department will incorporate the knowledge gained from the JCP into counseling services for U.S. business. Ultimately, the JCP is intended to foster a perception in Japan that U.S. firms can compete and to correct the U.S. business community's perception about the limited prospects for entering the Japanese market.

- (3) The Commerce Department has improved its programs to help U.S. firms find representatives, secure market research, and participate in trade promotion events focused on the Japanese market. In addition, the JEIC was created to extend business counseling and to provide current and accurate information on exporting to Japan.
- (4) The U.S.-Japan Joint Trade Expansion Program, which involves data and information exchange, market research, trade events, and trade facilitation services, was renewed for another year in April 1991.

### **U.S. DEPARTMENT OF COMMERCE SPECIAL INFORMATION PRODUCTS AND BUSINESS FACILITATION SERVICES FOR JAPAN**

The following are U.S. Department of Commerce special information products and business facilitation services that are designed to help your firm export to Japan:

**Japan Market Information Reports (JMIRs):** The JMIR's are aimed at firms and individuals that are new to Japan and need general background information on the business climate and services available from the private sector in Japan. The three JMIR's are titled Directory of Business Support Organizations in Japan, Establishing a Business in Japan, and English-Language Business Publications in Japan. To obtain these reports, contact the American Embassy in Tokyo at:

Japanese Market Section, EIC  
Foreign Commercial Service  
U.S. Embassy, Tokyo  
Unit 45004, Box 271  
APO AP 96337-0001

**Industry Subsector Analyses (ISAs):** ISAs are short introductions to selected Japanese markets -- overall assessment, competitive situation, market access (standards and regulations), trade-promotion opportunities, trade publications, and statistics. A list of ISAs for Japan is available from the Japan Export Information Center (202-377-2425). To obtain the reports, contact your local U.S. Department of Commerce district office.

**Country Marketing Plan (CMP):** The annual CMP provides information on the general commercial and economic environment, policy issues, trade initiatives, and barriers to U.S. exports. Contact your local district office to obtain the CMP for Japan.

**Business Facilitation:** The U.S. and Foreign Commercial Service/Japan (US&FCS/Japan) offers individualized consultation services designed to help a firm enter the Japanese market. US&FCS/Japan can also make appointments with associations, consultants, government agencies, multipliers, or names supplied by the U.S. firm or source and photocopy pertinent information for



the U.S. firm. US&FCS posts in Japan are located at:

U.S. Embassy, Tokyo  
1-10-5 Akasaka  
Minato-ku  
Tokyo, Japan 107  
Phone: 011-81-33-224-5060  
Fax: 011-81-33-589-4235

U.S. Consulate, Fukuoka  
5-26 Ohori 2-chome  
Chuo-ku  
Fukuoka, Japan 810  
Phone: 011-81-92-751-9331  
Fax: 011-81-92-713-9222

U.S. Consulate, Osaka-Kobe  
11-15, Nishitenma 2-chome  
Kita-ku  
Osaka, Japan 530  
Phone: 011-81-6-315-5900  
Fax: 011-81-6-361-5978

U.S. Consulate, Sapporo  
Kita 1-Jo Nishi 28-chome  
Chuo-ku  
Sapporo, Japan 064  
Phone: 011-81-11-641-1115  
Fax: 011-81-11-641-0911

U.S. Consulate, Nagoya  
10-19 Sakae 2-chome  
Naka-ku  
Nagoya, Japan 460  
Phone: 011-81-52-203-4011  
Fax: 011-81-52-201-4612

From the United States, the mailing addresses of the U.S. Embassy in Tokyo and the U.S. Consulate in Osaka are:

Foreign Commercial Service  
U.S. Embassy  
Unit 45004, Box 204  
APO AP 96337-0001

Foreign Commercial Service  
U.S. Consulate General, Osaka-Kobe  
Unit 45004, Box 239  
APO AP 96337-0002

**The U.S. Trade Center:** Located in Ikebukuro's Sunshine City complex, the U.S. Embassy's U.S. Trade Center is an ideal site for single or multi-company exhibitions, seminars, technical-product demonstrations, conferences, receptions, and other promotional events. The Trade Center is available for use by your company or by your representative in Japan. Your company may wish to take advantage of these facilities which offer an impressive American ambience. To identify possible upcoming events or to schedule one yourself, contact your local district office or the Trade Center at:

U.S. Trade Center  
7th Floor, World Import Mart  
1-3 Higashi Ikebukuro 3-chome  
Toshima-ku, Tokyo  
Phone: 011-81-33-987-2441  
Fax: 011-81-33-987-2447

MAILING ADDRESS:  
U.S. Trade Center  
Unit 45004, Box 229  
APO AP 96337-0001

## WHERE TO RECEIVE EXPORT COUNSELING

**Trade Information Center (TIC):** The U.S. Government interagency Trade Promotion Coordinating Committee has established a comprehensive, one-stop information center for U.S.

companies seeking information on Federal programs and activities that support U.S. exports, including information on overseas markets and industry trends. The center provides detailed information on the resources available through the publication Export Programs: A Business Directory of U.S. Government Resources. Also provided is a computerized calendar of U.S. Government-sponsored domestic and overseas trade events. For more information, contact the TIC at 1-800-USA-TRADE.

**U.S. Department of Commerce/International Trade Administration (ITA):** ITA offers assistance and information to help U.S. exporters. ITA units include country (International Economic Policy -- IEP) and industry (Trade Development -- TD) experts and domestic and overseas commercial offices (U.S. and Foreign Commercial Service -- US&FCS), each promoting products and offering services and programs for the U.S. exporting community.

**THE JAPAN EXPORT INFORMATION CENTER (JEIC):** The Office of Japan is the country-specific (IEP) expert on Japan in ITA. The Office of Japan performs two separate and distinct functions: trade policy and trade promotion. The former involves the development and implementation of bilateral and multilateral trade policy and commercial strategies. The latter function is performed by the recently established JEIC. The JEIC offers business counseling and provides current and accurate information on exporting to Japan. The JEIC provides information on doing business in Japan, market entry alternatives, market information and research, product standards and testing requirements, tariffs, and nontariff barriers. The staff also maintains a commercial library and is available to participate in private- and government-sponsored seminars on various aspects of doing business in Japan. Contact the JEIC at (202) 377-2425.

**TRADE DEVELOPMENT (TD):** TD industry specialists work with manufacturing and service industry representatives and associations to identify trade opportunities and obstacles by product or service, industry sector, and market. They also develop export marketing plans and programs. To assist U.S. business in its export effort, industry experts conduct executive trade missions, trade fairs, marketing seminars, and business counseling. Seven major industry sector offices offer export promotion services: Aerospace, Automotive and Consumer Goods, Basic Industries, Capital Goods and International Construction, Science and Electronics, Services, and Textiles and Apparel. A cross-sectoral unit, Trade Information and Analysis, provides statistical data and analyses useful in export promotion. To identify an industry specialist, call (202) 377-1461 or contact the Japan Export Information Center at (202) 377-2425.

**U.S. AND FOREIGN COMMERCIAL SERVICE (US&FCS):** Established to help U.S. firms compete more effectively in the global marketplace, the US&FCS has a network of trade specialists in 68 U.S. cities (district offices) and 67 countries worldwide. US&FCS offices provide information on foreign markets; agent/distributor location services; trade leads; financing aid; and counseling on business opportunities, barriers, and prospects abroad. District office trade specialists can provide the business community with local export counseling and a variety of export programs and services, including the Export Qualifier Program. In this program, specialists help firms determine their readiness to export through a computerized program. Specific recommendations are proposed to help strengthen and enhance a company's exporting ability. For the telephone number of your local district office, contact the Japan Export Information Center at (202) 377-2425 or call (202) 377-4767.

**OFFICE OF EXPORT TRADING COMPANY AFFAIRS** This office has the Federal role in promoting the formation and use of export trading companies and export management companies, and offers information and counseling to businesses and trade associations regarding the U.S. export intermediary industry. The office also administers the Export Trade Certificate of Review program, which provides limited antitrust protection to U.S. firms for joint export activities that can lower

expenses and increase profits. For more information, call (202) 377-5131.

**U.S. Department of Commerce/Bureau of Export Administration (BXA):** BXA is responsible for control of exports for reasons of national security, foreign policy, and short supply. Licenses on controlled exports are issued and seminars on U.S. export regulations are held domestically and overseas. For information, call (202) 377-4811.

**U.S. Department of Commerce/National Oceanic and Atmospheric Administration (NOAA)/National Marine Fisheries Service (NMFS):** NMFS specialists work with fishing industry representatives and organizations to facilitate access to foreign markets. In cooperation with US&FCS, NMFS assists exporters seeking to find and explore new opportunities for export of fish and fish products, especially to the Japanese and European markets. It also provides inspection services for fishery exports and issues U.S. Government certification. Contact the Office of Trade and Industry Services at (301) 427-2379 and Export Inspection Services at (301) 427-2355.

**U.S. Department of Agriculture/U.S. Trade Assistance and Planning Office (TAPO):** TAPO is a single contact point within the Foreign Agricultural Service for agricultural exporters seeking foreign market information. The office also counsels firms that believe they have been injured by unfair trade practices. Contact TAPO at (703) 305-2771.

**Small Business Administration/Export Legal Assistance Network (ELAN):** ELAN is a nationwide group of attorneys with experience in international trade who provide free initial consultations to small businesses on export-related matters. Contact ELAN at (202) 778-3080.

**Small Business Administration/Small Business Institutes (SBI):** SBIs provide international trade counseling and management assistance to eligible small businesses. Contact the Office of Business Development at (202) 205-7414.

**Export-Import Bank of the United States/Services for Small Businesses:** Eximbank offers briefing programs which are available to the small business community, including regional seminars, group briefings, and individual discussions held both within the bank and around the country. Eximbank offers a special toll-free hotline to provide information on the availability and use of export credit insurance, guarantees, and direct and intermediary loans extended to finance the sale of U.S. goods and services abroad. Contact the hotline at 1-800-424-5201.

**Export-Import Bank of the United States/City-State Program:** Eximbank works with state and local government agencies to offer export counseling and financial assistance to the businesses in their jurisdictions. Cooperative programs currently operate in three cities (Columbus, Los Angeles, and Tucson) and eight states (California, Maryland, Massachusetts, Nevada, Michigan, Texas, Utah, and Washington) and the Port Authority of New York/New Jersey. New programs are being established in North Carolina, Oklahoma, and Pennsylvania. For more information, contact (202) 566-4490.

**Overseas Private Investment Corporation (OPIC)/Investor Services:** Investor services is an OPIC initiative designed to assist smaller U.S. firms with their overseas investment planning and implementation needs. Fee-based services provide counseling to American firms on business plan development, project structuring, joint venture partner identification, and location of project financing services. Contact Investor Services at (202) 457-7091.

## WHERE TO GET MARKET INFORMATION AND TRADE LEADS

**U.S. Department of Commerce/National Trade Data Bank (NTDB):** The NTDB is a comprehensive source of export promotion and international trade data collected by 15 U.S. Government agencies. Updated each month and released on one CD-ROM, the NTDB enables a user with an IBM-compatible personal computer equipped with a CD-ROM reader to access over 100,000 trade-related documents. The NTDB contains the latest Bureau of the Census data on U.S. imports and exports by commodity and country; the complete CIA World Factbook; current market research reports compiled by the U.S. and Foreign Commercial Service; the complete Foreign Traders Index, which contains over 45,000 names and addresses of individuals and firms abroad interested in importing U.S. products; and other significant trade data. The NTDB is available at over 600 federal depository libraries nationwide and can be purchased for \$35 per single disc or \$360 for a 12-month subscription. Contact your local U.S. Department of Commerce district office or call (202) 377-1986 for ordering and other information.

**U.S. Department of Commerce/The Economic Bulletin Board (EBB):** The EBB, a personal computer-based electronic bulletin board, is your on-line source for trade leads as well as for the latest statistical releases from the Bureau of the Census, the Bureau of Economic Analysis, the Bureau of Labor Statistics, the Federal Reserve Board, and other federal agencies. Subscribers to the EBB pay an annual registration fee of \$35, which allows two hours of free access to the system. For access information, contact EBB at (202) 377-1986.

**U.S. Department of Commerce/Trade Opportunities Program (TOP):** TOP provides companies with current sales leads from international firms seeking to buy or represent U.S. products or services. TOP leads are printed daily in leading commercial newspapers, such as the *Journal of Commerce* and are also distributed electronically via the Economic Bulletin Board. The fee varies. Contact: Your nearest U.S. Department of Commerce district office or (202) 377-4767.

**U.S. Department of Commerce/World Traders Data Report (WTDR):** A method for checking the reputation, reliability, and financial status of a prospective trading partner. For \$100, an exporter can obtain this information, along with a recommendation from commercial officers at the U.S. Embassy as to the suitability of the company as a trading partner. Contact your local U.S. Department of Commerce district office or call (202) 377-4767.

**U.S. Department of Commerce/Business America (BA):** The principal Commerce Department publication for presenting domestic and international business news. Each biweekly issue includes a "how to" article for new exporters; a discussion of U.S. trade policy; news of government actions that may affect trade; and a calendar of upcoming trade shows, exhibitions, fairs, and seminars. An annual subscription is \$49. For information about BA, contact ITA's Office of Public Affairs at (202) 377-3251, or for ordering a subscription, contact the U.S. Government Printing Office at (202) 783-3238.

**U.S. Department of Commerce/Commercial News USA (CNUSA):** A monthly magazine published by the U.S. and Foreign Commercial Service to promote U.S. products and services to overseas markets, which is disseminated through 240 U.S. embassies and consular posts around the world. Selected portions are reprinted in newsletters that are tailored in content and language to the individual country and distributed to potential buyers, agents, American chambers of commerce abroad, and other multipliers. U.S. firms can have their products or services highlighted for a small fee. Contact your local U.S. Department of Commerce district office or call (202) 377-4918.

**U.S. Department of Commerce/Bureau of the Census/Center for International Research (CIR):** CIR compiles and maintains up-to-date global demographic and social information for all countries in its International Data Base (IDB), which is accessible to U.S. companies seeking to identify potential markets overseas. The information on the IDB can be purchased for \$175. Contact the Systems Analysis and Programming Staff at (301) 763-4811.

**U.S. Department of Agriculture/Economic Research Service (ERS):** The ERS staff provides economic data, models, and research information about agricultural economies and policies of foreign countries and bilateral agricultural trade and development relations. The ERS maintains files on the production and marketing of major commodities, pricing data, use development and conservation of natural resources, and overseas performance of the U.S. agricultural industry. It also publishes regional agricultural and trade reports, commodity outlook circulars, and a variety of research publications on country specific issues. Contact Agriculture and Trade Analysis Division at (202) 219-0700.

**U.S. Department of Agriculture of Agriculture/Trade and Marketing Information Centers:** These centers, part of the National Agriculture Library, help locate relevant material from their large collection on trade and marketing, and provide copies of research and data from their AGRICOLA database. Contact the Information Center Branch at (301) 344-3704.

**U.S. Department of Agriculture/Country Market Profiles:** These profiles are country-specific 2-4 page descriptions of 40 overseas markets for high value agricultural products. They provide a market overview, market trends, information on the U.S. market position, the competition, and general labeling and licensing requirements. Contact the FAS Information Division at (202) 720-7937.

**U.S. Department of Agriculture/AGExport Connections:** The AgExport Action Kit provides information which can help put U.S. exporters in touch quickly and directly with foreign importers of food and agricultural products. Contact AgExport Connections Staff at (202) 720-7103.

**U.S. Department of Agriculture/Computerized Information Delivery Service (CIDS):** CIDS provides instant access to USDA reports and news releases, making time-sensitive agricultural information available to any location within seconds of release. Among the information available, for a fee, through CIDS are trade leads, market reports, economic outlooks, and certain statistics. For more information, contact (202) 720-5505.

**U.S. Department of Labor/Foreign Labor Trends:** These are a series of reports, issued annually, that describe and analyze labor trends in more than 70 foreign countries. The reports, which are prepared by the U.S. Embassy in each country, cover labor-management relations, trade unions, employment and unemployment, wages and working conditions, labor and government, international labor activities, and other significant developments. A list of key labor indicators is also included. Contact the Office of Foreign Relations at (202) 523-6257.

**U.S. Department of Energy/Coal and Technology Export Program:** This program promotes the export of U.S. clean coal products and services by acting as an information source on coal and coal technologies. Contact the Office of Fossil Energy at (202) 586-7297.

**Small Business Administration/Export Information System (EIS):** EIS data reports provide specific product information on the top 25 world markets and market growth trends for the past five years. Contact the Office of International Trade at (202) 205-7264.

## GUIDANCE FOR BUSINESS TRAVELERS

**Documents Required:** A valid U.S. passport is necessary to enter and travel in Japan, and by law foreigners are required to carry their passports at all times. A visa is not needed for visits up to 90 days (with a round-trip air ticket) unless you plan to establish a business or work for a Japanese firm, in which case visa applications are available at the Japanese consulate nearest your U.S. residence. Immunization and health certificates are not required upon entrance. If you will be staying longer than 90 days, you must obtain an Alien Registration Card, available free of charge from the municipal office of the city or ward where you are temporarily residing in Japan.

**Arrival Procedures:** Upon arriving in Japan, your passage through both immigration and customs is usually automatic as long as your passport (and air ticket if arriving without a visa) is in order. An oral declaration of personal effects is all that is required unless you arrive by ship, have unaccompanied baggage, or bring articles exceeding the duty-free allowance. If you expect unaccompanied luggage to arrive after you, in order to be exempt from paying duty later, a declaration form should be filled out when you clear customs. The duty-free allowance is roughly \$1,400 (200,000 yen). You are allowed to carry up to two cartons of cigarettes, 2 ounces of perfume, and three 750 ml bottles of hard liquor into the country. Japan has very stringent regulations on admitting plants, vegetables, and other agricultural produce into the country. Since customs restrictions vary depending on country of origin, it is advisable to check before your departure with the Japanese Embassy or your nearest Japanese consulate. A few luggage carts are available at the airport, but elsewhere you must carry your own baggage. A few porters are available, but at principal rail stations only. Light packing is advised. You should exchange U.S. dollars for yen before leaving the airport, especially if you are arriving at night or on a Sunday. There is a currency exchange counter inside the customs area of Narita Airport (Tokyo).

**Business Hours:** Businesses usually operate Monday through Friday from 9:00 AM until 5:00 PM. Some may be open later on weekdays, and many are open until noon on Saturday. Banking hours are from 9:00 AM to 3:00 PM Monday through Friday. Most stores are open from 10:00 AM to 8:00 PM, except department stores which close between 6:00 PM and 7:00 PM. Restaurants are open from 11:30 AM to 10:00 PM. Family restaurants as well as coffee shops start serving at 10:00 AM or earlier. Bars and nightclubs open at around 5:00 PM. Public transportation is not available after midnight and taxis add an additional charge from 11:00 PM to 5:00 AM.

