PROS AND CONS OF INITIATING NEGOTIATIONS WITH JAPAN TO EXPLORE THE POSSIBILITY OF A U.S.–JAPAN FREE TRADE AREA AGREEMENT

Report to the Senate Committee
on Finance on Investigation
No. TA–332–255
Under Section 332
of the Tariff Act of 1930

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Preface

On June 23, 1988, the United States International Trade Commission instituted investigation No. 332–255, "Report on the Pros and Cons of Initiating Negotiations with Japan to Explore the Possibility of a U.S.-Japan Free Trade Area Agreement." The investigation, conducted under section 332(g) of the Tariff Act of 1930, was in response to a request from the Senate Committee on Finance. The study contains a summary of views of recognized authorities on U.S.-Japan relations on the pros and cons of entering into negotiations with Japan to explore the possibility of establishing a U.S.-Japan free trade area agreement.

Notice of this investigation was given by posting copies of the notice at the Office of the Secretary, U.S. International Trade Commission, Washington, D.C., and by publishing the notice in the *Federal Register* (53 F.R. 24503, June 29, 1988)(app. C).

A public hearing in connection with this investigation was held in the Commission's hearing room on July 27, 1988 and testimony was received from interested parties.

The information contained in this report was obtained from a number of sources, including fieldwork, interviews and written submissions.

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Executive Summary

The genesis of the concept of a Free Trade Agreement between the United States and Japan, as enunciated by U.S. Ambassador to Japan Mike Mansfield, was a perception that a history of bilateral trade disputes has had a corrosive effect on the overall U.S.-Japan relationship. Pointing to generally good political and security relations and growing economic interdependence, in the fall of 1987, Ambassador Mansfield offered the FTA concept as an alternative to the present piecemeal approach to negotiations with Japan. He suggested that it could serve as a possible mechanism for more productive, less highly charged negotiations on bilateral trade issues. Many participants in the Commission's study noted that such an agreement might not be in the form of a traditional FTA dealing strictly with tariffs, quotas, and other formal border barriers to trade.

Relatively few participants in the Commission's investigation viewed the possibility of entering into FTA negotiations with Japan as a totally negative and unworthwhile exercise or, on the other hand, a totally positive and useful approach. The watchword was "caution." The vast majority of participants adopted one position or the other as a starting point, but noted their concerns or reservations about the viewpoint they were taking as well as conditions that might cause it to change. Moreover, no clearcut differences of opinion could be distinguished based upon participants' professional vantage points—U.S. Government officials, academics, and business persons voiced similar ideas and concerns on many of the same issues.

Nearly all of the people whose views were obtained in this investigation shared Mansfield's belief that the present methods of handling trade disputes engender some degree of bitterness and frustration on both sides of the Pacific. However, few in the United States were optimistic that alternative negotiating approaches, including an FTA, would produce better market-opening results. Many of the remaining barriers are embedded in the Japanese economic system and culture, they believed, and are not easy to address via a single comprehensive agreement such as an FTA. Furthermore, many U.S. participants believed that differences in industrial structure, business practices, legal systems, languages, and social customs would make it very difficult, if not impossible, to realize the goal of truly free trade between the United States and Japan. Some participants believed that the United States' present approach to trade negotiations with Japan is appropriate and successful, particularly in resolving specific problems. However, a number of these individuals pointed to a need for improving the U.S. trade policy decisionmaking apparatus and for employing negotiating resources more effectively.

Participants also expressed concern about the effects of a bilateral FTA agreement with Japan on the multilateral framework of the GATT and on third countries. Most recommended that the United States first take stock of its goals in negotiations with Japan, see how recent changes in exchange rates and Japanese domestic policies play out, and have a better idea of the prospects for the Uruguay Round before undertaking a major trade policy initiative such as an FTA. A few participants offered specific alternatives to an FTA such as managed trade, bilateral trade commissions, or a limited agreement on issues such as financial matters, services, and intellectual property.

Other participants believed it is both possible and desirable to develop a better way of resolving U.S.-Japan trade disputes, and thought that an FTA or similar type agreement could accomplish this aim. These individuals often claimed that the present confrontational, ad hoc approach has contributed to a deterioration of overall U.S.-Japan relations. They suggested that a more coherent, systematic, and regular means of handling trade issues might be the outgrowth of exploring and concluding a bilateral FTA. Advocates of this position seemed to have in mind a comprehensive and ambitious agreement, something that would go beyond a traditional FTA, such as the U.S.-Canada FTA, to include domestic policies that adversely affect trade.

Supporters of the FTA approach often admitted that it might be difficult to remove all of the remaining barriers in the Japanese market through FTA negotiations alone, but argued that even exploring the idea could lead the two countries to a better understanding of the problems and potential of the U.S.-Japan economic relationship. Many supporters of the FTA approach counseled for taking great pains to ensure that any potential agreement is GATT consistent. A number also called for leaving the door open to participation by other countries at some future date.