**Holidays:** In addition to the holidays listed below, Japanese firms and government offices observe year-end and New Years Holidays, December 29th through January 5th; and the Bon Festival, when many Japanese return to their hometown to honor the deceased, August 13th through the 16th:

January 1	New Year's Day
January 15	Adult's Day
February 11	National Foundation Day
March 21	Vernal Equinox Day
April 29	Greenery Day
May 3	Constitution Memorial Day
May 5	Children's Day
September 15	Respect-for-the-Aged
September 23	Autumnal Equinox Day
October 10	Health-Sports Day
November 3	Culture Day

November 23  
December 23

Labor Thanksgiving Day  
Emperor's Birthday

**Time:** Japan occupies only one time zone. Japan Standard Time, observed all year, is 14 hours ahead of U.S. Eastern Standard Time (13 hours during daylight savings time in the United States).

**Language:** The average Japanese person does not speak English with any fluency. Although some staff members at major hotels, department stores, and restaurants speak English, it should not be expected outside of these situations. While in the business environment English is becoming more widely used, you should hire an interpreter for important business meetings. The Japan Export Information Center or the Commercial Section of the U.S. Embassy can recommend a specialist agency to fit your needs. The fee for an interpreter varies from about \$230 to \$615 per day (30,000 yen to 80,000 yen) depending on ability. You should carefully screen applicants as there is no guarantee of quality.

**Climate:** Japan is characterized by a change of seasons. Summers are muggy and hot, with a rainy season that begins in June and continues until mid-July. The rainy season is followed by a period of clearer, hotter weather lasting almost without interruption until the stormy typhoon season in late August and September. In general, fall and winter are much drier than the spring and summer and little snow falls on the Pacific Ocean side of Japan's main island of Honshu. Spring is beautiful in Japan with cherry and plum blossoms in full bloom. Generally, the weather and climate in Tokyo is similar to that of Washington, D.C.

**Money:** There are no restrictions on the amount of money brought into or taken out of Japan. Coin denominations are 1, 5, 10, 50, 100, and 500 yen and paper denominations are 1000, 5000, and 10,000 yen. Most consumer transactions in Japan are in the form of cash. Travelers checks can be exchanged at major department stores, hotels, banks, and retail establishments. Credit cards are accepted at hotels, department stores, and many shops and restaurants. U.S. credit cards can also be used in cash-dispensing machines in some banks and department stores to obtain yen. It is safe to carry cash in Japan since there is a very low incidence of street crime. U.S. personal checks are not practical to use on short visits.

**Telephones:** Public telephones are available everywhere for domestic calls. Local calls are 10 yen per three minutes. International calls can be made inexpensively from designated public telephones available in major commercial areas. Also available and convenient are prepaid telephone cards at vending machines for use in public telephones. U.S. telephone operators can be reached for collect and credit card calls.

**Hotels:** World-class Western-style hotels are located in all major cities and many smaller cities. Hotels are more expensive in Japan but offer excellent service and many amenities. English is universally used in these hotels. Business persons contemplating a trip to Japan should make early reservations since space is limited. Smaller, less expensive "business hotels" are also an alternative. There is a tourist information office and a hotel reservation desk at Narita Airport (Tokyo).

**Transportation:** Japan maintains a clean, sophisticated, and efficient transit system. You can reach almost any location by using buses, subways, and taxis. The national and private railways are prompt and convenient, and the Tokyo routes can be navigated with a map and a little effort. Buses are more difficult because the routes are more complicated and the signs mostly in Japanese. If at all possible, it is best to avoid traveling at rush hour in Tokyo, as all modes of transportation are very crowded.

Tokyo train and subway systems are very convenient and relatively easy to understand; in fact, train lines are color coded. Commuter trains are well connected with long distance trains. Maps of the system are free of charge and are available at subway and train stations. Fares correspond to distance traveled, and most local fares can be purchased at vending machines. Wall maps located in the station identify destinations and related fares. If you are unsure of a fare, it is best to get the lowest fare and upon reaching your destination the ticket taker will inform you of the amount remaining. Subway and commuter train service usually ends at midnight.

Taxicabs are expensive but plentiful, and available around the clock. There is an extra fee added to your fare between 11:00 PM and 5:00 AM. Taxicab drivers rarely speak English. You may wish to have a clerk at your hotel write your destination on a slip of paper to show the driver. In any case if your destination is not well known you should carry a map with the location marked in Japanese. Do not open or close the passenger door of the cab -- it is controlled by a lever operated by the driver. Taxi drivers do not receive tips.

**Restaurants:** Water is perfectly safe to drink throughout Japan. Japanese hold cleanliness in high regard and even inexpensive coffee shops and restaurants are extremely well kept. A 10 percent tax is applied to bills over 2,000 yen, and a service fee of 10-15 percent is included in all hotel, nightclub, and restaurant bills. In Japan tipping is not customary.

There are many different types of restaurants in Japan, including hotel restaurants, fast-food, Western-style restaurants, Chinese, and of course specialized traditional Japanese restaurants. Hotel restaurants are usually very expensive. There are many chain and independently owned family restaurants in Japan where food is good and inexpensive. The lunch meal is the best value in eating out in Japan.

Upon entering a traditional Japanese restaurant or a Japanese home, shoes must be removed at the entrance and are replaced by slippers. These should be worn as long as the floor is plain wood; in the tatami (straw mat) area, slippers come off and you walk in stocking feet. When eating in Japanese restaurants, an attempt to use chopsticks will bring attention, approval, and even appreciation from waitresses and hosts. When offered sake, beer, or other drinks at a dinner party or in a club, the glass or cup should be lifted an inch or two from the table. The custom is that you fill your partner's glass or cup, not your own.

**Emergencies:** Throughout Japan, if police assistance is needed, dial 110. The police officer who answers the phone probably will not speak English; however, he or she will transfer you to someone who does. In the event of an accident or fire, dial 119 from anywhere in Japan. Pay phones usually have a red button which is a direct line to emergency assistance.

**Electrical Power:** Japanese electrical power is 100 volts alternating current. The frequency is 50 Hz in Tokyo, while in Nagoya and west of Nagoya (Kyoto and Osaka) the frequency is 60 Hz.

**Measures:** The metric system is used in Japan, and temperature readings are measured in centigrade.



## RELEVANT PUBLICATIONS

There are many English-language publications on Japan and Japanese business practices. The following is a bibliography of the publications that proved to be most useful in compiling this report and which are available through the contacts given:

**Government Printing Office:** The following publications are available from the U.S. Government Printing Office. To place an order, write or phone:

Superintendent of Documents  
Government Printing Office  
Washington, D.C. 20402-9325  
Phone: (202) 783-3238

A Basic Guide to Exporting. U.S. Department of Commerce, 1986. Includes information on exporting strategy, business operations, and the mechanics of exporting. (Stock Number 003-009-00487-0)

Japan: A Country Study (Area Handbook Series). Department of the Defense, 1982. An authoritative publication covering the history, culture, character, and structure of the economy, the political system, foreign relations, and national security.

National Negotiating Styles. Foreign Service Institute, U.S. Department of State, 1987. A handbook containing valuable tips on negotiating with the Japanese and other foreign nationalities.

1991 National Trade Estimate Report on Foreign Trade Barriers. Office of the United States Trade Representative, 1991. A comprehensive, country-by-country review outlining the basic trade issues confronting U.S. companies doing business overseas.

**U.S. Department of Commerce District Offices:** The following publication is available through your local U.S. Department of Commerce district office:

Country Marketing Plan (CMP), 1991. (Annual) Significant country data, best prospects and industry analysis, outline of the commercial and financial environment (including regional outlook), and barriers to trade. List of available market research and upcoming trade events also included.

**American Chamber of Commerce in Japan:** Selected publications available through the American Chamber of Commerce in Japan are listed below. Order forms and publications are available from:

The American Chamber of Commerce in Japan  
Fukide Bldg. No. 2, 7th Floor  
4-1-21 Toranomon  
Minato-ku, Tokyo 105, Japan  
Phone: 011-81-3-3433-5381  
Fax: 011-81-3-3436-1446

American Chamber of Commerce in Japan (ACCJ) Directory. ACCJ, 1991 (annual). A complete listing of more than 600 U.S. corporations and 2,000 individuals that are members and associates.

ACCJ Journal. A monthly magazine which contains timely articles about doing business in Japan. Concentrates on U.S. business activities and marketing principles which have been successful in Japan.

The Current Environment for Trade and Investment in Japan. ACCJ, 1991. A major study that evaluates the current climate for trade and investment in Japan and analyzes the key factors for success. Includes more than 30 detailed industry sector reports.

Employment Practices of American Companies in Japan. ACCJ, 1991. A thorough analysis of how American companies in Japan treat their employees, based on a survey of the employment practices of 204 ACCJ member firms. Covers employee relations, development and training, recruitment, personnel policies, and local trends.

Exporting to Japan. ACCJ, 1989. An excellent publication that discusses "rookie" mistakes in exporting to Japan that cost time and money. Gives the new exporter an immediate opportunity to benefit from the experience of others, while the veteran gets some helpful new tips as well.

Finding a Home in Tokyo. ACCJ, 1991. A practical guide for the newcomer through the bewildering world of Tokyo real estate.

Living in Japan. ACCJ, 1987. A guide for those who anticipate an assignment to Japan or have been recently relocated there.

United States-Japan Trade, White Paper. ACCJ, 1990. A sector-by-sector look at the current status of bilateral trade issues effecting U.S. companies in Japan. Industry background, current status, and recommendations are given and the U.S. and Japanese Government actions are highlighted.

**OCS America, Inc. Publications:** The following publications are available through OCS America (a worldwide publications distributor).

OCS America, Inc.  
Rm. 1186 Nat'l Press Bldg.  
14th Street & F Street, N.W.  
Washington, D.C. 20045  
Phone: (202) 347-4233

1991-92 Directory: Japanese-Affiliated Companies in the U.S.A. and Canada. Japan External Trade Organization (JETRO). A listing of major Japanese firms in the United States and Canada by state and product category.

The Japanese Market: A Compendium of Information for the Prospective Exporter -- 1991. Japan External Trade Organization. Contains information on the Japanese market, consumers, business practices, distribution system, labeling and marking, and import procedures.

Setting Up a Business in Japan: A Manual. Japan External Trade Organization, 1991. How-to guide to establishing an organization in Japan.

STEP: The Business Person's Guide to the Japanese Market. Japan External Trade Organization, 4 vol., 1990. Collection of four volumes which include successful market entry strategies, an introduction to Japan and sources of information, a directory of Japanese importers, and products

subject to tariff elimination and tax incentive programs.

Trade Procedure Guide for Export to Japan. Japan External Trade Organization, 1990. Answers questions regarding Japanese import system and procedures, import procedures for importing major items, standards, and how to sell products in the Japanese market.

**National Technical Information Service (NTIS):** NTIS, in cooperation with the U.S. Department of Commerce Japanese Technical Literature Program, offers a new Japanese directories series. Order forms and publications are available through:

U.S. Department of Commerce  
National Technical Information Service  
Springfield, VA 22161  
Phone: (703) 487-4650  
Fax: (703) 321-8547

Directory of Japanese Databases -- 1990. NTIS, 1989. Provides a description of 43 Japanese databases that are accessible from the United States.

Directory of Japanese Technical Reports 1990-1991. NTIS. Contains complete bibliographic citations (including abstracts) of Japanese reports that entered the NTIS collection during 1990-91.

Directory of Japanese Technical Resources in the United States -- 1991. NTIS, 1990. Contains an extensive listing of over 250 commercial services, government agencies, and libraries that acquire, translate, or disseminate Japanese technical information.

**Miscellaneous:** The following sources are also useful references:

Access Nippon: How to Succeed in Japan. Access Nippon, Inc., 1991 (annual). Includes information on the Japanese economy, business practices, getting along in Japan, specific Japanese industries, and corporate profiles. Contact: Access Nippon Inc., Yamaguchi Bldg., 2-8-5 Uchikanda, Chiyoda-ku Tokyo, 101 Japan. Fax: 011-81-3-3258-1487

Japan Company Handbook. Toyo Keizai, Inc. (quarterly). Provides a look at publicly traded Japanese companies. Company description, industry outlook, key financial and corporate data, and stock performance is given. Organized alphabetically by industry for fast reference. Published in two sections. Available through Toyo Keizai America Inc. Phone: (212) 949-6737 Fax: (212) 949-6648

Japan Economic Almanac. Nihon Keizai Shimbun, Inc., 1991 (annual). Overview of Japanese industry sectors, including a review of the year, information on the Japanese economy, and key trends. Lists key government agencies and officials, and business organizations and associations. Contact: Nihon Keizai Shimbun, Inc., 1221 Avenue of Americas, Suite 1802, New York, NY, 10020

JEI Reports. Japan Economic Institute (weekly). Cover various trade and economic issues and focus on one topic in-depth each week. Contact: Japan Economic Institute at (202) 296-5633.

Soft Landing in Japan: A Market Entry Handbook for U.S. Software Companies. American Electronics Association (AEA), 1990. A how-to source book for establishing a presence in the Japanese software market. Guide can be obtained by contacting AEA Infonet at (408) 987-4200.

**ARE YOU READY TO EXPORT TO JAPAN?**

Before your first sale, you should be prepared for all facets of your export business. How would you answer the following questions?

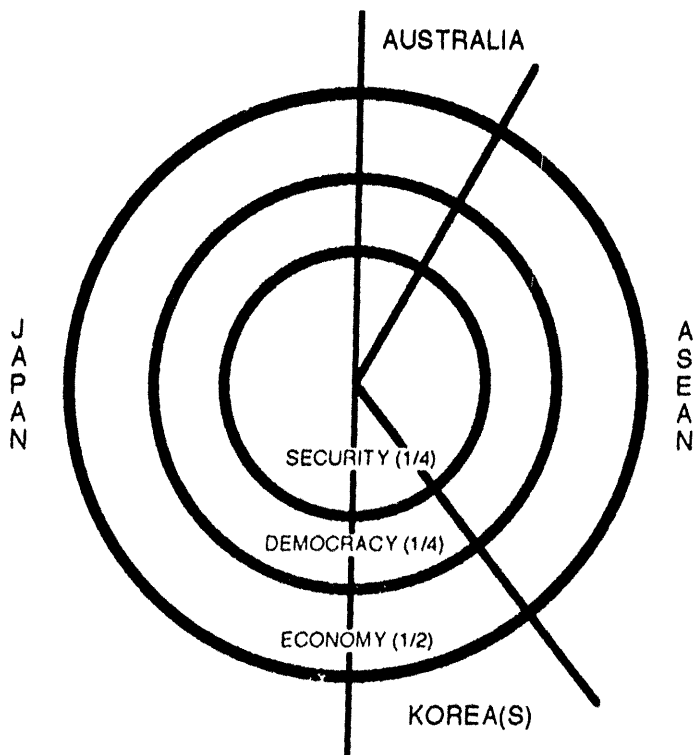
- (1) Have you selected a team of qualified export advisors? (accounting, tax and customs advisor, attorney, freight forwarder, banker)
- (2) Have you developed a master international marketing plan?
- (3) Do you have long-term commitment by top management to overcome the initial difficulties and financial requirements of exporting?
- (4) Have you carefully selected your Japanese distribution channel?
- (5) Have you researched the markets in one or two geographic areas in which to concentrate your initial export efforts?
- (6) Have you considered the international market potential for each of your products?
- (7) Do you intend to treat your Japanese distributors on an equal basis with their domestic counterparts?
- (8) Have you considered the Japanese market separately in designing your marketplace techniques?
- (9) Are you willing to modify products to meet Japanese regulations and/or cultural preferences?
- (10) Will you print service, sale, and warranty messages in the Japanese language?
- (11) Are you prepared to provide readily available after-sales service for the product?
- (12) Do you understand Japanese laws, culture, and business practices?
- (13) Are you prepared to file your patent and trademark applications in Japan?

If you answered "yes" to each of these questions, you should avoid the most common mistakes of potential exporters.

PREPARED STATEMENT OF ROBERT W. GALVIN

PART 1

**President's Pacific Trip Profile**  
(Emphasis Selected by Robert Galvin)

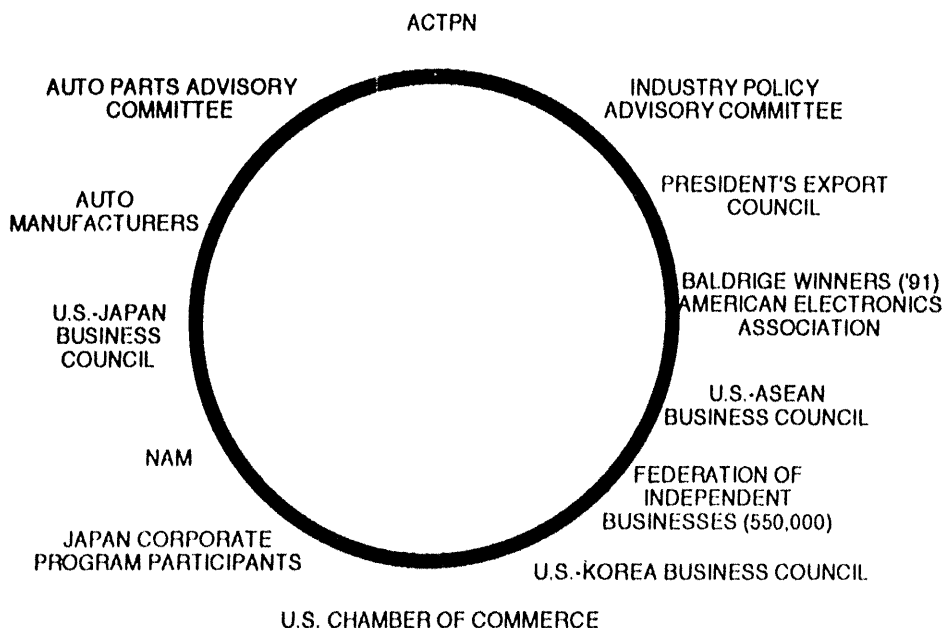


Security objectives - timely reassurances and new initiatives were well conceived and achieved.

Democracy advocacy was well conceived and received.

Economic objectives for Australia, Asean Region and Korea were properly prioritized, addressed and fulfilled with new initiatives conceived on the trip.

## PART 2

**Constituancy of U.S. Business Delegation**

The business delegates were appropriate and capable representatives of the broad spectrum of almost all American businesses.

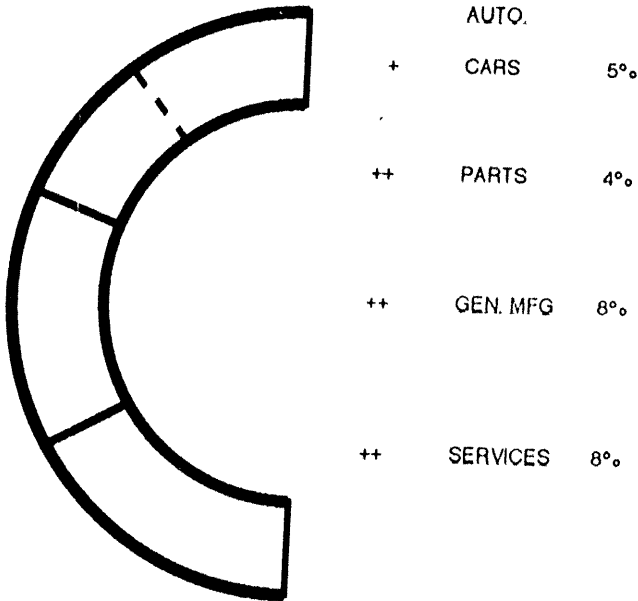
Each of the twenty-one contributed valuable insights and ideas before and during the trip to help shape and refine the thrust of the President's multi-faceted objectives and programs.

## PART 3

**Economic Issues: Japan Portion of the Trip**

Please note that I ascribe a weighting factor of 25 to Japan trade factors, out of the 100 total points of value of the trip.

Please note that the opportunities in Japan are diverse and are illustrated by weighting cars, auto parts, general manufacturing and services as illustrated.



The President has significantly and evidently elevated his personal dedication to support American business interests in Japan.

This will enhance the welcome support of State and Treasury on top of the strong support from USTR and Commerce.

The President conveyed clear and responsible messages to the Japanese re the lack of reasonable access to markets and his personal determination that substantial corrective, measurable results must be forthcoming promptly and continuously.

The above factors substantially strengthen the American hand.

Initial access and access-related agreements and processes were reached: (Our government negotiators served superbly. Credit should be given to certain Japanese companies and agencies whose response to the influence of this trip was positive.)

- high performance computers and services (government procurement)
- paper goods
- glass
- auto parts
- telecommunications
- financial markets
- semiconductor furtherance



- major projects
- standards, certification and testing
- Import Board strengthened

And additionally,

- SII furtherance
- GATT cooperation
- Global Partnership Agreement

The understanding of critical fundamentals that drive the process of market opening and market earning were driven home.

#### About the Japan Market

- True openings rarely occur without outside pressure and influence to pry a market open.
- Japanese customers expect and deserve satisfaction of all of their requirements.
- The Japanese professional buyer must reach out to deserving potential suppliers in cultivating partnering arrangements as American firms did with Japanese firms a generation ago.

### About the American Supplier

- Quality, delivery, etc. are paramount. The President properly conveyed a balanced representation of America, the supplier. Many, many American companies more than measure up today. The presence of Baldrige winners and others testified to that. At the same time, he acknowledged that all suppliers must always be willing to redouble efforts and thus can ably deserve a principal place at the supplier table.

### About an Added Process to Further Open and Expand Markets

- In addition to government-to-government negotiations on general factors and sector-specific opportunities, Private Sector-to-Private Sector discussions should (and will) be expected to move all parties to new levels of trade into Japanese markets. These have been, and can be, engaged in lawfully and in the broad interest of many industries with government's cognizance.

## PREPARED STATEMENT OF SENATOR CHARLES F. GRASSLEY

Thank you Mr. Chairman for calling this hearing today to discuss the results of the President's trip to Japan.

The trade relationship between our two countries is one of great concern to me since Japan holds the largest share of our world's global trade deficit. My first reaction is to lash out at the Japanese, however, I will reserve these comments for a later time and instead would like to address this matter in the context of a statement that was printed in a book written by Anthony Robbins. I believe the information contained in this statement has a great deal of relevance to the hearings today. Let me paraphrase from the book.

We have a set of false beliefs that are leading us down a road of economic frustration, and some say potential disaster. Our economy faces challenges in virtually every sector. For example, a March 1981 *Forbes* article describes two cars—the Chrysler-Plymouth Laser and the Mitsubishi Eclipse—and notes that Chrysler averaged only thirteen sales per dealership of their car while Mitsubishi averaged over 100! You may say, "what else is new?" The Japanese are beating the pants off the American companies in selling cars. But the unique thing about these two cars is that they're exactly the same—they were built in partnership between these two companies. The only difference between the laser and the eclipse is the name and the company who is selling it.

Research investigating the cause of the discrepancy in sales has shown that people want to buy Japanese cars because they believe they have greater quality. The problem in this case is that it's a false belief. The American company's car has the same quality because it is the very same car. Why would consumers believe this? Obviously, it's because the Japanese have created a reputation for quality, providing us with numerous references to back it up—even to the point where we no longer question its validity.

It may surprise you that the Japanese commitment to increasing quality is actually the result of an American export in the person of Dr. W. Edwards Deming. In 1850 this renowned quality control expert was brought to Japan by General MacArthur, who was frustrated with a war-ravaged Japanese industrial base where he couldn't even count on being able to complete a phone call. At the request of the Japanese union of scientists and engineers, Deming began to train the Japanese in his total quality-control principals. Deming taught the Japanese fourteenth principle and a basic core belief that is the foundation of virtually all decisions made in every successful, major, multinational Japanese corporation to this day. The core belief, simply, is this: *A constant, never-ending commitment to consistently increase the quality of their products in every aspect of their business every single day would give them the power to dominate the markets of the world.* Deming taught that quality was not just a matter of meeting a certain standard, but rather was a living, breathing process of never-ending improvement. If the Japanese would live by the principles that he taught, he promised them that within 5 years they would flood the world with quality products and within a decade or two become one of the world's dominant economic powers. The Japanese took him at his word, and today he is revered as the father of the "Japanese miracle." In fact, each year since 1950, the highest honor a Japanese company can receive is the national Deming prize.

In 1983 Ford Motor Company hired Dr. Deming to conduct a series of management seminars. One of the attendees was Donald Petersen, who would later become chairman of Ford and put Deming's principles into practice throughout the company. Petersen decided he needed Deming to turn the company around. Once Deming was brought in, he changed the traditional Western belief from, "how can we increase our volume and cut our costs?" to "How can we increase the quality of what we're doing and do it in such a way that quality would not cost more in the long term?" Ford reorganized its entire focus to make quality the top priority as reflected by their advertising slogan—quality if job No. 1—and by implementing Deming's systems, Ford within three years moved from a staggering deficit to the dominant industry position with a \$6 billion dollar profit.

How did they do it? They found that Americans' perception of Japanese quality, while frustrating, had much to teach them. Deming taught the members of the Ford team that quality always costs less. This was directly the opposite of what most people believed: That you could only achieve certain levels of quality before costs got out of hand.

The Japanese believed that quality costs less, that if they created a quality product they would not just have satisfied customers but loyal customers—customers who would be willing to wait in line and pay more for their product.

In Japanese businesses, as a result of Deming's influence, there is a word that is used constantly in discussions about business or relationships. The word is

"kaizen." This word literally means constant improvement. They often speak of the "kaizen" of their trade deficit, the "kaizen" of the production line, the "kaizen" of their personal relationships. The Japanese understand that tiny refinements made daily begin to create compounded enhancement at a level that most people would never dream of.

This belief was an American export—and maybe it's one we need to repatriate in order to change the direction of our economic future.

Having said all of this let me conclude with the following:

In view of recent figures showing an increasing trade deficit, we must carefully re-evaluate our trade policies. The Japanese have been extremely protectionist of their target industries until they reach a satisfactory level of export penetration. Japan has been somewhat willing to ease import restrictions, but I do not feel the Japanese Government has gone as far as it should in addressing specific trade grievances by western countries.

This Committee has had hearings that informed us that the Japanese economy is dominated by highly integrated and collusive economic structures, called keiretsus. These keiretsus include highly vertically integrated operations, in which all parts of the entire chain of production, from miners of the metal to the manufacturers of components to the retailers, are represented in an enterprise. They also include horizontally collusive arrangements among companies that produce the same product, such as auto manufacturers. The effect of such collusion can be the exercise of market power to allocate markets and control prices, which would harm both American and Japanese consumers and competitors.

We must recognize that Japanese investments differ greatly from the pattern of U.S. investment in Europe or of European investment in the United States, where the purpose is to gain market entry by acquiring or developing local ties for mutual investment flow between our two countries. In the case of Japan this same process is largely a one-way street. U.S. companies or real estate are sold to the Japanese, but the opposite rarely occurs. It is this non-reciprocation that is at the heart of the question about Japanese investment.

Japan has exported more than \$11 billion in auto parts to the United States during the past 2 years while allowing only \$840 million worth of U.S. parts into Japan. Testimony before this committee last October asserted the allegations of corporate income taxes being underpaid by Japanese companies operating in the United States. In 1987, Japan's transplants had U.S. revenue of \$182 billion and had only \$129 million in taxable income. If U.S. companies had such favorable tax treatment in Japan, I am sure that they would have little trouble in competing.

My preference is to actively seek to end foreign barriers to U.S. products. I am hopeful that through continued negotiations, we may effectively end foreign restrictions on U.S. goods, thereby stimulating domestic production. But, be assured I am not willing to see the United States worker suffer as a result of unfair trade policies.

And finally let me state for the record that I totally disagree with the Japanese Speaker of the House of Representatives when he stated that the reason for the U.S./Japan trade imbalance is inferior U.S. workers and the fact that U.S. workers are illiterate. Mr. Chairman I am not sure how to interpret this remark. When we make a negative comment about the Japanese trade deficit we're accused of Japan bashing or making a racial slur.

For this Senator I can say that I'm willing to wager our industrial and agricultural workforce with any in the world given a level playing field. I am also one Senator whose is tired of the Japanese renegeing failure to open their markets to U.S. goods, their failure to live up to bilateral negotiations and then finding the American workforce and our businesses as an easy excuse for not selling more to Japan.

It's time the Japanese incorporate the word "kaizen" into their trade relations with the United States. If not, Mr. Chairman, it may be time to find an English translation for "kaizen" in this market. A word that comes to mind is "closed."

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#### PREPARED STATEMENT OF SENATOR ORRIN G. HATCH

##### TRADE RETIRES PRESIDENTIAL LEADERSHIP

Mr. Chairman, the most important message coming out of the President's trip is the need for presidential leadership in trade and commerce. As the very nature of foreign policy alters from security to economic issues, presidents will have to adopt a lesson from the private sector: top management involvement makes things happen.

## TRIP ACCOMPLISHMENTS

I will be the first to say that the trip may have been too much of a media event—and that maybe the expectations of the American people had been unjustly raised. Keep in mind, that this was the *first* time a President ever led a trade mission. There was much to learn: that trade negotiations are not unlike research—they are continuous, technically profound, complex and take time. They are all the more difficult because they demand countries to make deep changes in customary and often cultural practices: witness EC protection of their automobile markets from Japanese penetration.

Besides alerting this country's leadership that trade must now rank high on the presidential agenda, there were several, impressive accomplishments:

—Access to both the computer software and hardware markets in the public and private sector will be expanded. At the national governmental level in Japan, U.S. penetration was less than one percent—although our private sector share is about 20 percent. I have heard from the computer industry. They are satisfied that the agreement to be today will offer open bidding and an established protest procedure for U.S. interests, will make a positive difference.

—A second area is paper. On October 16, 1991, this committee listened to the grievances of the American Paper Institute. Despite overwhelming price and other competitive advantages, U.S. access to the Japanese paper market was only 2.2 percent. Our market, by contrast, had 14.7 percent penetration. In March, we will sign a new agreement only if there are no limits on U.S. penetration in the Japanese market.

—And, there were other successes that we have heard about, or will, in the areas of agreement on standards and glass products.

Mr. Chairman, let me return to my theme of presidential leadership. I don't want to minimize the role of the trade negotiators. These accomplishments didn't just happen because the President decided to go to Japan. The groundwork had been laid by the USTR over many months of negotiations—the computer agreement took 18 months.

Even in the case of auto parts and auto sales, the Japanese Ministry of International Trade and Industry formed the "MITI Business Global Partnership" back in November to examine ways of opening the Japanese market to more American penetration.

## TRADE INEQUITIES REMAIN WITH JAPAN

Resolving the auto trade differences is not something that a presidential trip can summarily accomplish. As we know well on this committee, having sat through many hours of testimony on *keiretsu* and other Japanese business practices, the automobile issue is deeply enmeshed in the Japanese business culture.

But there is much more that we, both government and industry can and should do to improve our market access. I am not going to devote time to the issues of better worker education and training—everyone knows what we need to do.

Rather I want to state specific remedies that we can take, now.

## TWO FOUNDATIONAL APPROACHES

There are two framework approaches that we take in managing our trade disputes with the Japanese—and others. We are working to negotiate away the massive structure of barriers in place in Japan, to which the Japanese themselves routinely admit. And, we have put in place a number of statutory remedies that allow for unilateral challenges to unfair practices, involving both imports as well as our ability to export and invest abroad. Let me deal with the latter approach first.

The all-embracing Trade Act of 1988 has equipped our industries with two potentially powerful mechanisms: the so-called "Section 301" actions, which allow for an investigation of a broad category of unfair practices, for which the U.S. can unilaterally impose sanctions. In addition, the International Trade Commission, acting under Section 731 of the Tariff Act of 1930, can investigate dumping allegations on the basis of an industry petition. Both tools have been used quite effectively to leverage a change of behavior by foreign traders.

Still another and lesser used remedy has been our Antitrust laws. In my judgment, speaking as a member of the Judiciary Committee, this is a watershed that may hold some surprising capabilities.

## THE MINIVAN DUMPING CASE

Without going into extensive detail, the recent International Trade Commission preliminary ruling that Mazda and Toyota have dumped minivans in the U.S. suggests an opportunity for U.S. auto makers to unify and attack perceived unfair practices. On the strength of this Section 731 action, Chrysler and others were able to require that a bond be provided with each minivan exported by these companies. If the final determination, to be made this summer, agrees with the preliminary ruling, then duties will be imposed on minivan sales.

## SECTION 301 ACTIONS BY THE AUTO INDUSTRY

The U.S. auto industry has been less bold in using Section 301. The Auto Parts Advisory Committee (APEC), created by the Trade Act of 1988 to monitor unfair auto trade practices, has done little more than to try to get the USTR to "self-initiate" a Section 301 action, which the President's Export Council endorsed last September, but which the Administration determined to be "premature" in light of progress made in getting Japanese cooperation.

—My point is that, if the grievances have credibility, a Section 301 action must be brought by APAC. And I believe APAC has grounds for this action. After all, the so-called "two-way" street in auto parts trade in 1990 tallied \$10.3 billion in exports from Japan to the U.S. compared \$853 million the other way.

—Furthermore, Commerce Undersecretary J. Michael Farren has amply documented the virtual exclusion of U.S. replacement parts manufacturers from the Japanese market unless they have a contract for original equipment—components that are placed on the car when it is assembled—with a major Japanese manufacturer. Here, too, are added grounds for a Section 301 action.

As we know well, Section 301 has leveraged many changes—the most recent being the agreement with the Chinese on intellectual property protection, among other trade accomplishments with China. I would go on record saying that a Section 301 can usefully avert ugly trade wars. In the case of Japan, it has opened government procurements to all countries and has led to extended copyright protections for foreign materials.

## ANTITRUST ACTIONS NEED REVISITING

Late last year, this Committee heard a number of testimonies that bemoaned the absence of antitrust actions in behalf of parties injured by unfair trade practices, specifically those that emerge from *keiretsu* relationships.

I have considered such remedies and suggest that there is great potential. The laws, as they are now written, can limit the effect of Japanese buying cartels, that foreclose U.S. exports and suppliers to U.S.-based Japanese auto makers. There appeared to be little interest in the Justice Department in enforcing the antitrust laws because of an understanding that such laws applied to the domestic market, which tended to suggest that exporters need not apply. Justice has taken this position even though the Foreign Trade Antitrust Improvements Act of 1982 makes actionable any conduct that forecloses U.S. export competition. In my opinion, with prompting from Congress, Justice can be brought into the fold.

## THE ADMINISTRATION IS PROCEEDING PROPERLY IN DISMANTLING JAPANESE STRUCTURAL BARRIERS

**The President said during his trip that the former method of sector-by-sector talks was not good enough. A frontal assault on the Japanese business structure was needed, giving renewed life to the Structural Impediments Initiative (SII).**

In another forum, I have lamented the \$20,000-plus price tag on an American Chevrolet being sold in Japan. What caused the price difference? It was the inaccessibility of distribution channels and excessive inspection costs, which added over 30 percent to the car's price.

I have also criticized the outrageous price differences between auto parts sold in Japan, often 193 percent higher than those sold in the U.S., according to an International Trade Administration study. I am in complete agreement with APAC on this point.

On both counts, it makes more sense to me to eliminate these barriers, once and for all, than to negotiate a one-time, mandated sale of 120,000 U.S. vehicles to Japan.

The fundamental problem is that we can never do enough, quickly enough. But I am not unconvinced that we haven't already laid a groundwork for change, and

I am even less convinced that the automobile industry is unifying itself effectively to deploy and enforce the already established programs for dealing with unfair trade practices.

## PREPARED STATEMENT OF CARLA A. HILLS

### INTRODUCTION

Mr. Chairman and members of the Committee, it is a pleasure to appear before you to review the current state of U.S.-Japan trade relations.

I would like to talk about:

- The Administration's trade policy with respect to Japan and the achievements of that trade policy to date;
- The accomplishments of the President's recent trip to Japan in the context of our broader trade objectives with Japan; and
- The future directions for our trade negotiations with the Government of Japan.

### U.S.-JAPAN TRADE POLICY

The central objective of President Bush's trade policy has been to open markets, creating new export opportunities abroad and stimulating growth, jobs, and prosperity at home.

Since President Bush took office 36 months ago, a top goal of that policy has been to expand access to the world's second largest market economy: Japan. We seek to create an open and competitive climate in Japan where the decision to buy or sell is based on quality, price, and service, not on "keiretsu," collusion, or protective industrial policies.

If we are to have harmony between our two great nations, our entrepreneurs must be permitted to trade and invest in Japan as freely as Japanese entrepreneurs are able to trade and invest here in the United States. This was the message that the President delivered forcefully to Prime Minister Kaifu in their Palm Springs meeting and to Prime Minister Miyazawa in Tokyo earlier this month.

To create this parity of opportunity with Japan, the Administration has steadfastly pursued a comprehensive three-part plan of action, which includes:

- Eliminating barriers in specific sectors using all the leverage at our disposal, including our trade laws;
- Lowering economy-wide barriers through our Structural Impediments Initiative, or our SII talks; and
- Working hard in the Uruguay Round to negotiate strong and enforceable multilateral rules, lower tariffs, and increased access for U.S. goods and services.

### U.S.-JAPAN TRADE TRENDS

Our policy is paying off. The results are showing up on the profit statements and payrolls of America's competitive companies.

During the Bush Administration, U.S. exports to Japan have grown 10 times faster than U.S. imports from Japan. Exports to Japan have risen by 30 percent in the last 3 years, while U.S. imports from Japan have increased by just 3 percent. As a result, our trade deficit with Japan has declined by 18 percent since 1988.

Japan is currently our largest single buyer of agricultural products. Last year its purchases exceeded \$8 billion.