Advantages of the FTA approach

Some participants in the Commission's investigation said that the FTA approach offers certain advantages. It could enhance the ability of the United States to achieve its market-opening objectives with Japan by improving the negotiating climate and providing a better sense of direction to U.S.-Japan trade negotiations. It might also give a needed stimulus to the Uruguay Round and encourage other countries to be more forthcoming in opening their markets to U.S. firms. A number believed "exploring the possibility" could provide an opportunity for a reassessment of and improvement in the domestic policymaking process with respect to Japan.

Among the most commonly cited benefits are that it could:

Improve the political atmosphere for negotiations with Japan

- Give formal recognition to the already substantial economic relationship between the United States and Japan.
- Elevate U.S.-Japan trade policy to a status equal to military and political concerns.
- Improve the atmosphere of negotiations because the forum, goals, and timetable would be mutually agreed upon.
- Create a less confrontational and regular dispute settlement mechanism to resolve problems prior to resort to Section 301 or the GATT.

Enhance U.S. ability to achieve trade objectives

- Compel a reassessment of U.S. goals in trade with Japan and the establishment of U.S. negotiating priorities.
- Provide a better mechanism for identifying and addressing remaining systemic barriers in Japan—such as the distribution system—than the current product-by-product approach.
- Enhance U.S. leverage by providing a "big carrot" to offer Japan.
- Provide a vehicle for developing rules in "new areas," such as services, investment, and intellectual property.
- Be a more appropriate means for dealing with Japanese domestic policies that have an impact on trade—such as enforcement of antimonopoly laws, industrial policy, and financial market regulation—than the present "fair" trade approach.
- Help focus and shift Japanese government and public thinking about imports and open access.

Confer economic benefits

- Compel removal of remaining formal barriers to trade, such as those affecting agriculture in Japan and autos in the United States, as well as force an evaluation of all existing informal barriers against a yardstick of "free trade."
- Provide economic benefits in the form of trade creation, greater economic efficiency, more competition, and lower consumer prices.
- Encourage U.S. firms to take greater advantage of opportunities in the Japanese market.

Support other U.S. trade objectives

- Stimulate action in the Uruguay Round by signalling U.S. willingness to pursue bilateral options unless there are meaningful results in areas like services and intellectual property.
- Be a ready "second best" alternative if GATT talks fail.
- Stimulate market-opening overtures by other nations, such as Taiwan and Korea, seeking to ensure continuing access to the U.S. market.
- Provide leverage to deal with potential damage to U.S. commercial interests arising out of the European Community's integration efforts (1992).

Disadvantages of the FTA approach

A number of participants thought the FTA approach could detract from the United States' ability to secure opening of the Japanese market, exacerbate present bilateral tensions, undermine the multilateral trading system, and damage relations with third countries.

Among the most commonly voiced opinions against an FTA are that it could:

Worsen the political climate for negotiations with Japan

- Result in false expectations, raise the political stakes, and set in train a process that could compel negotiators to reach a deal even if it is not in the United States' best interests.
- Have adverse consequences for the overall relationship between the United States and Japan if the approach failed, or if an agreement were concluded but did not work.
- Not eliminate the need for resort to pressure tactics, since it is virtually impossible to resolve thorny trade issues, such as agriculture and construction, without raising them to Japan's highest political levels.

Not produce meaningful improvement in market access in Japan

- Not produce real market opening, since:
  - Japan's tariffs on manufactured goods are already among the world's lowest and Japan retains few quotas or other official barriers to imports.
  - A single agreement is unlikely to be adequate to secure change of formal barriers which are imbedded in Japan's economic system and culture, such as industrial targeting, the distribution system, and agriculture.
  - The less formal problems of doing business with Japan—such as a "Buy

Japan" mentality, the close knit relationships among Japanese business and government, and restrictive business practices—are difficult or impossible to remedy through an FTA.

- Negotiations on an FTA would result in stalling by Japan and distract limited U.S. negotiating resources from important, specific trade problems.

Impose economic costs

- Result in adjustment difficulties for major manufacturing industries in the United States, such as steel, autos, machine tools, and textiles.
- Cause a worsening of the U.S. bilateral trade deficit with Japan, given the United States' well developed distribution and marketing channels for imports and its consumer-driven economy.
- Result in trade diversion. Consumers would buy some products from Japan instead of lower cost foreign suppliers, because the difference in their cost is smaller than the preferentially waived duty. Since the Japanese goods cost more to the United States as a whole (because no duties would be collected), trade diversion is a loss to the U.S. economy.