In the critical manufacturing sector, U.S. exports to Japan have been doing particularly well, growing 50 percent faster than overall U.S. exports to Japan. Over the past 3 years, U.S. exports of manufactured products to Japan have risen by 45 percent and exceed 30 billion. This compares to a 34 percent increase in U.S. manufactured exports to the world.

In 1990, American exports to Japan, which is our second largest export market after Canada, were greater than our exports to Germany, France and Italy combined. In fact, our exports to Japan are about 25 percent greater on a per capita basis than our exports to all of Europe.

This remarkable expansion of exports to Japan in a relatively short period of time has created an additional 200,000 export-related jobs. Globally, our exports have also done well; since 1988, export expansion overall has created 1.8 million U.S. export-related jobs. Without our strong export growth, the current downturn would be twice as deep.

We are encouraged by the fact our exports to Japan are growing. But there is still much work to be done. Japan's imports of manufactured goods are still roughly 4 percent of its GDP, whereas in the United States it is 7 percent, and in many European countries it is even higher.

The issue still remains: we must have better access to the Japanese market for U.S. exports of all kinds.

#### THE PRESIDENT'S MISSION TO JAPAN

It was in this context that the President embarked upon his mission to Japan earlier this month. It was a bold initiative in the Administration's continuing effort to address the disparity in access between our markets.

The President accomplished much during his visit, achieving increased access in:

- The \$9 billion public sector market for *computer hardware and services*. The U.S. computer industry projects the value of this market-opening agreement at between \$3.5 billion and \$5.5 billion annually by 1995.
- The \$65 billion *paper market* in Japan.
- The \$4 billion *glass market*, which our entrepreneurs describe as a highly concentrated and anticompetitive market.
- And, the *new car market*, which has been encumbered with standards and certification impediments, restrictions on the creation of dual dealerships, and excessive distribution and dealer markups.

The President was also able to:

- Obtain a pledge that Japanese car makers will increase the purchase of U.S.-made *auto parts* from \$9 billion to \$19 billion by 1994;
- Reach an agreement with the Japanese government on 49 *standards and certification* issues that have curtailed our exports of cosmetics, processed foods, pharmaceuticals, chemicals and industrial machinery—markets in Japan collectively valued at more than \$23 billion annually; and
- Reach agreement with the Japanese Government to reinvigorate the *Structural Impediments Initiative* by undertaking new commitments.

No single visit to, and no single agreement with, Japan is alone going to open the Japanese market as much as we seek. But, as noted by a number of companies and trade associations, the President's recent initiative was a real success, because as the President said upon his return at Andrews Air Force Base: "We accelerated the opening of more Japanese markets to our exports."

Because of the President's effort in Tokyo, American firms and American workers today can expect billions of dollars of increased exports to Japan. And, as we know, for each \$1 billion in additional exports, roughly 20,000 new jobs are created.

Still, some urge us to enter market-share agreements with Japan or to limit its sales here. But such actions seek to manage our trade or impose protections which will only decrease our export opportunities and, hence, our jobs.

Neither will solve our difficulties. Managed trade merely sets ceilings on what U.S. compares can achieve, not floors from which they can grow. And, it invites similar action against us from our partners with whom we maintain a trade surplus.

As for protectionism, it is, as Milton Friedman has said, "A really good label for a bad cause." Protectionism only hurts those it is supposed to help. It stifles innovation by insulating producers from the competitive global marketplace, at the same time it taxes consumers, disproportionately lower income consumers, by raising prices and reducing choices.

#### PRESIDENT'S MISSION PART OF CONTINUING EFFORT

The only sure way to open Japan's markets is with steady, persistent pressure—the precise strategy the President has employed for 3 years. The President's mission was another step in that ongoing effort.

We sometimes forget how much concrete progress has been made. Some of the agreements since the President took office include:

- Under a June 1990 agreement, Japan opened its government procurement of *satellites* resulting in a \$600 million contract for a U.S. firm.
- Japanese government purchases of *supercomputers* were opened to U.S. firms as the result of a June 1990 agreement guaranteeing fair competition based on price and performance. U.S. makers have won three out of eight new contracts since the agreement compared to two out of 43 in the previous 4 years.



- In June 1990, the United States reached an agreement that opened Japan's market for *wood products*. It is expected to result in increased U.S. exports to Japan of \$1 billion or more annually.
- Access to the Japanese *telecommunications* market was expanded under a 1989 cellular telephone agreement, two 1990 services and equipment agreements, and a 1991 services agreement. Since 1988, U.S. telecommunications exports to Japan have increased 180 percent to about \$735 million in 1991.
- The United States and Japan implemented a new *semiconductor* arrangement in August 1991; U.S. semiconductor sales in Japan now total nearly \$2.4 billion annually compared with just \$920 million in 1986.
- The 1991 *Major Projects Arrangement on Construction* contains a list of 17 major construction projects valued at \$6.4 billion to be covered by special measures that facilitate foreign access, with the potential addition of six more worth \$20 billion to be added in 1992. Since 1988, U.S. firms have won \$375 million in contracts, versus almost none previously.
- And, through the *SII* process, Japan has made specific commitments to increase investments in public sector infrastructure, more vigorously enforce its antimonopoly laws, liberalize the retail sector, and increase shareholder rights, among others. All of these changes in Japan are making it easier for U.S. firms to operate and sell in Japan. For example, the SII process resulted in the end of onerous Japanese restrictions on the establishment of large retail stores, and enabled Toys R Us to open last December to record sales.

#### THE FUTURE OF U.S.-JAPAN TRADE RELATIONS

I have focused the majority of my testimony on our bilateral relationship with Japan. But another important avenue for increasing access to the Japanese market is to bring the Uruguay Round of global trade talks to a successful conclusion. Our bilateral agenda with Japan should be facilitated by agreements concluded in the Round covering the broad range of U.S. interests—agriculture, market access, services, investment, intellectual property and strengthening of the rules, including those related to unfair trade practices.

President Bush used the opportunity of his visit to Japan to engage Prime Minister Miyazawa on developments in the Uruguay Round, and the need for Japan to exercise its leadership in concluding these important negotiations. This is clearly reflected in the Tokyo Declaration that resulted from the trip, as is the fact that we have much work ahead of us to complete the Round.

#### CONCLUSION

The importance of the Round to our bilateral relationship underscores the fact that the U.S.-Japan relationship has profound implications for global prosperity in this decade and the 21st century. We are at a pivotal moment in history that requires that the United States and Japan go beyond interdependence and achieve real partnership.

The permanence of the amazing political and economic reform we are witnessing around the world depends in significant part on cooperative action by the United States and Japan. As the world's two biggest economies, we play a critical role by keeping our markets open.

We must find ways to dispel antagonism on both sides of the Pacific and to work constructively to build a truly free and open global trading system. A true economic and political partnership between the United States and Japan, each with open markets, can be a unifying force for the world and an engine of growth for our global economy, as well as our own.

#### APPENDIX.—ACCOMPLISHMENTS OF TRADE NEGOTIATIONS WITH JAPAN DURING THE BUSH ADMINISTRATION

##### RESULTS OF THE PRESIDENT'S TRIP TO JAPAN

I am pleased with the many accomplishments of the President's trip to Japan. President Bush furthered our trade objectives in all three of the areas I outlined above as forming the basis for our trade negotiations with Japan.

##### *Multilateral Trade Issues*

On the multilateral front, as a result of the President's trip, Japan renewed its commitment to the Uruguay Round and the process established by Director General Dunkel to conclude the Round. Both sides recognized that final agreement would have to include substantial benefits in market access for goods and services. We will

build on the President's discussions in our negotiations with Japan on all the remaining issues in the Round.

### *Structural Impediments*

The President and Prime Minister Miyazawa also agreed to reinvigorate the Structural Impediments Initiative by undertaking new commitments to address issues affecting the business environments of our countries. SII is our broadest bilateral initiative, and we believe this agreement to add new commitments to \$11 is an important step to ensure that \$11 remains a dynamic process, capable of addressing problems that become apparent over time. As noted above, \$11 principals are planning to meet shortly, in February, to discuss specific measures that each government will undertake.

The President's trip also furthered our efforts to remove structural impediments to U.S. exports in a number of specific ways. As I mentioned earlier, one of our priorities in the \$11 talks is eliminating exclusionary Japanese business practices. I am pleased with some of the progress that was made in this area earlier this month. For example, the Japan Fair Trade Commission has agreed to undertake investigations in four sectors from a competition perspective: autos, auto parts, paper, and glass. These are all sectors in which we have been concerned about anti-competitive practices in Japan, and for which we have been pressing for some time for JFTC investigations. Such investigations should help to bring about effective enforcement of Japan's Antimonopoly Act.

### *Voluntary Announcements by Japanese Corporations*

I am also encouraged by the voluntary announcements by individual Japanese corporations of their intentions to increase imports as well as local sourcing by transplants producing outside of Japan.

One of our priorities in our \$15 negotiations has been opening up Japanese corporate procurement to competitive products from U.S. firms. Corporate procurement has, frankly, been a tough nut to crack because the tendency for Japanese manufacturers to source inputs from traditional Japanese suppliers stems from a variety of cultural and historical factors, not usually government policies and practices *per se*.

We welcomed MITI's Business Global Partnership program when it was unveiled last fall, and we welcome the announcements of the Japanese private sector of their plans to increase imports and local sourcing.

- Eighty-eight Japanese corporations and 22 Japanese trade associations have expressed their support for increasing imports under MITI's Business Global Partnership initiative, a program that was unveiled just two short months ago, during my trip to Tokyo.
- So far, 23 Japanese companies in the electronics, auto, and machinery industries have announced their plans to increase their imports by \$10 billion by 1993. More such announcements are expected in the coming months.

These voluntary plans are public statements of intent by major Japanese companies. As such, they reflect a recognition that Japanese corporations must do more to ensure that the Japanese corporate market place is open to competitive foreign products. We shall of course be following trends very closely to see if these plans have the desired effect of opening up corporate procurement to competitive foreign products.

### *New Bilateral Agreement*

Among the most significant accomplishments of the President's trip, in my view, was the initialing of an agreement on measures Japanese government entities would follow when procuring computer products and services, a sector in which U.S. firms are extremely competitive, both in Japan and globally.

The new agreement contains significant procedural improvements, including requirements that foreign and domestic suppliers be accorded equal access to pre-bid information; improved transparency; and the institution of an impartial bid protest mechanism. It also explicitly states that the new measures will be adopted with the "aim of expanding procurements of competitive foreign computer products and services" by Japanese government entities. As part of this agreement, the Government of Japan also confirmed that it would take actions to eliminate or prevent anti-competitive behavior relating to the distribution of computer goods and services in the private sector.

The U.S. computer industry has done fairly well in the Japanese private sector; we believe the new agreement will help make cash registers ring for U.S. computer firms marketing to the Japanese public sector. We have opened up a public sector market for computer products and services of \$9 billion that is expected to grow to

nearly \$16 billion by 1995; our current sales in this arena are only about \$500 million. The U.S. private sector has placed the potential value of the agreement to foreign computer manufacturers at \$3.5–5.5 billion for 1995 projected market size.

#### *Other Sectoral Achievements*

We achieved significant results in other sectors as well.

- In the *paper* sector, a \$65 billion market in Japan, the Japanese Government has agreed to formulate measures to increase access for U.S. firms by the end of March.
- In the *glass* sector, a \$4 billion market that is highly concentrated and has a history of anticompetitive practices, the Japanese government agreed to encourage Japanese glass users to increase imports, and committed to facilitate sales efforts by foreign producers.
- In *legal services*, the Government of Japan recognized the role lawyers play in international transactions and indicated that it would redouble its efforts to resolve impediments to the provision of legal services in Japan by foreign attorneys. Clearly, more needs to be done. Nonetheless, this was an important public affirmation.
- On *semiconductors*, both governments reaffirmed their commitment to make further efforts for increased market access for foreign semiconductor producers under the 1991 Semiconductor Arrangement.
- On *auto parts*, Japanese automakers voluntarily committed to increase their purchases of U.S. auto parts, from \$9 billion in 1990 to \$19 billion in 1994. They stated their intention to increase imports from \$2 billion in 1990 to \$4 billion in 1994, and to increase local procurements by transplants in the United States from \$7 billion in 1990 to \$15 billion in 1994.
- On *finished vehicles*, the Japanese government resolved most of the 14 automotive standards and certification issues which the U.S. industry has identified as problematic; U.S. automakers had previously identified standards and certification requirements as significant impediments to their sales in the Japanese market. The Japanese automobile dealers' associations publicly confirmed their willingness to sell U.S. automobiles in their existing dealerships, a move which could reduce significantly the costs of U.S.-made cars in the Japanese market.

#### *Other Trade-Related Accomplishments*

There are other significant accomplishments of the President's trip with respect to our trade relationship with Japan that should not be overlooked.

- Prime Minister Miyazawa pledged that the Government of Japan would submit to the Japanese Diet a budget for 1992 and a fiscal investment and loan program aimed at strengthening domestic demand, and hence imports, by increasing public investment.
- The Japanese Government took steps to expand government procurement opportunities open to foreign bidders, which should double the value of contracts open to foreign bidders, bringing it to about \$6.3 billion.
- Further, we resolved 49 non-automotive standards problems impeding U.S. sales of processed foods, cosmetics, industrial equipment, transport machinery, pharmaceuticals, and medical devices. For the U.S. exporters concerned, these standards have in many cases been the single greatest impediment to their access to the Japanese market.

#### OTHER ACCOMPLISHMENTS TO DATE

Prior to the President's trip, this Administration reached a significant number of other market-opening agreements with the Japanese.

#### *Telecommunications*

We have signed four separate agreements with the Japanese in this sector over the past 3 years.

- In June 1989, we signed an agreement on cellular telephones and third party radio which improved foreign firms' access to Japan's rapidly growing mobile communications market.
- In July 1990, the United States and Japan reached agreement to liberalize Japanese regulations governing both advanced telecommunications services—international value-added network services (IVANS)—and network channel terminating equipment (NCTE).

—On the services side, the IVANS agreement committed Japan to streamline the process for U.S. firms to enter its market for such services as voice mail and electronic banking, and provided for private intracorporate communications networks between Japan and the United States. It also eliminated a burdensome surcharge often placed on U.S. firms by Japan's telecommunications carriers.

—On the equipment side, the NCTE agreement opened Japan's market for devices that make computers and other office equipment compatible with a digital telephone network. Previously, U.S. manufacturers of this equipment had been permitted to sell only to Japan's telecommunications carriers, which have traditionally bought almost exclusively from Japanese firms.

- In June 1991, we concluded further negotiations that established transparent procedures for a complaint mechanism that will ensure that Japanese carriers cannot use unsubstantiated allegations of prohibited resale of leased circuits by U.S. firms to deny service to those firms.

**U. S. exports of telecommunications products to Japan have grown by 180 percent since 1988, and last year are estimated to have reached \$735 million.**

#### *Supercomputers*

In June 1990, I exchanged letters with the Japanese Ambassador to the United States confirming that the Japanese Government would require government entities purchasing supercomputers to follow open, competitive, and transparent procurement procedures. This agreement committed the Government of Japan to eliminate bids incorporating deep discounts; outlined technical factors to be used in evaluating supercomputer bids; required procuring entities to evaluate bids on the basis of overall price and performance; and established anew complaint resolution mechanism to resolve procurement disputes.

**As a result of the 1990 supercomputer agreement, the first award ever made to a U. S. company under open competition occurred in August 1990. Since June 1990, U.S. firms have won three out of the eight contracts that have been awarded; prior to the agreement, U.S. firms had made only two sales out of 43 bids awarded.**

#### *Satellites*

In June 1990, I also exchanged letters with the Japanese Ambassador that opened the Japanese government market for non-R&D satellites to foreign suppliers. The Japanese Government specified detailed new procedures for the procurement of satellites by government-controlled entities that required purchasing agencies to follow open, transparent and non-discriminatory procurement procedures. As with the supercomputer agreement, the satellites agreement also established a new procedure for the resolution of disputes arising from the bidding process.

**The first satellite procurement awarded since the 1990 agreement was made in December 1991 to a U.S. firm. The procurement, which was for two communications satellites, is valued at approximately \$600 million.**

#### *Wood Products*

We reached a third agreement in June 1990 as well, which opened the Japanese market to imports of processed wood products and expanded Japanese demand for such products. The agreement included commitments in the areas of tariff classification, tariffs, product standards, and building code standards.

**The U.S. industry estimates that full implementation of the agreement should result in about \$1 billion annually in increased U. S. exports to Japan of processed wood products.**

#### *Construction*

Last July, Ambassador Murata and Secretary Mosbacher signed the 1991 Construction Major Projects Arrangement, which significantly expanded the scope of our 1988 agreement on major Japanese government construction projects. USTR was actively involved in all stages of this agreement. The new agreement stipulated that competition in all Japanese public works projects would be open, transparent, and nondiscriminatory; it also contained a new list of 17 additional construction projects to be covered by special measures that facilitate foreign access, with six more projects that may be added later this year. This brings to a total of 40 the number of projects covered by such special measures. The 1991 accord also instituted a new procedure for independent review of complaints submitted by U.S. firms.

Since 1988, U.S. firms have won at least \$375 million in contracts to provide construction services to the Japanese public sector; prior to the first Construction MPA, U.S. firms had virtually no access to the public works market in Japan. The 1991 Arrangement improved foreign access to \$26 billion in Japanese public works projects.

#### *Semiconductors*

We concluded a new bilateral Semiconductor arrangement last summer as well, which took effect August 1. The new arrangement provides for continued improvement in foreign access to the Japanese semiconductor market. For example, it calls for the Japanese Government to promote long-term relationships between Japanese semiconductor users and foreign semiconductor producers. It also contains provisions to deter dumping of Japanese semiconductors in the U.S. market. The arrangement recognizes the U.S. semiconductor industry's expectation that foreign market share should grow to more than 20 percent by the end of this year as a desirable, and attainable, goal.

Sales by U.S. semiconductor companies to Japan rose from \$920 million in 1986 to nearly \$2.4 billion last year. The foreign share of the Japanese semiconductor market, which was just 9 percent in 1986, was calculated for the third quarter of 1991 to be 14.3 percent.

#### *Amorphous Metals*

Our two governments reached an understanding in September 1990 that required Japanese utilities to evaluate bids using standards similar to those applied by U.S. utilities in purchasing transformers. It also committed Japanese utilities to buy from Japanese transformer manufacturers 32,000 amorphous metal transformers produced using materials purchased from the United States.

**Japanese utilities are now ahead of schedule in purchasing amorphous metal transformers.**

#### *The Structural Impediments Initiative*

There have already been a number of notable developments from SII. Indeed, we can point to perhaps 20 or so changes already in Japanese law or practice that would clearly not have occurred but for SII. For example:

- Japanese law was amended to provide that large retail stores can be established in no longer than 12 months and more than one thousand new stores have applied for permits. Toys R' Us has been an important U.S. beneficiary of the amended law and has already opened two stores in Japan and plans more than 100 by the end of the century.
- The government has introduced disclosure requirements that now require firms to show who is doing business with whom, and has improved its enforcement of Japan's Antimonopoly Act.
- Expenditures in public infrastructure related to imports have increased. Expenditures on personnel have increased in areas that are important to the United States, and which are as diverse as customs, the JFTC, and patents.