Frustrate realization of overall U.S. trade objectives

- Have an adverse impact on the multilateral framework of the GATT because the United States is viewed as the linchpin of the global trading system.
- Derail the Uruguay Round by calling into question the commitment of the round's two leading proponents. Such a failure may further diminish the GATT's relevance to present commercial realities, thus encouraging tit-for-tat, unilateral measures and the formation of regional blocs to address pressing commercial concerns.
- Have an adverse impact on U.S. relations with countries such as the European Community, Asian countries, Australia, New Zealand, and others:
  - Encourage the EC to develop a "fortress Europe" mentality, by reinforcing those who are willing to disadvantage U.S. and Japanese interests in the EC's efforts to complete the internal market by 1992.
  - Reduce U.S. credibility to obtain redress for the adverse effects of other countries' bilateral or regional arrangements.
  - Damage commercial and foreign policy relations with other Asian nations, an area of growing importance to both the United States and Japan.
  - Force the United States and other countries into bilateral relationships with Japan, limiting opportunities to bring multilateral pressure to bear on "the Japan problem."

Alternative approaches

Some participants offered one of four general alternative approaches to pursuing discussions about trade issues with Japan other than an FTA: (1) developing a series of broad economic understandings with Japan; (2) managing the bilateral relationship through numerical goals; (3) developing new institutions to handle bilateral or regional issues; or (4) trying other methods of negotiation or using certain goals in trade talks. Other ideas suggested instead of a U.S.-Japanese FTA included limiting negotiations to tariff elimination and creating a dispute-settlement mechanism, negotiating trade liberalization with like-minded countries if the Uruguay Round fails, or concluding an agreement with Japan covering financial matters, services, or intellectual property.

Introduction

In recent years, the U.S. Government has explored the use of bilateral instruments to advance U.S. trade and commercial policy objectives. Bilateral free-trade area (FTA) agreements with Israel and Canada have been among the results of this policy thrust. Increasingly, decisionmakers have been asked whether FTA's would be useful policy tools to handle relations with other trading partners as well.

What is an FTA? In the most "traditional" sense, an FTA may be defined as an agreement that eliminates tariffs or other border measures between countries, although even the GATT, in including "other restrictive regulations" in its description of FTA's leaves the door open to broader interpretations.[1] In fact, during the 1980's both multilateral agreements (e.g. the Tokyo Round Codes) and bilateral agreements have increasingly addressed "nontraditional" or nontariff measures that restrict trade, thus lending greater scrutiny to countries' domestic regulatory affairs.

U.S. Ambassador to Japan Mike Mansfield has proposed in recent speeches and articles that the United States and Japan might benefit from exploring the possibility of negotiating a bilateral FTA agreement or some similar type of arrangement. Concerned that nearly continuous, often highly charged confrontations over a long list of sectoral issues have had a corrosive effect on the overall U.S.-Japan relationship, Ambassador Mansfield has suggested that, "The United States should switch from approaches which politicize trade issues, exacerbate friction, raise emotional stakes, erode public support. . . and risk undermining both countries' commitment to the alliance."

Ambassador Mansfield suggests that FTA negotiations could serve to set trade problems against a larger backdrop of substantial and growing commercial ties and a strong political and military alliance, enabling both countries to deal with the entire economic relationship in a comprehensive and constructive fashion. This would put U.S.-Japanese trade relations on a sounder footing, a top priority in his view, considering that it may take some time for recent market-opening agreements to take hold and for macroeconomic forces to rectify major imbalances in U.S. and Japanese economic performance. Just exploring the feasibility of an FTA or similar agreement would be a beneficial exercise, Mansfield claims, since it would provide an occasion to reevaluate the relationship, to review existing agreements and forums, and to determine how best to handle future trade problems. Although personal conceptions of the exact nature and scope an FTA may differ, Mansfield and others apparently envision an FTA with Japan as extending to important nontariff measures, as did the agreements with Israel and Canada.[2]

In his formal submission for the record, Ambassador Mansfield raises a number of questions with important bearing on the advisability of entering into negotiations on an FTA with Japan. Are longstanding U.S. objectives of market access and free and fair trade with Japan appropriate? Has the escalation of bilateral trade friction harmed overall U.S.- Japan relations? Would the present approach, or a consolidated FTA approach, more efficiently employ U.S. negotiating resources? What is envisioned by the term FTA when applied to the United States and Japan? Are product-by-product and sector-specific talks appropriate in some cases and would an FTA subsume or restrict them? Can an FTA work, given profound differences in business traditions and economic systems? Are there adverse third country reactions and side-effects to consider? Would there be ill effects on multilateral institutions and negotiations now underway? These concerns also ranked high in the minds of participants who offered their opinions to Commission staff in this investigation. Ambassador Mansfield's submission can be found in Appendix A.