## SUBMITTED BY SENATOR BOB PACKWOOD

STATEMENT OF WILLIAM DAVIDSON,  
PRESIDENT AND CHIEF EXECUTIVE OFFICER,  
GUARDIAN INDUSTRIES CORP.

In more than 30 nations, on nearly every continent, Guardian Industries is a highly competitive American manufacturer of advanced flat glass products -- the types of glass used in the architectural, construction and automotive industries. Our company has successfully taken a winning formula of high-quality, low prices, superior service and technological innovation and become a significant participant in nearly every major international glass market. Guardian is accustomed to the challenge of entering new foreign markets. We have gained a significant share of highly developed North American and European markets and have rapidly grown to become the world's fifth largest producer of flat glass. Our record of achievement in adapting to the special demands of manufacturing and selling our products in places as diverse as South America, Southeast Asia, and Eastern Europe, is second to none.

We are proud of our reputation as an aggressive, low-cost producer of high-quality products. We are also proud of our reputation as a company that is tenacious and not that is intimidated by entrenched glass competitors. Guardian's efforts to enter foreign markets have not always met with immediate success. Members of this committee are well aware of the very serious market barriers we have encountered close to home -- in Mexico, where a single producer dominates the market, does not welcome new entrants in their home market, and generally favors a one way free trade agreement in flat glass.

Yet experienced as we are in entering foreign markets, nothing had prepared us for the situation we are currently confronting in Japan -- a rapidly growing \$4 billion a year glass market that is tightly closed to unwanted imports, yet is a market that we must enter successfully if we are to remain a world leader in the glass industry.

Eight years ago, the Japan Fair Trade Commission characterized its flat glass industry as one of the four "major oligopolistic industries" in Japan, and concluded that it remained "in a high state of oligopoly". Nothing has changed. The Japanese market is controlled entirely by three companies:

Asahi Glass (50 percent market share); Nippon Sheet Glass (30 percent market share); and Central Glass (20 percent market share). This cozy allocation of market share has remained constant since the early 1950s. Not surprisingly, the lack of competition in this market has enabled Japanese manufacturers to charge exorbitant domestic prices, sometimes even as much as triple the price in comparable international markets, thereby generating artificially high profits that are being used to finance acquisition of market share around the world, including the U.S.

Guardian, as well as other U.S. flat glass producers, are capable of supplying the highest quality flat glass to Japanese customers on a cost effective basis. In fact, most of the technological innovation in our industry in recent years has come from U.S. manufacturers seeking comparative advantage in a very competitive U.S. market. However, the "keiretsu" networks of close alliances between manufacturers, fabricators, distributors, and customers, as well as exclusionary business practices, continue to keep foreign competition out of the Japanese market.

During the past two years, we have met many prospective Japanese customers who privately expressed their desire for a more competitive glass market in Japan, but they are understandably intimidated by the market power of the Japanese producers. The methods used for barring unwanted imports vary, but include: a closed distribution system; exclusionary business practices; and antiquated building codes. The closed distribution system represents probably the greatest barrier to competition. Of the nearly 400 distributors of flat glass in Japan, only four will handle imported glass, and they operate at the very low end of the market. Each of the Japanese producers possesses its own network of exclusive distributors, cutters, and fabricators. None will do business with another glass supplier. Since nearly all of the existing distributors are exclusive to or controlled by one of the domestic manufacturers, a new entrant has no choice but to create or develop its own distribution network. Yet attempts to do so have been handicapped by exclusionary business practices. Many potential customers have been quite forthright in explaining to Guardian their susceptibility to retaliation from, and in many cases explicitly threatened by, the Japanese domestic manufacturers. Such exclusionary business practices include: refusal to sell glass products that cannot be made up through imports; refusal to buy products from the customer or its sister companies; use of keiretsu relationships to threaten the supply of vital raw materials; and predatory pricing.

Not long ago, Guardian received a letter from a potential Japanese customer stating that it regretted not being able to buy Guardian's glass, despite the good price and quality, because Japanese glass manufacturers were threatening to cut off its essential supplies if it purchased Guardian glass. In another case, a trial order was canceled after an official from one of the Japanese glass manufacturers threatened retaliation. These are typical of the many examples of anti-competitive practices the Japanese manufacturers employ to block unwanted imports.

Yet while competitive U.S. flat glass manufacturers are excluded from the Japanese market, Japanese manufacturers continue to enjoy unrestricted access to the U.S. glass market, mainly through acquisitions. Asahi Glass, for example, already owns at least 20 percent of AFG Industries, one of the largest U.S. producers, and has an option to acquire majority control of the company in March of 1993. This would give Asahi alone 20 percent of the North American flat glass market. In addition, Nippon Sheet Glass shares ownership of another major U.S. glass manufacturer, LOP, with the British company, Pilkington.

The Japanese glass manufacturers ability to generate excessive profits in their closed home market permits them to fund such acquisition of market share not only in the U.S., but throughout the world, and to significantly undercut U.S. competition in third country markets. Meaningful access to the Japanese glass market, therefore, is critical for the future competitiveness and survival of the U.S. flat glass industry.

For this reason, Guardian has been working to establish a beachhead in the Japanese market. Yet our efforts have demonstrated that no foreign company, no matter how competitive, will be able to succeed in Japan without the strong intervention of the Japanese government. For this reason, President Bush sought and obtained specific commitments from the Japanese government that, if implemented, should result in a structural change in the Japanese flat glass market and opportunities for competitive U.S. manufacturers. These commitments include:

- A commitment to implement an anti-monopoly compliance program that will ensure that the distribution system is opened up to competitive foreign glass manufacturers;



- A commitment to ensure that building codes that act as non-tariff barriers will be revised so that they do not discriminate against foreign manufacturers;
- A commitment that the Japan Fair Trade Commission will conduct a comprehensive investigation of anti-competitive conditions in the Japanese flat glass industry; and
- A commitment to work with U.S. government officials in monitoring real progress that will be measured in terms of growing market share of U.S. companies in the Japanese flat glass market.

Guardian regards these commitments as a major breakthrough for U.S. flat glass producers that, frankly, could not have been achieved without Presidential attention. The agreement is the result of serious and unflagging work undertaken by U.S. negotiators in confronting the market access issue with their Japanese counterparts in the months and days leading up to the President's visit, culminating in the President's personal intervention with the Prime Minister. For this success, the Administration deserves unqualified praise from the U.S. flat glass industry.

The agreements the President brought back from Japan on the glass issue, however, must translate into real business opportunities. This will only happen if there is a vigorous follow up, not only by companies like Guardian, but by the U.S. and Japanese governments. It is absolutely essential that U.S. government closely monitor real progress measured in terms of market share for U.S. companies and continue to pressure the Japanese government to ensure real competition in the Japanese market. Without a sustained effort on the part of the Japanese government to open their market, it will be impossible for even the most competitive U.S. company to succeed.

For our part, Guardian remains committed to do whatever it takes to succeed in the Japanese market. Given the opportunity to compete fairly, there is no reason why we should not achieve the same level of market share we have gained elsewhere in the world. Today we believe we are the most efficient and most competitive producer of flat glass products in the world. Ten years from now, this will not be the case unless we are able to compete fairly in the Japanese market. We cannot ignore the largest single country market in the world after the United States simply because

it is too difficult to penetrate. Nor can we continue to allow our most potent worldwide competitors to use their home market as a profit sanctuary to fund their expansion into our markets elsewhere in the world. Unless we succeed in Japan, not only Guardian, but the rest of the U.S. flat glass industry will lose its ability to compete effectively with the Japanese around the world. Based on the commitments made during President Bush's visit, we have stepped up our commitment of financial and human resources to penetrate the Japanese glass market.

The agreement the President was able to achieve on our behalf has given us an opportunity, for which we are grateful. But it is only the beginning of a long process that will require continual U.S. and Japanese government attention. We urge this Committee to strongly support the administration in monitoring the Japanese government's implementation of the commitments made during President Bush's recent visit.

Thank you.



GENERAL MOTORS CORPORATION  
 General Motors Building, Detroit, Michigan 48202

*Autos*

NEWS

*G.M. Chairman Robert Stempel*

For Release 8:25 P.M. (EST) SUNDAY, JANUARY 12, 1992 Contact: Jim Crellin  
 313/556-2027

DETROIT — The most significant change signaled by President Bush's visit to Japan with U.S. business leaders is a new era of government-business cooperation, General Motors Chairman Robert C. Stempel said today.

"We started a meaningful process in Japan, and we mean to follow up on it," Mr. Stempel said at the kickoff dinner for the annual Automotive News World Congress.

"For the first time, Japan saw the power of a joint U.S. government-industry initiative," Mr. Stempel said. "It was a change and they knew it. For a long time, Japan has depended on the U.S. government to keep U.S. business 'in line' while Japan, Incorporated, expanded.

"This time, the Department of Commerce got it right. They understand — as the Japanese have long understood — that a thriving, vital automobile industry is essential to a thriving, vital national economy."

Despite public debate over the value of the Japan trip, Mr. Stempel said that if it "accomplished nothing other than to raise political and public awareness of the importance of a viable auto industry and a correspondingly strong industrial base in this country, then I can tell you it was an outstanding success.

"If enough of the American public say to themselves, 'Hey, one of seven jobs in this country is dependent on our auto industry. Where are the jobs going to be in the future?', then all the effort was worthwhile. And if enough U.S. consumers take the time to check the outstanding, world-class products being offered by the domestic manufacturers, I am confident that GM

-- more --

will continue its more than 50 years of leadership as the number-one producer of vehicles in the world."

"The one thing I know the trip accomplished was to strengthen the ties between American government and American business," Mr. Stempel emphasized.

He credited President Bush and Department of Commerce Secretary Robert A. Mosbacher for providing the initiative to further open up international trade, changing the image of American goods and services and demonstrating that the U.S. has high-quality, high-value products to help reduce the chronic imbalance of trade between the U.S. and Japan.

He said the term "open market" has a different meaning in the U.S. than it does in Japan.

"In the U.S. open market, 36 percent of the vehicles sold are imported," he said. "In what the Japanese call an 'open market,' three percent of the vehicles are imports."

Mr. Stempel said the number of companies competing for a share of the world automotive market is large and growing, but he expressed confidence that U.S. auto manufacturers now have products equal to or better than foreign manufacturers.

He stressed that the American automobile industry is the leader in fuel economy, and that today "the difference in quality among cars is not an issue."

"We don't have to ask the American public to prove their loyalty by buying American products," Mr. Stempel said. "We don't have to ask them to buy our cars or trucks because they feel sorry for us. We don't have to ask them to buy out of a sense of patriotism or pity. We want them to buy our products because they have high quality and high value."

\* \* \*

JAN-23-1992 10:01 FROM

Auto Parts TO

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**News  
Release**


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**APAC**
**Auto  
Parts  
Advisory  
Committee**


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**Contact:**      Tenneco Automotive  
                  Tom Oakley                    708/940-6080  
                  Paul Johnson                    708/940-6140

**AUTO PARTS GROUP SUPPORTS  
JAPANESE TRADE AGREEMENT**

WASHINGTON D.C., January 16, 1992...The Auto Parts Advisory Committee (APAC) today indicated support for the announced increased efforts by Japanese vehicle producers to procure parts from traditional U.S. suppliers. "The \$19 billion target included in last week's agreement is a positive starting point," according to Jack Reilly, APAC chairman, who accompanied President Bush on the trade mission. He also emphasized the importance of ongoing government and business sector talks which will "insure that the momentum of this historic week will accelerate and expand."

Reilly, President and CEO of Tenneco Automotive, had high praise for what he called "the President's clear commitment to market access in a new era of free, fair, and open trade. This message was delivered in a concise and unequivocal way to the Japanese."

Details of the plan produced by the Japan Automobile Manufacturers Association (JAMA) include:

- An increase in U.S. parts purchases to \$19 billion from \$9 billion by fiscal year 1994.
- Increases in local content to about 70 percent by 1994, from the current 50 percent level.

- A pledge to provide "special consideration" to traditional U.S. suppliers in the implementation of the plan.

These targets are based on an assumed 50 percent increase in U.S. production by the Japanese vehicle makers in 1994 to over 2 million units.

"We intend to analyze the data carefully to understand their full impact on our industry," stated Reilly, adding that "we are certainly encouraged by this positive step forward." APAC will play an active role in monitoring progress by assessing the previously released parts deficit forecast in light of the announced increases, and actively supporting the joint DOC/MITI sourcing study scheduled for this spring.

"The ultimate measure of our cooperative success," Reilly said, "will be visible in a reduction of the bilateral parts deficit, which both sides agree is unsustainable over the long term."

APAC is a national advisory committee established by the Fair Trade in Auto Parts Act included in the Omnibus Trade and Competitiveness Act of 1988. APAC's charter is to advise the Department of Commerce on issues related to trade in the auto parts sector between the U.S. and Japan.

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# news release

MOTOR & EQUIPMENT MANUFACTURERS ASSOCIATION INC. 875 1630 ENGLEWOOD CLIFFS RD. 07932-0030 (201) 566-0500

January 14, 1992

CONTACT: Robert Miller  
(201) 569-8500  
Chris Bates  
(202) 393-6362

Englewood Cliffs, N.J.... The Motor and Equipment Manufacturers Association (MEMA) today welcomed the announcement that Japanese vehicle manufacturers have pledged to take additional steps in the next three years (JFY 1992-94) to expand purchases of U.S. auto parts. The Association observed that Japanese industry's expanded \$19 billion target for the year beginning April 1994 should generate new momentum in the near term, but emphasized the need for continued industry and government discussions to sustain it.

Jack Reilly, MEMA Chairman and CEO of Tenneco Automotive, who accompanied President Bush during his Japan visit, voiced special appreciation to President Bush and his Administration for their concerted efforts to address the U.S. auto parts trade problem.

He applauded the President's commitment to free and fair trade that was reflected in his statement that the United States wants "agreements that produce permanent improvement in access and in U.S. sales to Japanese markets and permanent improvements in the lives of Japanese consumers."

Reilly noted that "the President's personal involvement in encouraging more rapid progress toward resolution of major U.S.-Japan automotive trade issues has sent a clear and constructive message to Japanese government and industry leaders at a critical juncture in U.S.-Japan relations. His commitment to build upon the initial results of this unprecedented trip is especially encouraging."

Mr. Reilly and MEMA President Robert Miller also highlighted MEMA's appreciation for the leadership which the Japan Automobile Manufacturers Association (JAMA) and its members have shown in expanding their November 1991 commitment to accelerate the growth of business with U.S. suppliers. Mr. Miller stated that "U.S. automotive suppliers will redouble their efforts to work with JAMA members and their U.S. affiliates to design, build, and deliver world-class components so we can achieve, and hopefully exceed, the expanded business level forecasted in the recent U.S.-Japan announcement."

MEMA indicated that the revised Japanese pledge of \$19 billion in U.S. parts purchases by fiscal year 1994 represents a 10 percent constant dollar improvement over the \$17 billion level suggested by the procurement announcements which Japan's five largest producers made in November.



However, the new buying targets are linked explicitly to an assumption that Japanese producers will expand their U.S. production by 50 percent to over 2 million units by 1994. "This commitment will require careful study to evaluate its eventual impact on traditional U.S. manufacturers. More significant is the Japanese agreement to raise the percent of local procurement to about 70 percent in JFY 1994, from 50 percent in JFY 1990. I would say that pledge to work with traditional U.S. suppliers is most encouraging," Reilly said.

According to Reilly and Miller, "The MEMA-JAMA "One on One" conference planned for September 1992 will offer U.S. suppliers and Japanese vehicle manufacturers an excellent opportunity to discuss specific ways to meet the expanded purchasing needs of Japanese producers, both immediate and medium-term." Through this and other joint initiatives with JAMA, MEMA plans to encourage the full realization of Japanese industry procurement plans and an acceleration of business development efforts involving Japanese vehicle producers and U.S. automotive suppliers.

The Motor and Equipment Manufacturers Association, founded in 1904, is the only broad-based association which exclusively represents and serves U.S. manufacturers of motor vehicle parts, equipment, service chemicals, and allied products.

**Tenneco Automotive**  
A Tenneco Company

*Auto Parts*  
Tenneco Automotive Building  
Suite 300  
100 Tri State International  
Lincolnshire, IL 60069-4418  
(708) 940-6010



J. P. Reilly  
President and Chief  
Executive Officer

January 13, 1992

The President  
The White House  
Washington D.C. 20500

Dear Mr. President:

I wish to thank you personally, and on behalf of the U.S. auto parts industry, for including me in last week's historic trade mission to Japan. The trip was successful in that it opened the door, albeit only a little, through which American companies can now continue to build relationships and business.

The strong and unequivocal message you delivered was consistently and forcefully conveyed by Secretary Mosbacher and Under Secretary Farron, as well. I believe the Japanese now clearly understand the commitment of the allied U.S. government and business communities to free, fair, and open global trading. This position must continue to form the foundation of future discussions between our governments and industries.

While we have begun the process of change, I remain concerned for the long term health of my industry. Over 700,000 U.S. jobs and 4,000 American companies depend on the ultimate success of our mission. We cannot afford to repeat the history of previous administrations, which have claimed victory on trade issues with Japan before the battle was over. Rigorous and diligent monitoring and follow-up are required to insure success.

All members of the business delegation have an obligation to keep you apprised of progress on these issues. I intend to update you on the auto parts situation on a quarterly basis (or more frequently when warranted), and will continue to work closely with my colleagues at the Department of Commerce.

Again, thank you for your support on these difficult, yet critical, trade matters.

Best regards,

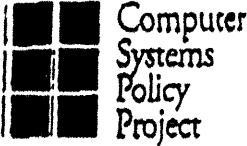
  
John P. Reilly  
President & CEO

Computers

JAN 9 '92 19:28

FROM US TRADE REP

PAGE.003



John Sculley Apple

Robert E. Allen AT&T

Eckhard Pfeiffer Compaq

Laurance Periman Control Data

John A. Rothvagen Gray Research

Ronald L. Skates Data General

Kenneth H. Olson Digital

John A. Young Hewlett-Packard

John P. Akers IBM

Ken D. McNealy Sun Microsystems

James G. Trebilcock Tandem

PRESS RELEASE

FOR IMMEDIATE RELEASE CONTACT: Michele Norman  
January 8, 1992 202-682-8407

COMPUTER INDUSTRY EXECUTIVES APPLAUD U.S. GOVERNMENT FOR QUICKLY CONCLUDING NEW PUBLIC SECTOR MARKET ACCESS AGREEMENT WITH JAPAN

Washington, D.C. - Today, the chief executives of the twelve leading American computer companies welcomed news from Tokyo that the U.S. government has successfully concluded negotiations with Japan on an agreement to increase access for foreign information technology products into Japan's public sector market. In particular, the members of the Computer Systems Policy Project (CSPP) applauded President Bush for his quick and concerted effort on this critical issue.