Senator Byrd's proposal

On January 14, 1988, Senator Robert Byrd met with Japanese Prime Minister Takeshita and proposed that both sides begin independent studies on the advantages and disadvantages of initiating negotiations with the ultimate goal of establishing a free trade area. Senator Byrd reiterated his proposal in a letter to the Prime Minister on January 28, 1988. Apparently in response to Senator Byrd's proposal, Japan's Ministry of Foreign Affairs and Ministry of International Trade and Industry undertook preliminary analyses of a bilateral FTA; other studies are also underway within the Japanese Government and private sector.[3]

The Finance Committee request

On June 15, 1988, the Commission received a request from the Senate Committee on Finance to

[1] GATT article XXIV:8(b) defines a free-trade area as a "group of two or more customs territories in which duties and other restrictive regulations of commerce... are eliminated on substantially all the trade between the constituent territories in products originating in such territories." An FTA differs from a customs union in that a customs union is "the substitution of a single customs territory for two or more customs territories" and "substantially the same duties and other regulations of commerce are applied by each of the members of the union to trade of territories not included in the union" (article XXIV:8(a).

[2] For example, both agreements contained provisions covering trade in services. The agreement with Canada covered certain investment, government procurement, and standards issues.

[3] In addition to the studies already begun by the Ministry of Foreign Affairs and Ministry of International Trade and Industry, Japan's Ministry of Finance apparently began its own study in August 1988.

provide the Committee with a summary of views of recognized authorities on U.S.-Japan relations on the pros and cons of entering into negotiations with Japan to explore the possibility of establishing a U.S.- Japan free trade area agreement.

The Commission was requested to summarize the views on an FTA that could include the eventual complete elimination of all tariffs and other restrictive regulations of commerce on substantially all trade between the two countries, the removal of barriers to investment and trade in services, and the guarantee of adequate protection of intellectual property rights. The Committee also asked the Commission to clearly identify special characteristics of the Japanese economic and political system that the experts believe would render the completion of an FTA less than ideally effective, and to present the experts' suggestions for alternative ways the United States should approach them. The Committee's request is reproduced in Appendix B.

In response to the Committee's request, on June 23, 1988, the Commission instituted investigation No. 332-255 under Section 332 of the Tariff Act of 1930. As part of its investigation, the Commission sought the views of persons having direct experience in U.S.-Japan trade negotiations, U.S. businesses having experience in the Japanese market, academics with an expertise in U.S.-Japan relations, U.S. officials and U.S. business representatives in Tokyo, and Japanese Government officials. Direct interviews, the primary research method, were conducted with a total of 122 individuals[1] in the United States and Japan. The Commission received 34 written submissions and a public hearing on the matter was held on July 27, at which witnesses presented their views (see Appendix C for a list of the written submissions and witnesses at the Commission hearing).

In its investigation, the Commission endeavored, in the short time available, to contact as many persons as possible known to have knowledge and experience in the area. The views summarized in this report reflect the opinions and concerns of the individuals interviewed, submitting written statements, or testifying (hereinafter collectively referred to as "participants" in the investigation). The report does not reflect an independent assessment by the Commission on the pros and cons of entering into such negotiations.

Senate staff indicated that the candid views of persons involved in trade relations with Japan were desired, and that it probably would only be possible to obtain such frank opinions on an unattributed basis. Virtually all U.S. government officials offered their personal, rather than official, views and requested anonymity. The Commission decided that a minimal level of attribution was desirable in order to protect the confidentiality of sources who wished to remain unattributed and to maintain impartiality in reporting opinions. However, some identification of the group or background of individuals expressing a particular view has been provided when such delineations were possible and meaningful.

A standard questionnaire was not used in this investigation. Answers to questions posed in interviews generally drew on the strengths and experiences of individual participants. Therefore, on some points or issues it was not possible to accurately determine whether "a majority" shared a particular opinion. Where a clear majority of participants did express an opinion, it is clearly indicated as such.

Organization of the report

This report consists of three parts: an executive summary, a background section, and a summary of expert views. In order to give readers some context for Ambassador Mansfield's call for an exploration of the free trade area concept, a brief recap of recent U.S.-Japan trade negotiations is provided in the "background" section, along with data on exchange rates and merchandise trade. The summary of expert views follows, with separate chapters summarizing their views on (1) market access in the United States and Japan, (2) the present negotiating approach, (3) the possible advantages of an FTA, (4) the possible disadvantages of an FTA, (5) implications of FTA negotiations for relations with third countries and (6) the multilateral trade system, and (7) alternative approaches put forth for consideration.

[1] The breakdown by group is as follows: U.S. executive branch (26); Congressional staff (13); former high-level U.S. officials (7); U.S. academics (19); Japanese Government officials (9-principals only); U.S. private sector (12); other foreign government officials (3); other non-government experts (13); Japanese business representatives (4); Japanese academics and journalists (3); U.S. officials in Tokyo and Osaka (13).

Background

Faced with heightened international competition, ballooning U.S. trade deficits, and concerns about securing a "level playing field" for U.S. firms in international competition, the United States has engaged Japan in nearly continuous negotiations over trade matters during the past decade. (The U.S. trade deficit with Japan nearly doubled from 1983–87, to $57.1 billion, accounting for 36 percent of the United States' total deficit in merchandise trade.) This intensive U.S. focus on barriers in the Japanese market has led to the identification of a number of formal and informal practices that inhibit U.S. exports and to a series of agreements intended to secure their removal.[1] At the same time, Japanese suppliers have made substantial inroads in U.S. and foreign markets, posing adjustment challenges for a number of major U.S. industries. The result has been the imposition of voluntary and formal restraints on a number of U.S. imports from Japan, including automobiles, carbon steel, specialty steel, textiles, machine tools, motorcycles, and semiconductors.

Over the course of the past ten years, America's focus in market-opening negotiations with Japan has shifted from more generic issues, such as the restrictive effects of Japanese government procurement procedures, standards certification system, and industry targeting, to the removal of barriers affecting particular industries or products. Mainline industries, such as autos and steel, have moved down from the top of the negotiating agenda as competition in high-technology industries has intensified. Throughout the period, there has been tension between the goal of securing equal opportunities to compete in Japan, largely through procedural changes, and a more result-oriented approach aimed at actual increases in U.S. sales. In the meantime, Japan has moved from the adoption of "packages" of trade-related measures to more focussed efforts to resolve outstanding product-specific disputes. A chronology of major bilateral developments can be found in Appendix D.

Existing bilateral forums

The U.S. Government and the Government of Japan discuss bilateral trade issues at a number of levels. Issues may be raised through regular negotiating channels, ad hoc approaches may be employed, and technical or specialized issues may be handled by "expert groups." Regular forums include the Economic Subcabinet,[2] the Trade Committee,[3] and the Structural Economic Dialogue,[4] which each meet approximately every 6 months. Experts' groups have also been set up from time to time to handle specialized issues such as the Industrial Policy Dialogue, the High Tech Work Group, and the recently formed experts' group on intellectual property issues. Highly contentious issues are often broken out of these forums, however, particularly when allegations of "unfair" trade have been made. Thus, the semiconductor, legal services, supercomputer, public works construction, and beef and citrus issues were all handled by ad hoc groups formed under the threat of U.S. action under Section 301 of the Trade Act of 1974 or through resort to the GATT.

Specialized negotiations have also been undertaken to address market-access problems in specific sectors even when violations of existing trade agreements were not alleged. The so-called MOSS (market-oriented, sector-selective) negotiations were an intensive effort to get at all barriers to U.S. exports in four key product areas and involved subcabinet-level U.S. officials, Japan specialists, and technical specialists. In addition to these forums, it is common to set up a regular review of outstanding agreements. For example, regular bilateral consultations on the agreement on procurement by Nippon Telegraph and Telephone are conducted each year.

[1] The bilateral agreement on Nippon Telegraph and Telephone procurement; Japan's changes in numerous laws governing standards and certification; market-oriented, sector-selective (MOSS) talks on telecommunications, medical equipment, and pharmaceuticals; Japan's new procedures for the procurement of supercomputers; and the agreement of public works construction all stemmed from the U.S. efforts to secure procedural changes in Japanese domestic practices. Japan has also removed or lowered formal border barriers as a result of U.S. demands, including quotas on beef, citrus, fish products, and certain processed agricultural products, and tariffs on forest products, cigarettes, aluminum, and chocolate confectionery.

[2] The U.S.-Japan Economic Subcabinet is a subcabinet-level bilateral forum co-chaired by the U.S. Undersecretary of State for Economic and Business Affairs and Japan's Deputy Foreign Minister. Representatives of each country's respective agencies dealing with trade and economic matters regularly participate in these meetings. The Economic Subcabinet serves as a forum for reviewing and exchanging views on a broad range of bilateral and global economic issues of mutual concern, both trade and financial. It generally is not a forum for negotiations per se.

[3] The Trade Committee is chaired on the U.S. side by the Deputy United Stated Trade Representative and on the Japanese side by the Director General of the Economic Affairs bureau of the Ministry of Foreign Affairs. Each side is composed of an interagency delegation of trade-related agencies. The Trade Committee is a regular forum for reviewing bilateral trade issues. Although is is not formally a negotiating vehicle, it is often the first official forum for raising trade issues of major concern to either country.