"The outstanding effort by the President's trade negotiators demonstrates a steadfast commitment to open markets and fair competition," said John Sculley, CEO of Apple Computer and chairman of CSPP. "We look forward to working with the government of Japan and the U.S. government to ensure that the agreement's goals of fair and open market access are achieved."

On December 3, 1991, the members of CSPP met with United States Trade Representative Carla Hills to formally present findings from a 12 month study of Japan's public sector market. The data indicate that the problem is serious (fact sheet attached). For example, CSPP has found that while foreign computer manufacturers have established a major share position in Japan's private sector market (41%), the foreign mainframe share of the Japanese national government market is only 0.4%.

.. 0018 ..

"The computer industry is pleased that the Bush Administration was able to make quick and effective use of the information we provided," said Sculley. "We commend the government for using our findings to negotiate an enforceable agreement with Japan that will allow our industry to increase market share in the Japanese public sector market."

The Computer Systems Policy Project (CSPP) was formed in 1989 to develop and advocate industry positions on trade and technology policy issues. CSPP's members include the CEOs of Apple, AT&T, Compaq, Control Data, Cray Research, Data General, Digital, Hewlett-Packard, IBM, Sun Microsystems, Tandem and Unisys. Kenneth R. Kay, a partner in the law firm of Preston Gates Ellis & Rouvelas Meeds, is executive director.

Additional background information is available upon request. Please contact Michele Norman at (202) 652-8407.

Release: Immediate  
 Contact: Maryann Karinch  
 202/626-5725

January 10, 1992

Complete

**CEEMA OPTIMISTIC THAT AGREEMENT TO OPEN JAPAN'S  
 PUBLIC SECTOR MARKET WILL "MAKE A DIFFERENCE"**

WASHINGTON—“We applaud the President's efforts to secure improved access to Japan's government market,” stated John L. Pickitt, president of the Computer and Business Equipment Manufacturers Association (CEEMA), at the conclusion of negotiations on an agreement affecting Japan's public sector procurement practices. “The skillful work of U.S. negotiators has the potential to make a difference for U.S. computer and business equipment manufacturers seeking fair consideration—and sales—in the Japanese public sector market.”

Pickitt explained, “Many U.S. computer companies are very successful in the Japanese commercial market; there is no doubt about the appeal of their products to the Japanese consumer. In Japan's government market, however, the same companies have made only small advances. We believe this has been due to inequities in the procurement system.”

It is expected that implementation of the agreement, which addresses procurement of both products and services, will come in stages over the next year, with computer products affected first.

“We welcome such significant changes as a reduced reliance on sole source contracts, which are currently primary mechanisms for Japan's public sector procurements,” noted Pickitt. Also contained in the agreement—covering access of all foreign companies, not just U.S.—are improvements in Japan's bid protest procedures and methods of communicating procurement opportunities.

CEEMA is a 75-year-old trade association representing leading industry manufacturers that collectively generate 5% of our nation's gross national product and employ over 1.2 million people in the United States.

**COMPUTER BUSINESS EQUIPMENT MANUFACTURERS ASSOCIATION**

## Computers

FOR IMMEDIATE RELEASEFOR MORE INFORMATION  
John Hatch, (202) 682-9110

WASHINGTON, D.C., January 9 --The American Electronics Association (AEA) said today that the agreement on Japanese government computer procurement reached today by the United States and Japan should significantly increase U.S. access to the \$6 billion Japanese government computer market.

William Krist, AEA Vice President for International Trade, said access to this huge market has been high on AEA's advocacy agenda for a long time. "AEA applauds President Bush for progress on this issue. We will be closely monitoring the agreement.

"U.S. computer manufacturers now have just 0.4 percent of the Japanese central government computer market. In contrast, American computer firms claim 41 percent of the Japanese private market," Krist added. "This is proof positive of the high quality and acceptability of our products in the Japanese marketplace."

While AEA has not yet seen the final text, our understanding is that key elements of the agreement include:

- \* All suppliers - including foreign - will be given equal access, including participation in study groups in the pre-solicitation phase.
- \* Specifications for bids must be neutral between potential suppliers.

(more)

- \* Single tendering would be limited to exceptional cases.
- \* Final selection of supplier(s) would be published.
- \* A bid protest system will be established.
- \* The Japanese government will request agreement support from Prefectures.
- \* Unjust low bids will automatically disqualify the bidder.
- \* Effective date for implementation the agreement will be April 1, 1992 for products and October 1, 1992 for services.

"Although much of the press focus has been on automotive issues, the U.S. electronics industry is deeply concerned with its six-year-old \$20 billion annual trade deficit with Japan. Our industry employs 2.4 million Americans. Our ability to be successful in global markets contributes to the American standard of living," Krist said.

"However, the new agreement is not going to solve all our problems," Krist stated. "We call on the U.S. and Japan to resolve remaining electronics access issues."

The agreement was a key part of President Bush's trade mission to Japan. Electronics executives in the trade group include Winston Chen, CEO, Solectron Corp., Robert Galvin, Motorola Inc. and Raymond Marlow, President, Marlow Industries Inc. They are AEA members and Malcolm Baldrige Award winners.

The American Electronics Association represents 3,400 companies in technology communities throughout the United States. For almost 50 years, AEA has been the accepted voice of the American electronics industry.



# NEWS Release

Planning & Development  
FIAT Glass

43043 West Nine Mile Road, Northville, Michigan 48167 Telephone 313/347-0100

IMMEDIATE RELEASE

January 9, 1992

For further information contact:

Peter S. Walters, Group Vice President  
(313) 347-9102

Northville, Michigan -- Guardian Industries Corp. ("Guardian") today welcomed the success of President Bush's flat glass market access negotiations in Japan. Guardian, among the world's largest glass producers and a major competitive force in North America, South America, Western Europe and Eastern Europe has encountered a tightly controlled and oligopolistic Japanese flat glass sector in its efforts during the last several years to increase its sales of high quality float glass products in Japan. Float glass is used in the automotive and construction sectors.

In commenting on this week's trade negotiations, William Davidson, Guardian's President and CEO, said "President Bush and his trade negotiators made significant progress this week in obtaining specific commitments from the Japanese government to take steps to open the market. Our glass products are quality and price competitive and, if customers are allowed the opportunity to purchase Guardian glass, we are confident that we will build a meaningful presence in the Japanese market, as we have in all the other major glass markets of the world".

Administration trade negotiators obtained commitments that the Japanese government would make significant efforts to open the Japanese glass distribution system, eliminate exclusionary business practices and ensure that its construction codes did not serve as barriers to market entry. Moreover, the Japan Fair Trade Commission will initiate a study by March of 1992 concerning the anti-competitive nature of the industry.

Davidson said, "although much progress must still be made before international glass competitors are convinced their products will be allowed to compete fairly, it is now clear that the Japanese government recognizes that the Japanese flat glass industry has not allowed real competition and thereby penalized Japanese consumers. This recognition and commitment to correct the situation was accomplished as a direct result of President Bush and his Administration's perseverance in addressing these issues". Davidson further stated, "Guardian will increase its sales and distribution capabilities in Japan in response to the Japanese government's commitment to open the glass market. Guardian will work closely with the U.S. government and now monitor carefully the efforts of the Japanese government to undertake the commitment it has made".

Guardian, a diversified manufacturer of flat glass and flat glass products has been expanding aggressively throughout the world in recent years. In early 1991 Guardian began commercial production of float glass in Hungary, after making one of the largest U.S. investments in Eastern Europe to date. It currently has float glass plants under construction in India and Thailand.

Furthermore, Guardian has developed a variety of products in the automotive glass fabrication area that has led to recent additional investments to support the company's growing presence as a global glass supplier to the world's automotive industry. Guardian began operating its fourth automotive glass fabrication plant in late 1991 and began construction in September, 1991 of its second European automotive glass facility.

Guardian, founded in 1932, is a leading manufacturer and fabricator of flat glass products used in construction and automotive applications. The company currently operates eleven float glass production lines in the U.S., Europe and South America. Guardian also has two figure glass lines and extensive glass fabrication facilities in the U.S., Canada and Europe. The company also manufactures a broad line of fiberglass insulation products, molded plastic products, and oil production equipment.





FOR IMMEDIATE RELEASE

Contact: Steve Lovett  
(202) 463-2724

**U.S. WOOD PRODUCTS INDUSTRY APPLAUDS PRESIDENT'S EFFORTS TO OPEN JAPANESE MARKET**

"The National Forest Products Association applauds President Bush's decision to personally become involved in the effort to open fully Japan's market," said Barry Cullen, President of NFPA. "Despite world-class competitiveness, the U.S. wood products industry has found access to the critically important Japanese market seriously restricted by a profusion of tariff and non-tariff barriers."

The National Forest Products Association noted that these barriers to U.S. wood products take two forms: tariff barriers on processed wood products that limit the ability of U.S. producers to sell value-added wood products in Japan, and a host of complex regulations that discriminate against imported wood products vis-a-vis Japan's domestically produced building products.

Steve Lovett, Vice President of NFPA, noted that Japanese tariffs on wood products range as high as 20% and tend to increase on more highly manufactured products. "The President should insist on Japan's immediate elimination of wood products tariffs; they serve only to protect inefficient producers," Lovett said.

Lovett also explained that a series of Japan's regulatory restrictions serve to discriminate against the performance of North American wood products in favor of building materials that Japan produces domestically. The North American industry is seeking "an opportunity to compete in all construction markets based on the performance of our products -- rather than restrictive codes that irrationally hamper use of wood products," Lovett noted.

Bob Donnelly, chairman of NFPA's International Trade Council and a member of the Bush Administration's Japan Corporate Program, added that: "Immediate elimination of wood products restrictions in Japan would show Japan's support for an open world trading system and benefit the Japanese consumer by permitting them to use high-quality, economical and aesthetically pleasing wood products. At the same time, North American producers could increase the sale of value-added wood products by hundreds of millions of dollars if Japan would fully eliminate its barriers."

A 1990 Super 301 investigation concerning Japan's wood products barriers resulted in an agreement to open further the market, but "serious problems remain," said Cullen. "We are very pleased that the President is making this effort to open Japan's market. U.S. wood products firms cannot compete fairly internationally without complete access to the world's second largest market."

NATIONAL FOREST PRODUCTS ASSOCIATION  
1200 CONSTITUTION AVENUE, SUITE 200, WASHINGTON, DC 20004-2012



92-03

FOR IMMEDIATE RELEASE

CONTACTS:

LAURA BROWN (202) 637-3087

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ASIA TRIP LAYS GROUNDWORK FOR 'NEW ERA'  
IN U.S./JAPAN TRADE AND ECONOMIC RELATIONS, NAM CHAIRMAN SAYS

Urges U.S. Firms To Commit To Asia Pacific Market

WASHINGTON, DC, Jan. 13, 1992 -- "Trade between the United States and Japan means a lot more than cars. Despite what you're hearing, this trip was a real success for the bulk of American manufacturers and their workers," National Association of Manufacturers Chairman Dexter Baker announced today upon his return from Asia with President Bush.

"The groundwork has been laid for a new era in U.S./Japan trade and economic relations. It's now up to American companies to seize these new opportunities," Baker continued.

"Kozo Watanabe (Japanese minister of international trade and industry) and other leaders of Japanese industrial sectors revealed in our discussions a genuine desire to find ways to purchase more American products. Believe me, they will go to great lengths to avoid the specter of protectionism.

"I am convinced our negotiations in Japan will yield new market opening opportunities for a broad range of U.S. products - including glass, computers, paper and chemicals as well as autos and auto parts," he said.

"The real sleeper success story of the trip is the U.S./Japan accord to boost economic growth," Baker continued. to us to run with the ball.

"I believe that American companies who commit to the Asia Pacific market, including Japan, will do very well. Thanks to our President's initiatives, American manufacturers and service companies are now more welcome to 'come on over' to Japan and compete," Baker concluded.

--NAM--

*Manufacturing*



*Paper*  
**NEWS RELEASE**

**AMERICAN PAPER INSTITUTE**

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**FOR IMMEDIATE RELEASE**

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(212) 340-0626

**PRESIDENT'S TRIP RAISES PAPER INDUSTRY HOPES**  
**FOR GREATER ACCESS TO JAPAN'S MARKET**

NEW YORK, N.Y., January 9, 1992 -- "The United States paper industry is very pleased that by the end of March 1992, through cooperative and intensive consultations, the Government of Japan and the Government of the United States of America will agree on measures to substantially increase market access for foreign firms exporting paper products to Japan." That good news was included in the joint communique released during President Bush's visit to Japan," said Anthony P. Gammie, chairman of American Paper Institute and chairman, president and chief executive officer, Bowater Incorporated, Darien, Connecticut. The American Paper Institute (API) is the national trade association of the U.S. pulp, paper and paperboard industry. In addition, the communique states that "Japan Fair Trade Commission (JFTC) has decided to initiate a survey on conditions in the paper sector from the competition policy perspective, before the end of March, 1992."

**M O R E**

"The U.S. paper industry, with total shipments exceeding \$122 billion, is a strong, low cost, competitive producer serving worldwide markets. It is dedicated to the principle that open markets are beneficial to all countries," said Dr. Irene W. Meister, API vice president, international. Although Japan is the world's second largest paper and paperboard consuming country, in 1991 U.S. paper and paperboard exports to Japan accounted for only 2.2% of Japanese consumption.

"The globally competitive U.S. paper industry," said Mr. Gamble, "has been seeking greater access to the Japanese market for a number of years without significant results. The ongoing discussions on access for paper products, which have been in progress for several months between the representatives of U.S. and Japanese governments, are strongly supported by the U.S. paper industry."

Member companies of API are committed to being long-term, reliable suppliers of high quality paper products to Japan and expect that an agreement between the U.S. and Japanese governments will enable U.S. companies to become much more significant participants in the Japanese market for paper products.

For further information from API, please contact Dr. Irene W. Meister, vice president, international (212) 340-0640.

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*Paper***NEWS**  
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Purchase, New York 10577Media Contacts:  
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William P. Fullor III  
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Carol S. Tutundgy  
(914) 397-1632  
Catherine J. Mathis  
(914) 397-1623INTERNATIONAL PAPER ENCOURAGED  
BY THE PROSPECT OF GREATER ACCESS TO JAPANESE MARKETSFor Immediate Release  
Tuesday, January 14, 1992

PURCHASE, N.Y. -- International Paper Chairman and Chief Executive Officer John A. Georges today said company officials are "encouraged" by the contents of the joint communique issued during President Bush's trip to Japan. The communique contained negotiating deadlines concerning greater access to Japanese markets for U.S. paper producers.

During talks last week with President Bush, Japanese government officials pledged that by March 31, 1992, the two countries will agree on measures to substantially increase market access for foreign firms exporting paper products to Japan.

The U.S. paper industry is the most competitive in the developed world, and yet U.S. exports of paper and paperboard products to Japan account for only 2.2 percent of Japanese consumption, Georges noted. He added that Japan is the world's second largest consumer of paper and paperboard products, but imports less than 4 percent of its consumption of these products.

"We are pleased that the Bush Administration has aggressively pursued negotiations with the Japanese government to identify and seek to eliminate the barriers to U.S. paper products," Georges said. "We hope these negotiations, to be concluded by the end of March, will result in substantial opening of the Japanese market to the sale of U.S. paper products. International Paper exports over \$1 billion a year of paper products and is fully prepared to meet the service, quality, and performance requirements of the Japanese market."

International Paper, headquartered in Purchase, N.Y., is a worldwide producer of a wide variety of paper and forest products. The company is a major producer of printing and writing papers, paperboard and packaging products, and wood products. The company also operates speciality products businesses and distributes paper and wood products. International Paper has manufacturing operations in 25 countries and exports its products to more than 120 nations.

/ / /



Stone

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*Paper***news release**

Stone Container Corporation 160 North Michigan Avenue Chicago, Illinois 60601-7688 312 348-6600

*E. Tab '10'*Contact: Mark Lindley  
(312) 649-7867

**STONE CONTAINER CHAIRMAN OPTIMISTIC  
PAPER INDUSTRY WILL BENEFIT FROM PRESIDENT'S TRIP TO JAPAN**

CHICAGO, January 13, 1992 -- President Bush's visit to Japan offers the prospect of a substantial increase in United States exports of paper products to Japan, said Roger W. Stone, Chairman and CEO of Stone Container Corporation.

Stone's comments came as a result of last week's signing of a communique between the United States and Japan that states that the Japan Fair Trade Commission (JFTC) will initiate a survey on conditions in the paper sector from the competition policy perspective, before the end of March 1992. The communique is a result of ongoing discussions on access for paper products, which have been in progress for several months between the representatives of the United States and Japanese governments.

In 1991, the U.S. paper industry produced over \$122 billion worth of products, a substantial portion of which was sold around the world. "In papermaking, the U.S. is world class," said Stone. "We are low cost producers and our quality and technology are unsurpassed."

The U.S. paper industry has been seeking greater access to the Japanese market for a number of years without significant progress. Although Japan is the world's second largest paper and paperboard consuming country, in 1991 imports represented only 2.2 percent of consumption. "President Bush's agreement opens the door but continued pressure will be necessary to get through that door," Stone said.

Stone Container is a major international producer and exporter of paper and paper packaging products. It has a significant presence in the Japanese market. Its product line includes containerboard, corrugated containers, kraft paper, paper bags and sacks, market pulp, and various wood products. Its U.S. shipments to other world markets were about \$300 million in 1991.

Headquartered in Chicago, the company has manufacturing facilities and sales offices in the United States, Canada, Mexico, Western Europe and the United Kingdom. It also maintains sales offices in Japan and China.

1500 VALLEY ROAD, WAYNE, NEW JERSEY 07090

JAN 10, 1992

For more information:

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Business

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576-8400

201-628-2482

**FOR IMMEDIATE RELEASE**

**UNION CAMP HAILS PRESIDENT BUSH'S EFFORTS IN JAPAN  
SIGNIFICANT GAIN FOR INCREASING ACCESS OF U.S.  
PAPER PRODUCTS TO JAPANESE MARKET** and B. Madden

WAYNE, NJ, January 13--Union Camp Corporation regards President Bush's trade negotiations in Japan in behalf of the U.S. Paper Industry as a distinct gain in opening access to the Japanese market, the world's second largest consumer of paper and paperboard. The commitment between the Japanese and U.S. governments to reach an agreement by the end of March for open market trade in paper products represents a major breakthrough for U.S. paper producers.

W. Craig McClelland, president and chief operating officer, stated, "Union Camp, one of the world's leading producers of linerboard and uncoated fine paper, is ideally positioned to enter the Japanese market with high quality, low-cost produced paper products on an internationally competitive basis. We have the experience and capability in export markets to provide reliable service and technologically superior products, and we anticipate that the proposed trade agreement will provide a significant opportunity to expand our presence in this high-potential market."

Union Camp Corporation is a member of the American Paper Institute representing the U.S. Paper Industry in this trade initiative which is strongly supported by member companies.