[4] The Structural Dialogue was formally established in 1986 and is co-chaired on the U.S. side by the Departments of State and Treasury at the Subcabinet level. The Japanese side is co-chaired by Japan's Ministry of Foreign Affairs, Ministry of International Trade and Industry, and Ministry of Finance. It was established to provide a regular opportunity for both governments to explore the relationship between domestic and structural economic issues and external imbalances. Its terms of reference specifically state that it is not a negotiating forum. Essentially, it involves an exchange of views on domestic issues, such as the distribution system, land policies, credit and savings policies, budget deficits, etc., and their impact on external accounts. The group's last meeting is scheduled for October 1988.

Within the United States Government, different groups of officials, in several agencies, are responsible for different issues. For example, negotiations on Japanese market access are generally handled by different people than those officials negotiating agreements to restrain imports into the United States. Technical experts handle a number of issues such as government procurement, standards, intellectual property, and export controls. The amount of give-and-take between issues is generally limited, and for a variety of reasons, tradeoffs are usually not made between various industries.

The Office of the United States Trade Representative is formally responsible for coordinating the interagency process in the U.S. Government and for conducting trade negotiations with foreign countries. However, other agencies take the lead on certain issues: the Commerce Department on export controls and dumping matters; the Treasury Department on financial market issues and alcoholic beverages; the Department of State on the Economic Subcabinet and the Structural Economic Dialogue, as well as coordinating responsibility for the MOSS talks. The Departments of State and Transportation exclusively handle civil aviation issues and the Department of Justice holds annual consultations with Japan's Fair Trade Commission in conjunction with the Federal Trade Commission.

In Japan, the Ministry of Foreign Affairs and the Ministry of International Trade and Industry (MITI) are the two primary players. However, other Ministries play an important role: the Ministry of Agriculture, Forestry and Fisheries has the lead for agriculture and fisheries; the Ministry of Finance for tariffs, financial regulation, cigarette distribution and alcoholic beverages; the Ministry of Health and Welfare for labeling requirements and food sanitation laws; the Ministry of Construction for public works construction; and the Ministry of Education for patents and copyright issues.

Many recent negotiations with Japan on specific issues have not involved an exchange of concessions between the United States and Japan. Rather, the United States has sought redress from Japan for barriers that limit market access for U.S. products and services without believing it appropriate to offer anything in return. This approach has been followed either because the Japanese practice is seen as burdensome and unreasonable, because it appears to nullify or impair concessions granted by Japan under agreements, or because the United States feels it is the "wronged" party in some sense.

A number of trade issues have been resolved during the course of these negotiations. However, the manner in which agreements are reached and implemented varies. Some negotiated compromises become formal bilateral agreements, but many take the form of less formal understandings, such as an exchange of letters, a jointly issued report, or unilateral Japanese action. Thus, none of the so-called MOSS agreements are in fact agreements, the supercomputer issue was resolved by an exchange of letters and unilateral Japanese domestic measures, and the semiconductor dispute resulted in a bilateral "understanding" and a series of less formal side letters.

Trade and exchange rates

During 1983–87, the relationship between the Japanese yen and the U.S. dollar underwent a dramatic change. From January–March 1983 to January–March 1985, the dollar appreciated against the yen from 235.74 yen/U.S. dollar, to 257.68 yen per dollar. Since early 1985, the yen has strengthened against the dollar considerably, reaching 187.88 yen per dollar in January–March 1986, 153.17 in January–March 1987, and 128.00 in January–March 1988.

Japan's trade with the world

Japan's trade with the world during 1983–87 was marked by growth in exports significantly exceeding its growth in imports. Japan's exports rose by 57 percent during the 5-year period, from $147.0 billion in 1983 to $231.3 billion in 1987. Imports into Japan rose by 19 percent over the same period, from $126.5 billion in 1983 to $150.9 billion in 1987. During this period, Japan's trade surplus rose by 292 percent, from $20.5 billion in 1983 to $80.4 billion in 1987. After widening sharply throughout the early 1980's, Japan's surpluses on current account and merchandise trade declined both absolutely and relative to GNP from 1986–1988, according to Japan's Ministry of Finance:

Fiscal year	*Current acct. surplus ($ billions)*	*Ratio to GNP (percent)*	*Merch-andise trade surplus ($ billions)*	*Ratio to GNP (percent)*
1985	55.02	3.8	61.6	4.2
1986	94.57	4.5	101.6	4.9
1987	84.54	3.3	94.3	3.7
1988 (est.) ..	72.00	2.6	81.0	3.0

According to Japan's Economic Planning Agency, Japanese economic growth has been fueled by domestic demand in the last three years:

Fiscal year	*Real economic growth rate*	*Contribution by*	
		Domestic demand	*Foreign Demand*
1985	4.4	3.7	0.8
1986	2.6	4.1	-1.5
1987	4.9	6.0	-1.0
1988 (est.)	3.8	4.7	-1.0

According to the Ministry of Finance, Japan's imports of manufactures have risen steadily from 1983–87, both in absolute and relative terms:

Calendar year	Import of manufactures (100 million yen)	Growth from previous year (percent)	Share of manufactured goods in total imports (percent)
1983	365	16.1	28.2
1984	408	11.8	30.3
1985	410	0.6	31.5
1986	552	34.8	44.1
1987	739	33.8	45.6

According to MITI, import penetration has increased for some consumer products, such as 35mm cameras (50 percent), calculators (50 percent), portable radios (60 percent), toys (40 percent) and clothing (40 percent).

Japan's trade with East Asia

During the past five years, Japan has registered substantial increases in imports from the newly industrialized economies (NIE's)—South Korea, Taiwan, Hong Kong, and Singapore. Many of the increases took place during 1986–87. Japan's imports from Korea and Taiwan rose by greater magnitudes than did Japan's imports from Hong Kong and Singapore.

According to statistics of the Japan Tariff Association, Japan's imports from Korea rose by 140 percent, from $3.4 billion in 1983 to $8.1 billion in 1987. Japan's imports from Taiwan rose by 172 percent over the same period, from $2.6 billion to $7.1 billion. Japan's imports from Hong Kong during 1983–87 rose by 133 percent, or from $669 million in 1983 to $1.6 billion in 1987. The value of Japan's imports from Singapore rose by 39 percent over the same period, from $1.5 billion in 1983, to $2.0 billion in 1987.

Japan's exports to the Newly Industrialized Economies (NIE's) also increased from 1983 to 1987, with most of the increases taking place during 1986–87. Japan's exports to Korea rose by 120 percent during the 5-year period, from $6.0 billion to $13.2 billion, and exports to Taiwan rose by 123 percent, from $5.1 billion to $11.3 billion. Japan's exports to Hong Kong rose by 68 percent, from $5.3 billion to $8.9 billion from 1983–87. During the same period, Japanese exports to Singapore rose by 35 percent, or from $4.5 billion to $6.0 billion. Japan maintained unbroken trade surpluses with all four countries during 1983–87.

U.S. trade with the world

During 1983–87, the U.S. trade deficit with the world increased by 184 percent, from $55.6 billion in 1983 to $158.2 billion in 1987. U.S. exports rose by 21 percent, from $201.1 billion in 1983 to $243.9 billion in 1987. U.S. imports rose by 57 percent over the period, from $256.7 billion to $402.1 billion.

U.S. trade with Japan

U.S. imports from Japan rose from $40.9 billion in 1983 to $84.0 billion in 1987, or by 105 percent. Over the same period, U.S. exports to Japan rose from $21.2 billion to $26.9 billion, or by 27 percent. The bilateral trade deficit with Japan rose from $19.7 billion in 1983 to $57.1 billion in 1987, a 190 percent increase.

During 1983–85, the share of imports from the United States in Japan's total imports was 20 percent. This figure rose to 23 percent in 1986, but declined to 21 percent in 1987. The share of imports from Japan in total U.S. imports rose from 16 percent in 1983 to 22 percent in 1986, and accounted for 21 percent in 1987.