POTLATCH CORPORATION

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January 10, 1992  
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 Public Affairs  
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POTLATCH APPLAUDS PRESIDENT BUSH'S EFFORTS IN JAPAN

San Francisco -- Potlatch Corp. Chairman Richard B. Madden said today he is highly satisfied with the positive results and potentially favorable opportunities for the U.S. paper industry which President Bush and Prime Minister Miyazawa achieved during the President's visit to Japan. Potlatch is a major exporter of bleached paperboard to Japan and has been trying to develop a coated printing papers business in Japan.

Madden stated that "the Japanese agreement with the United States to establish specific measures to substantially increase market access for foreign firms exporting paper products to Japan by March 31, 1992, was extraordinarily encouraging. The U.S. paper industry is competitive worldwide," he continued, "and the President has opened an opportunity which we hope will permit increasing access to the Japanese market."

Potlatch is a diversified forest products manufacturer with timberlands in Arkansas, Idaho and Minnesota.

## COMMUNICATIONS

### STATEMENT OF THE AMERICAN NATURAL SODA ASH CORPORATION (ANSAC)

The American Natural Soda Ash Corporation (ANSAC) is a Webb-Pomerene export association which represents six U.S. producers of soda ash (FMC, General Chemical, Rhone Poulenc of Wyoming, North American Chemical, Tenneco, and TG Soda Ash).

Market barriers in Japan have restricted U.S. sales of soda ash since the early 1970s, when U.S. firms first began significant export shipments to Japan. In 1991, U.S. sales in Japan declined sharply from 1990 levels. U.S. firms sold approximately 281,000 metric tons in Japan, down from 325,000 tons in 1990. The estimated decline in U.S. market share was from 23.4 percent in 1990 to 20.4 percent in 1991. These figures include "captive" sales attributable to the Asahi Glass-Tenneco joint venture; if captive numbers are excluded from the totals, U.S. sales in 1991 were 246,000 tons versus 311,000 tons in 1990. ANSAC believes that in the absence of market barriers in Japan, its 1991 sales should have been higher by 95,000 metric tons valued at about \$22.2 million. ANSAC estimates that market barriers in Japan have deprived the U.S. industry of an estimated \$191.6 million in lost revenue since 1991. In preparing its annual *National Trade Estimate Report*, the Office of U.S. Trade Representative has repeatedly cited soda ash as a sector in which U.S. firms are encountering significant market barriers in Japan.

The barrier confronted by U.S. producers in Japan is a group consisting of the four Japanese soda ash producers (Asahi Glass, Central Glass, Toyo Soda and Tokuyama Soda) and their affiliated trading companies, which have regulated U.S. access to the Japanese market through anticompetitive actions including control of the distribution channels and terminal facilities, pressure on Japanese distributors and consumers, and (at least until 1983) joint arrangements on customer allocation, sharing of profits, losses, and distribution. Japan's Fair Trade Commission (JFTC) has investigated U.S. allegations on two occasions; in 1983 it found the existence of an illegal cartel, which it ordered to cease, and in 1987, it found the existence of certain potentially "problematic" practices, and formally admonished Japanese soda ash producers to take care not to violate the Antimonopoly Law. Despite these two actions and a long series of bilateral U.S.-Japan discussions, ANSAC believes that U.S. sales of soda ash in Japan are still regulated by the Japanese producers and their affiliates.

The problem is significant from a U.S. policy perspective for several reasons. First, current U.S. trade policy is designed to redress the trade imbalance by maintaining exchange rates which permit expansion of competitive U.S. exports. Soda ash is a product area where the United States is extraordinarily cost-competitive, even vis-a-vis Japan, the country with which the U.S. has the single largest trade imbalance. But a U.S. trade policy which places priority on exchange rate policy cannot succeed if competitive U.S. exports are blocked by anticompetitive business arrangements.

### LOST SODA ASH SALES, JAPAN 1984-1989

[000's Mt.]

	1984	1985	1986	1987	1988	1989	1990	1991	Cumulative
Actual sales <sup>1</sup> .....	191	211	240	231	270	298	311	246	1972
Estimated sales with no trade barriers .....	305	420	420	420	420	420	<sup>2</sup> 406	<sup>2</sup> 385	3196

(198)

## LOST SODA ASH SALES, JAPAN 1984-1989—Continued

[000's Mt.]

	1984	1985	1986	1987	1988	1989	1990	1991	Cumulative
Lost sales 000's Mt. ....	114	209	180	189	150	122	95	139	1224
Lost sales \$ millions .....	18.2	34.4	28.8	30.2	24.0	19.5	15.2	22.2	191.8

<sup>1</sup> ANSAC sales; does not include sales by Asahi-Tenneco joint venture.

<sup>2</sup> Revised to deduct Annual "Captive" Tons exported from U.S. to Japan by Asahi-Tenneco joint venture.

Second, the soda ash trade problem underscores a broader problem in U.S.-Japan trade relations—the fact that Japan's weak antitrust enforcement enables powerful groups of private Japanese producers and distributors to restrict U.S. exports to Japan. In part because such restrictions do not involve overt government protectionist measures, the U.S. government has found it difficult to address this problem in an effective manner.

## BACKGROUND

The United States enjoys a substantial comparative advantage over Japan in soda ash. Because of abundant deposits of natural ash, the U.S. can produce higher quality soda ash, at a lower cost, than any other country in the world. Japan must manufacture soda ash by a variety of synthetic methods, utilizing imported raw materials and energy. This disparity gives U.S. firms a commanding cost advantage.

	Japan	United States
Energy (Cal/M ton) .....	31,500	28,500
Labor (People/M ton) .....	1.05	.44
Raw Materials (Yen/M ton) .....	15,000	2,750

In the 1970s, U.S. firms began seeking to exploit this cost advantage by expanding their sales position in Japan. However, they found that a cartel consisting of the four Japanese soda ash producers, Asahi Glass, Toyo Soda, Tokuyama Soda and Central Glass, together with their affiliated trading companies, controlled the Japanese distribution system and were able to regulate U.S. sales in a manner which prevented U.S. firms from achieving significant increases in sales.

In essence, the four Japanese producers agreed to import soda ash jointly to maintain "order" in the domestic market. They used designated trading companies affiliated with them to conclude all import transactions with U.S. exporters. They established a joint facility, Toko Terminal, dedicated to the handling of imported soda ash. They shared profits and losses according to an agreed ratio, agreed on prices of soda ash to consumers, and annually set a figure for the volume of imports which would be permitted, a figure which was given to the trading companies dealing with U.S. producers. (The functioning of this system is described in ANSAC's 1986 white paper, *Japanese Market Barriers in Soda Ash*.)

U.S. producers and the U.S. government complained to the Japanese government about the cartel's restrictions on U.S. sales. The Ministry of International Trade and Industry ("MITI") contended that no cartel existed, and that U.S. companies' low level of sales was attributable to their lack of price aggressiveness, quality problems, and concerns about their reliability as suppliers. However, in March 1983, the Japan Fair Trade Commission ("JFTC"), after investigation, found that a cartel consisting of the four Japanese producers was restricting import sales, and it ordered this activity to cease.

In 1983, in the immediate aftermath of the JFTC finding, U.S. sales increased substantially. This was attributable (1) to the JFTC decision; (2) to a new distribution channel established pursuant to which Sumitomo Shoji, a Japanese trading company, undertook to distribute U.S. soda ash; and (3) to the formation of ANSAC, which improved U.S. economies of scale; and (4) to the fact that local producers were experiencing difficulty in satisfying local demand.

## CONTINUING PROBLEMS

By mid-1985 U.S. sales of soda ash in Japan were clearly stagnating, and U.S. producers began to receive numerous indications that the Japanese producers and their affiliated trading companies were still regulating the market to restrict import growth. Specifically:

1. U.S. firms were told by a number of Japanese consumers that a percentage cap had been placed on their purchases of U.S. soda ash (e.g., 30%, 20%) by their traditional suppliers and that no additional U.S. tons would be purchased regardless of the price or other terms. They were also told that an overall limit of 210–220 thousand tons had been placed on U.S. import volume.

2. U.S. sales executives visiting individual accounts in 1985 were told by some Japanese customers that they could not purchase U.S. soda ash without pre-clearance by their traditional suppliers, who would give them a quota of U.S. purchases which was allowable. In one case a Japanese customer was told that “20 percent was enough for the Americans.” The threat—explicit in some cases and implicit in all—was that if these limits were exceeded, the supplier would not supply the customer in the event of an interruption in U.S. supply. This prospect is particularly daunting to glassmakers who may incur major costs if they are forced to shut down furnaces and other facilities.

3. Japanese distributors who were engaged by U.S. firms to distribute soda ash encountered pressure from a variety of sources. A company which was employed by ANSAC to enter the bagged soda ash market (a particularly profitable sector) received a phone call from MITI saying that he should not go into the bagged ash business because it would “not be good for Japan.” (Prior to this, many attempts to engage distributors for bagged ash had failed). In 1986 a Japanese company was warned by one of the Japanese producers that if it did not cease distributing U.S. ash, this firm would cease purchases of all products from this company.

4. At the end of several calendar years, ANSAC received soda ash orders from Japanese trading companies who would only place the orders upon assurances that the purchase would not cause total sales for the year to exceed the average for the prior year. At the end of 1986, one trading company, placing such an order for 7,000 tons, said “we want you to do as well as last year but we don’t want to give you growth.” At the end of 1988, an order was placed by a trading company which was inordinately concerned whether the order would be counted as part of the U.S. total for 1988 or for 1989—a concern which is commercially irrelevant, but quite relevant if someone is trying to administer a quota.

5. In 1991, ANSAC offered one of Japan’s largest consumers of soda ash a price of \$35 a ton less than the domestic supplier price, which would have saved this producer \$1.5 million a year. This company rejected this offer—for the finest, highest purity soda ash in the world—in order to buy “Japan first” at much higher prices.

#### COMMERCIAL DEVELOPMENTS

U.S. soda ash enjoys competitive advantages in Japan that are not always shared by other U.S. export problems. U.S. quality is very good—on a par with Japanese quality—a fact which MITI has acknowledged on occasion. The U.S. industry has made a major resource commitment to serving the Japanese market:

- The U.S. industry maintains several months’ inventory of soda ash in Japanese warehouses to allay customer concerns about availability.

- ANSAC has contracted for a vessel dedicated solely to delivering U.S. soda ash to the Japanese market. The contract forbids the carrying of other cargo and means the return voyage to the U.S. is in ballast. This is to ensure that there is absolutely no danger of contamination en route.

- U.S. producers have engaged Sumitomo Shoji, a major Japanese trading company which is not affiliated with the Japanese producers, to distribute U.S. soda ash in Japan.

The greatest single U.S. competitive advantage, however, is price. The U.S. cost advantage was substantial even during the years of the strong dollar, and has widened as the dollar has weakened against the yen.

When U.S. firms entered the Japanese soda ash market in the early 1980’s, the market price for soda ash was 55–60 yen/ton (prices vary from customer to customer; there is no single “market price”). U.S. firms and their Japanese distributors used price discounts as a lever to expand their share of the Japanese market, and have been the price leaders since the early 1980’s. By 1988, prices had fallen to 30–35 yen/ton. U.S. price discounts have varied by account and by month, but have ranged from 2 to over 20 percent. Japanese firms have generally not met U.S. discounts completely, but after 1985 they increasingly lowered their prices to a level several yen/ton above the U.S. offering price, a move that was often followed by further U.S. discounts.

In the fall of 1985 and spring of 1986, Japanese firms accused U.S. producers of dumping soda ash in Japan, which caused the U.S. government to ask U.S. soda ash producers to provide assurances and evidence that they were not dumping in

Japan (these were given). The Japanese reversed themselves in mid-1986 and began arguing that U.S. soda ash was not price competitive in the Japanese market. A frequent argument used by MITI was to convert U.S. prices from yen to dollars, and to point out that in dollar terms, U.S. prices were rising. This was misleading because soda ash sales in Japan are not transacted in dollars but in yen, and U.S. yen-based prices had consistently fallen.

ANSAC's efforts to expand its sales in Japan led to some incidents which were of interest because of the light they shed on the nature of the Japanese market.

- As ANSAC expanded its sales force, it contacted increasing numbers of small customers. These firms usually reported that they had one traditional Japanese supplier and that they never received competitive offers from other Japanese soda ash producers. One larger customer indicated in 1987 that it had not received a competitive offer from another Japanese firm for over 20 years. This apparent lack of competition among Japanese firms suggests a continuing market segmentation, whether formal or informal, between Japanese producers.

- Some Japanese customers refused to buy any U.S. soda ash on any terms whatsoever, and one such firm refused an offer of four free truckloads of ANSAC soda ash in early 1987.

- Some Japanese soda ash customers have pleaded with ANSAC not to cut the price of soda ash to them, despite the obvious economic benefits, because of the problems this would create with those firms' relationship with local suppliers. ANSAC has received very sharp expressions of displeasure from customers to whom ANSAC unilaterally extended price cuts on existing sales volumes without prior consultation.

*Toko Terminal.* The Toko Terminal was established by the Japanese soda ash producers and its affiliated trading companies as Japan's only port facility dedicated solely to handling soda ash. In 1983, as part of its order against the Japanese cartel, the JFTC directed the Japanese producers to cease using this facility in a manner which restricted U.S. imports. ANSAC has utilized Toko Terminal (as well as other port facilities), but has encountered periodic problems with the handling of its product, in effect, by its principal Japanese competitors. To cite one current example, Toko Terminal's owners have raised the importing and storage cost charged to ANSAC to \$50 per ton when the typical world cost is \$10-15/ton. Beginning in 1987, ANSAC has periodically requested that it be allowed to purchase an equity position in Toko Terminal to acquire a voice in the management of the facility. Toko Terminal's owners have refused to consider this proposal.

*The Sumitomo arrangement.* Prior to mid-1988, U.S. soda ash was sold in Japan through two main distribution channels. FMC soda ash was sold by Sumitomo Shoji, a trading company which is independent of the Japanese producers' group. ANSAC soda ash (apart from the FMC tonnage) was sold through Stauffer Japan Ltd., a subsidiary of Stauffer, and through a variety of Japanese distribution companies. However, in 1988, Stauffer Japan was acquired by a foreign firm, requiring ANSAC to restructure its distribution system. In July 1988, ANSAC named Sumitomo its sole distributor in Japan.

Sumitomo was chosen because of its record of aggressive sales of U.S. soda ash in Japan on behalf of FMC. In perhaps a negative acknowledgement of Sumitomo's marketing capabilities, the Japanese soda ash producers reportedly expressed displeasure over the new arrangement. Several large Japanese trading companies affiliated with the Japanese producers regard the designation of Sumitomo as a threat to their traditional business, and have reportedly counseled consumers to refuse to deal with Sumitomo as ANSAC's new agent. ANSAC has been pressured to pay commissions to unwanted middlemen and/or offer price inducements before customers will accept Sumitomo.

#### U.S. GOVERNMENT ACTIONS

In March 1986, ANSAC presented a White Paper on the renewed problems in soda ash to the Office of U.S. Trade Representative. USTR Clayton Yeutter responded by appointing a special negotiating team consisting of Clyde Prestowitz and Joseph Massey to look into the issue (Prestowitz resigned from the government shortly thereafter). MITI responded to the U.S. industry's charges by indicating (1) that there was no evidence of a cartel or a resurgence in anticompetitive practices, and (2) that U.S. stagnation in sales was attributable primarily to the lack of price competitiveness of U.S. firms. A series of papers were exchanged on these issues.

The soda ash issue was the subject of considerable attention by both the executive and legislative branches between 1986 and 1991. USTR and the Department of Commerce raised the issue on numerous occasions both informally and in formal bilateral discussions. U.S. Ambassador Mike Mansfield personally raised soda ash

with Japanese officials on several occasions. Wyoming Senator Malcolm Wallop visited Japan on two occasions (and hosted Japanese Ambassador Matsunaga in Wyoming) to express his concerns on the soda ash issue. Members of the Senate Finance, House Ways and Means and Energy and Commerce Committees have written to and spoken with Japanese officials on the issue.

#### THE SECOND JFTC INVESTIGATION

In November 1987, the JFTC announced the result of a second investigation of the soda ash industry. It found that no violation of the Antimonopoly Law had occurred, nor that evidence existed that the soda ash cartel had continued beyond 1983. It did find, however, that certain practices existed which "could become problematic depending on circumstances." The JFTC formally summoned the heads of the four Japanese soda ash companies and warned them to "take care not to violate the Antimonopoly Law." It also indicated that because of the past history of cartel activity and the changing structure of the market, it would continue to monitor the soda ash market, and would "severely respond" to any violation of the Antimonopoly Law.

It was evident from discussions with U.S. and Japanese officials that the principal "problematic" practice was that under which Japanese customers pre-clear their purchases of U.S. soda ash with their traditional Japanese suppliers. One JFTC official characterized this practice as neither legal nor illegal, but "gray area"—hence the cautionary warning to Japanese producers. The practice would not be regarded as illegal unless it could be proven that the producer used actual coercion in a specific case to prevent a customer from buying U.S. ash.

Subsequent efforts by ANSAC to seek clarification of the JFTC's finding and to ascertain what concrete follow-up measures would be taken have received a vague response.

#### VOLUME OF U.S. TRADE AFFECTED BY JAPANESE RESTRICTIONS

Japan has five soda ash plants all operating on modifications of the traditional lime soda process. Of these only one is competitive on a world scale: the Asahi plant at Kitakyushu. The other four, Tokuyama, Central Glass, Tosoh (formerly Toyo Soda) and Asahi's Chiba plant all have whole operating costs in excess of current returns.

Had the Japanese market been opened following the 1983 JFTC decision, at least one of these plants would have shut down. There would have been financial pressure to operate these units profitably, and breakeven operating rates would have been achievable only with one plant closing. The four non-competitive plants only cover operating costs by diverting profits from other products made at the same site.

The closure of one of the Japanese plants would have increased American soda ash sales to 420,000 mt. or 67 million dollars per year.<sup>1</sup> Even if one subtracts ton-nages attributable to the Asahi-Tenneco joint venture in 1990-91, between 1984 and 1991 an additional \$191.6 million dollars would have been added to the American trade balance.

Had the 1983 JFTC ruling resulted in full market access for American soda ash, an additional 71 million dollars<sup>2</sup> would have been spent in Japan on soda ash distribution, additional commissions for sales activities would have been 5 million.<sup>3</sup> On the inventory side an additional 33 million dollars<sup>4</sup> worth of inventories would have been maintained and an additional finance cost of 4 million dollars<sup>5</sup> incurred.

In the United States, the additional sales in the Japanese market would have added employment for 482 more people and an increase in the American balance of payments of between 15 and 35 million dollars per year.

#### SIGNIFICANCE OF THE RESTRICTIVE JAPANESE PRACTICES

Beyond the actual volumes of trade affected, the soda ash problem in Japan is significant for several reasons. First, the United States currently suffers a massive trade deficit, and if that deficit is to be eliminated, it is essential that competitive U.S. exports not be foreclosed from foreign markets by artificial barriers. Current U.S. policy emphasizes maintaining a competitive alignment of exchange rates to ensure that U.S. exports are fully price-competitive abroad. Soda ash is a product

<sup>1</sup> An average price of \$160 CIF is assumed.

<sup>2</sup> Based on an average distribution cost of 11 yen per kilo and an exchange rate of 180 yen/dollar.

<sup>3</sup> Based on an average commission of \$6.00/MT.

<sup>4</sup> Based on inventories of 90 days sales.

<sup>5</sup> Based on an interest charge of 12%/yr.

in which the United States enjoys a clear comparative advantage—superior cost, quality, and availability—and if sales of U.S. soda ash to Japan cannot be significantly expanded despite these advantages one must question the basic premises underlying current U.S. trade priorities. If the markets of major trade surplus countries like Japan are not price-elastic, then a trade policy whose centerpiece is the exchange rate may not achieve its objectives.

Second, the soda ash highlights a pervasive problem in U.S.-Japan trade relations—the fact that Japan's weak antitrust enforcement enables powerful groups of manufacturers and distributors to regulate access to the Japanese market, a phenomenon that has been evident not only in soda ash, but sectors as diverse as construction, auto parts, semiconductors, consumer electronics, textiles, cement, and steel. Japan's "privatization of protectionism" is one of the principal reasons that in spite of the strong yen, the virtually complete lack of formal import restrictions, and the proximity of highly cost-competitive industries in Korea and Taiwan, Japan's imports of manufactured goods remain negligible by world standards.

The U.S. government has not devised an effective way to deal with anticompetitive foreign practices that block competitive U.S. exports. As a practical matter such activities are beyond the reach of U.S. antitrust remedies. The absence of overt foreign government policy measures makes the U.S. government reluctant to confront the foreign government involved. The soda ash case shows the limits of cooperation with local antitrust authorities.

The soda ash problem is an important one, however, because if Japan will not permit increased U.S. sales of soda ash—a product area where U.S. firms enjoy a clear competitive advantage—it is unclear how the U.S. can expect to redress the current bilateral trade imbalance. As Wyoming Senator Malcolm Wallop put it, "if the Japanese won't buy U.S. soda ash, then what will they buy?"

#### STATEMENT OF THE AMERICAN PAPER INSTITUTE

The American Paper Institute (API), represents U.S. manufacturers who account for more than 90 percent of U.S. production of pulp, paper and paperboard.

Members of API are encouraged by the joint communique on a U.S.-Japan Global Partnership Plan of Action, issued by President Bush and Prime Minister Miyazawa on January 9, 1992, which calls for the Government of Japan and the Government of the United States to agree, *by the end of March 1992*, on "measures to substantially increase market access for foreign firms exporting paper products to Japan." This is a step in the right direction and the U.S. paper industry welcomes the short deadline for putting forward practical measures to open the Japanese market to U.S. paper products.

But, in the last analysis, it will be the agreement, itself, and the follow-up implementation which will determine whether the pledge made in Tokyo during President Bush's visit translates into significantly enhanced access to the Japanese market for U.S. producers of paper products.

The announcement in the joint communique pertaining to the paper industry is the latest action in ongoing bilateral discussions which began early last year, dealing with Japanese barriers. These discussions, aiming to increase imports of paper and paperboard, and handled in the U.S.-Japan Trade Committee, are viewed by the industry as addressing problems raised within the broader Structural Impediments Initiative ("511") Agreement.

The U.S. paper industry believes that there is much that the Japanese government can do to change the anti-import business culture and practices that have consistently favored imports of raw materials and resisted imports of value-added products. This will require active encouragement and incentives to Japanese importers on the part of the Japanese government.

There is clearly much room for growth to bring the level of penetration of the Japanese market by U.S. paper and paperboard producers up to a level that we believe is consistent with the U.S. industry's cost and quality competitiveness as well as its performance in other international markets.

The U.S. industry has been a significant supplier of pulp—a raw material—to Japan, but has tried unsuccessfully for many years to significantly expand sales of paper and paperboard products in Japan. Japan is the world's second largest producer and consumer of paper and paperboard. Although its natural resources are limited, import penetration of paper and paperboard products in Japan is the lowest in the world. In 1990, Japanese imports of paper and paperboard products from all sources were 4.1% of Japan's total consumption of these products; imports from the U.S. accounted for only 2.2%. For products like printing/writing paper, where an independent study undertaken for the U.S. paper industry last year demonstrated

U.S. producers' superior cost competitiveness (on a delivered basis), U.S. penetration in 1990 was only 0.2% of Japanese consumption of 9 million metric tons. In the packaging area, the United States is the world's largest exporter of kraft linerboard. Yet again, our penetration was only 2.2% of total linerboard consumption there. In fact, U.S. exports of kraft linerboard to Japan fell from 172,000 metric tons in 1983 to an estimated 108,000 metric tons in 1991, a decrease of 37%. By contrast, U.S. exports of kraftliner to the rest of the world during that period grew by 60%.

The U.S. paper industry has the fiber resources, energy and capital, as well as good corporate management, and U.S. producers are prepared to be long term reliable suppliers of high quality paper and paperboard products to Japanese customers. Despite an expanded commitment of resources by U.S. paper and paperboard producers to selling in the Japanese market, an array of "systemic" barriers—in addition to remaining Japanese tariffs on our products—prevent the U.S. paper industry from increasing its penetration of the Japanese market.

An independent study undertaken in the United States last year for the American Paper Institute concluded that the printing/writing paper market in Japan is characterized by strong vertical integration through share holdings—which often includes paper producers, distributors and end users within the same keiretsu, or corporate group. And, there are close horizontal relationships between different paper producers within the same keiretsu. This translates into effective market control, resulting in distributors' reluctance to handle imported papers which compete with their owners' products. In addition, financial institutions in the various keiretsus have strong relationships with paper producers, distributors and printers, as shareholders and/or lenders, reinforcing the producer-distributor relationship. The Japanese system of rebates by producers to distributors during cyclical downswings also discriminates in favor of domestic producers. API has provided detailed information to U.S. negotiators regarding these structural barriers.

For this reason, the U.S. paper industry welcomes the important decision by the Japan Fair Trade Commission (JFTC)—also announced in the January 9 joint communique—"to initiate a survey on conditions in the paper sector from the competition policy perspective, before the end of March 1992." The U.S. paper industry hopes that this study by the JFTC will be a thorough in-depth review of practices affecting competition, including as they pertain to import competition.

Where anti-competitive practices which violate Japanese Anti-monopoly Law and Guidelines are found to exist or are suspected, the Japanese government must follow up with swift and meaningful enforcement to halt those practices.

We firmly believe, however, that a study alone, regardless of its conclusions, cannot alter Japanese business practices. We believe that the commitment to undertake this study should be *just* the first step in a sustained effort by the Japanese government to send a strong signal to the business community that exclusionary practices which hinder imports will not be tolerated.

We believe that appropriate agencies of the Japanese government should review a number of Japanese structural features which impede imports of paper and paperboard and, therefore, need to be forcefully addressed. Key among these are:

(1) The complex, multi-layered and opaque distribution system for paper products. This is coupled with the fact that foreign producers of paper and paperboard are generally unable to deal directly with Japanese customers. Rather, they are routinely instructed to deal through middlemen; -

(2) Conditions in the Japanese paper industry which make the Japanese market unresponsive to the normal forces of supply and demand which operate in other major world markets. These conditions include bank financing practices which prop up non-competitive—i.e., inefficient and high cost—paper and paperboard mills and which permit those producers to build new capacity. This leads to frequent and significant overcapacity, depressing the Japanese market and making it unattractive to more competitive foreign suppliers, and;

(3) Relationships between members of the same keiretsu, or corporate family, which foster exclusionary business practices limiting imports.

We believe that healthy competition from imports would strengthen the Japanese paper industry and greatly benefit Japanese consumers of paper and paperboard.

The U.S. paper industry views the commitments made in Tokyo regarding the paper sector as a positive development. Likewise, a January 6, 1992 announcement of a voluntary initiative undertaken by the members of the National Paper Merchants Association of Japan with the Japanese government—a so-called Business Global Partnership Program—to cooperate with those foreign paper companies who seek access to the Japanese market is a hopeful sign. In the last analysis, however, only a significant increase in imports of U.S. paper products will show the seriousness of the Japanese government's and distributors' intentions.



U.S.T.R. is the lead agency in the bilateral discussions on the paper sector and the U.S. industry is prepared to work actively in the coming weeks with U.S. negotiators. In the marketplace, U.S. companies are prepared to be reliable long term suppliers of quality paper products. Our industry is hopeful that this cooperative U.S.-Japan effort will finally—after more than a decade of effort—result in substantially increased access to the Japanese market for U.S. producers of paper and paperboard.

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STATEMENT OF THE AMERICAN INTERNATIONAL GROUP, INC.

I appreciate the opportunity to submit this statement to the Senate Finance Committee on the results of President Bush's recent trip to Asia. I had the pleasure to be a member of the business delegation that accompanied the President during his visits to Singapore, South Korea and Japan, and participated in or attended many of the discussions he conducted with business and government leaders in each country.

My own company, AIG, has long had an extensive network of insurance and financial services activities throughout Asia. We have the largest business presence of any American insurance organization in both Japan and Southeast Asia, and have been in the region for decades. We are a major life insurer, property-casualty insurer and investor in all of the countries visited by the President.

At every stop on the trip, the President sent a strong message that free and fair trade are the rules to which all nations must adhere. It was the first time that any American President had taken a business group with him on a foreign state visit. This in itself sent an important new signal that the United States intends to elevate trade and economic issues to the highest levels in our relations with other countries.

In Southeast Asia, the most pressing concern among the region's leaders and people is whether the United States would remain an economic force in the face of its declining security interests, or whether we were disengaging and relinquishing these markets—the most rapidly growing in the world—to other competitors. I am confident the President disabused the ASEAN leaders of their concerns with a very strong message that we intend to remain and to strengthen our economic presence in Southeast Asia. He was very direct about our commitment and the necessity of our continued deep involvement in the region.

As Chairman of the U.S.-ASEAN Council for Business and Technology, I chaired the business roundtable discussions in Singapore which provided the President with a forum to discuss, not only the U.S. commitment to ASEAN, but also the specific concerns the United States has about barriers to trade and investment in the ASEAN nations. His message was received clearly.

In addition to the Presidential initiatives announced in Singapore, such as the new environment project and an agreement to negotiate a Bilateral Investment Treaty, our joint Business Council developed an action plan to move the ASEAN nations toward freer trade, greater market access and full national treatment. The plan, which was made possible only by the President's presence, is attached to this statement. It contains a series of joint business and government undertakings to be implemented over the next several months.

In South Korea, the President stressed the same themes of market access and national treatment. Agreements were reached on intellectual property rights, semiconductors and financial services. For our industry, one direct and very positive outcome was a commitment by the Koreans to speed up the product approval process for foreign insurers operating in that market. Again, I believe the visit to South Korea was very successful, and that the President's message was forcefully delivered and received clearly by the Koreans.

Obviously, most of the press interest and public attention focused on the Japan portion of the President's trip. In my view, the meetings with the Japanese were very constructive. They were tough, frank negotiating sessions, but specific commitments were made in the Tokyo Declaration and the accompanying Plan of Action in a remarkable number of areas of great importance to the United States. Much of this, I believe, was lost in the media attention on the auto industry's particular agenda. For example, the Declaration has a provision referring to the reinvigoration of the Structural Impediments Initiative, including new commitments to address specific aspects of the Japanese business environment that impede market access, foreign investment and competitiveness.

President Bush made clear to the Japanese that, in a range of areas, market access is inadequate. In our industry, I believe the Tokyo discussions will ultimately lead to a climate which is more likely to enable foreign insurance companies to do meaningful amounts of business with large Japanese corporations. AIG companies

are the largest underwriters of commercial and industrial insurance in the United States; but despite 46 years of experience in the Japanese market, it has been virtually impossible for us to compete in this sector. While change in this area will take time, I believe it will ultimately occur and benefit the entire industry. The leadership shown by the President on this trip was a major factor in gaining the attention of the Japanese on this important issue.

Unfortunately, but perhaps inevitably, the trip raised unrealistically high expectations. The purpose of such a trip could never have been to completely resolve all major outstanding bilateral issues of trade liberalization and market access. No President could have achieved this in only a few days of high-level discussions, and no one should have expected him to do so. Some of these trade issues have been under negotiation in the GATT for over 5 years.

What President Bush did accomplish, in my view, was something much more important. He set the stage for future discussions and he raised key economic issues between the United States and its Asian trading partners to the highest possible level. We will not see the results of this trip in 10 days or 10 weeks. But, with sustained effort and intensive follow-up, we will see concrete accomplishments over time.

Finally, I think much of the coverage of this trip has focused on a misconception that U.S. business was pushing for "managed trade." This is most definitely not the case. There is a sharp difference between managed trade, which would quickly lead the world back into an era of regionalism and protectionism, and what we are advocating as far as Japan is concerned. We do not believe in managed trade or in quotas. What we should be moving toward is a system under which countries take on the responsibilities of the world trading system as well as the benefits. If the world trading system is to survive, then countries are going to have to play by the same rules, reducing barriers and voluntarily importing goods and services that are more economically and efficiently produced elsewhere.

Not all countries view it that way. Some nations believe it is their right or duty to build up as large a surplus as they can. This approach will inevitably lead to the collapse of the world trading system. Countries that are in surplus should voluntarily open their market to imports of goods and services better produced in other countries, rather than continuing to protect inefficient or marginal domestic industries.

The United States behaves this way to a greater extent than any other nation in the world. I believe we have the right to expect our trading partners to adopt the same approach, and to raise the issue at the highest political levels wherever they do not. This is what the President did on his Asian trip. He delivered an important message of our national will to Asia, the most competitive and dynamic market in the world. The message was transmitted forcefully and was clearly received by the leaders of our trading partners.

Attachment.

U.S.-ASEAN COUNCIL FOR BUSINESS AND TECHNOLOGY, INC.,  
Washington, DC.

#### ACTION PROGRAM BUILDING MOMENTUM: MAXIMIZING PRESIDENT BUSH'S VISIT TO ASEAN

The visit of President Bush to Singapore brought to the forefront U.S. economic and strategic interests in ASEAN. It has focused the attention of leading business associations and government agencies in the U.S. on the potential to expand U.S.-ASEAN trade and investment. The programs proposed below will build on the President's visit, and establish and action agenda to pursue the great potential of ASEAN for American companies.

The programs will include both **promotional activities** as well as efforts to put in place a comprehensive **policy framework** for continued strong economic and commercial links between the U.S. and ASEAN.

#### PROMOTIONAL ACTIVITIES

**U.S. Ambassador's Tour—1992.** Five American Ambassadors in ASEAN, along with their senior commercial officers, will visit six U.S. cities in **March 1992**. The focus will be on informing American companies of the business opportunities in ASEAN. Seminars are scheduled in **Portland, Chicago, Detroit, Atlanta, and Houston**. A meeting with the financial community will be held in **New York**. In addition, the Ambassadors will meet with community leaders, local government officials, and members of Congress. Extensive regional and national press coverage is being organized. This tour should become an annual event.

**ASEAN CEO Visit to USA.** Business leaders from ASEAN will be invited to the U.S. for meetings with counterparts (in particular members of the Presidential Business Delegation). The group will visit the **Los Angeles, St. Louis and Washington in May 1992**. Purpose is business development and increasing awareness of ASEAN opportunities and concerns.

**Trade and Investment Missions.** Missions that are sector-focused on the key growth areas in ASEAN, will be organized in 1992. Programs include: **Environmental Technologies**, June (Philippines and Malaysia); **Clean Coal Technology**, June 5-15 (Thailand, Indonesia); **Machine Tools/Manufacturing Technologies**, July (Thailand, Singapore, Indonesia); **Food Processing & Packaging**, August (Philippines, Thailand, Malaysia); **State of Ohio Governor Voinovich Mission**, September (Singapore, Indonesia, Thailand); **Environmental Technologies**, September (Singapore, Indonesia); **Oil & Gas Equipment and Services—State of Oklahoma Governor Led Mission**, October (Singapore, Malaysia, Indonesia); **Food Processing & Packaging**, November (Philippines, Singapore, Indonesia); **Environmental Technologies**, December (Thailand, Malaysia)

ASEAN Missions to the United States will also be organized, including: **Environmental Technologies**, May; **Food Processing & Packaging**, June; **Machine Tools/Process Controls**, August.

**ASEAN Ambassadors Tour.** The ASEAN Ambassadors have frequently travelled as a group to various U.S. locations. The Council will organize an ASEAN Ambassadors tour to four cities in September 1992, as a follow-up to the U.S. Ambassador's visit. Both business and political leadership will be involved in the program.

**U.S.-Asia Environmental Partnership.** Announced by President Bush in Singapore, this program coordinates the efforts of U.S. Government agencies to promote U.S. investment and trade in the environmental industry. The Council will establish a task force to monitor this initiative, and ensure active business participation in its planning and implementation. The Council will also work with the ASEAN Section to engage ASEAN private and public sectors in this broad program.

**Briefings and Meetings in ASEAN.** The Council will launch a series of briefings between senior U.S. Government officials and regional representatives of Council member companies resident in ASEAN. These will be coordinated through the Council's Singapore office.

#### POLICY INITIATIVES

**A New Strategy for ASEAN.** In early 1991, the Council hosted an initial strategy meeting from the private and public sector to discuss a broader strategy for projecting U.S. interests in ASEAN. The Council will convene another such meeting in early 1992. The NSC should coordinate government participation with the Council on defining and implementing an economic and commercial action agenda with ASEAN.

**Bilateral Investment Treaties.** The Council will work with USTR and State, providing private sector perspectives on the Singapore-U.S. BIT negotiations. The Council will actively encourage other ASEAN countries to consider the negotiation of these agreements.

**Trade and Investment Cooperation Committee.** The Council will coordinate with USTR in recommending agenda items for the next meeting of the TICC. The Council will serve to organize U.S. and ASEAN private sector involvement in the meeting of the TICC (planned for April, 1992), and will hold a plenary meeting in conjunction with the TICC meeting.

**Trade and Investment Framework Agreements.** The Council will strongly encourage other ASEAN countries to enter into TIFA agreements with the U.S., as a prelude to a U.S.-ASEAN free trade arrangement.

**Double Taxation Treaties.** Lack of these treaties seriously inhibits the competitiveness of American companies in ASEAN. New treaties are needed with Thailand, Malaysia and Singapore, and the existing agreement with the Philippines should be updated.

**High-level Visits.** The U.S. Government should reciprocate the President's visit to Singapore with invitations to other ASEAN leaders to make official visits to the U.S. As a start, Prime Minister Mahathir should be invited in early 1992.

These initiatives will be over and above involvement in on-going government-to-government consultations, including the Post Ministerial Conference, the ASEAN-U.S. Dialogue, and the Economic Coordinating Committee.