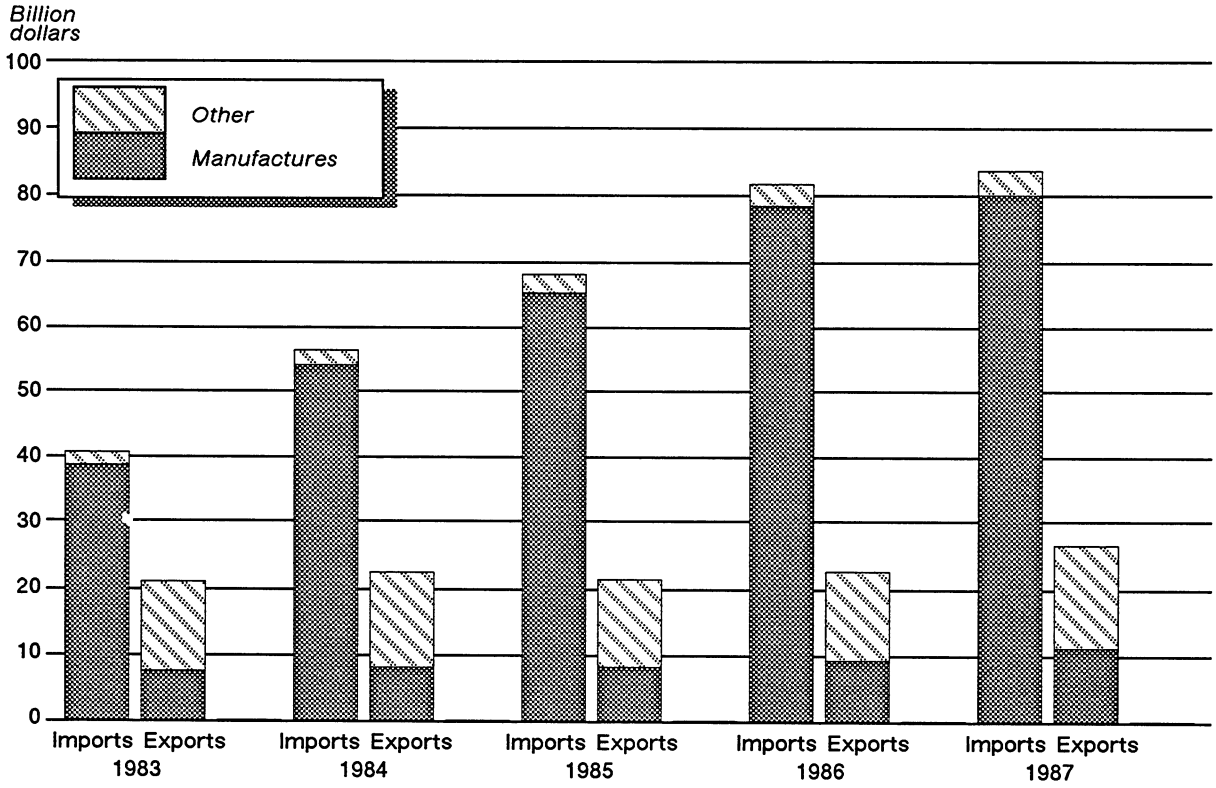
The proportion of Japan's total exports reaching U.S. markets rose from 29 percent in 1983 to 37 percent in 1987. The share of total U.S. exports that went to Japan was 10 or 11 percent in each year in the same five year period.

Manufactured goods accounted for nearly all (96 percent in 1984–87) of U.S. imports from Japan.[1] U.S. exports of manufactured goods accounted for a lower (42 percent in 1987), but increasing, share of U.S. exports to Japan.

In dollar terms, U.S. imports of manufactured goods from Japan rose from $39.0 billion in 1983 to $80.4 billion in 1987, or by 106 percent (see figure 1). U.S. exports of manufactured goods to Japan rose from $7.5 billion in 1983 to $11.2 billion in 1987, a rise of 49 percent. The bilateral trade deficit in manufactured goods rose from $31.5 billion in 1983 to $69.4 billion in 1986 and fell slightly to $69.1 billion in 1987, representing an increase of 120 percent over the 5-year period.

[1] Manufactured goods are defined as goods classified in sections 6 (manufactured goods classified chiefly by material), 7 (machinery and transportation equipment), and 8 (miscellaneous manufactured articles) of the Standard International Trade Classification (Revision 2) of the United Nations. U.S.-Japan trade data is disaggregated on a one-digit SITC basis in Appendix F, tables 5–7.

Figure 1
U.S. trade with Japan: Manufactured and other goods, 1983-87



Source: Official statistics of the U.S. Department of Commerce.

Summary Of Views

This section summarizes the views of the experts interviewed by Commission staff, making formal submissions, or participating in the Commission's hearing on the possible advantages and disadvantages of the FTA approach, as well as their suggestions for alternative approaches to U.S.-Japan trade relations.[1] Views on the present negotiating approach, market access in the United States and Japan, and the implications of FTA negotiations for third countries and the GATT are also presented.

Several points should be kept in mind in reviewing the material. Although the Senate Finance Committee's request was for a summary of the pros and cons of "entering into negotiations with Japan to explore the possibility of establishing a U.S.-Japan free trade area," persons presenting their views to the Commission generally found it difficult, if not impossible, to separate their views on "exploring the possibility" from their views on the advisability of actually concluding a free trade area agreement. Therefore, most of the comments that follow should be interpreted as covering both. A number of individuals did raise special concerns about the exploratory process itself, or felt that it offered special advantages; these are specifically identified as such. Participants also offered observations about problems in access to the Japanese market, the present U.S. negotiating approach towards Japan, and U.S. trade policy generally, in an effort to explain why, relative to the present situation, an FTA might or might not be an appropriate approach. However, because these comments did not always fit neatly into "pros" or "cons" of a U.S.-Japanese FTA, they are reported separately in sections that follow.

The majority of participants did not have in mind a precise definition of a U.S.-Japan FTA. Most agreed that, at a minimum, an FTA should fit the GATT article XXIV definition that entails elimination of "duties and other restrictive regulations" on "substantially all the trade" between countries. Some participants saw an FTA as an agreement that mainly (or most successfully) addresses tariffs and quotas while others viewed it as a vehicle that could cover a broad range of trade restrictive measures. A few participants viewed the term FTA as referring, in general, to a comprehensive bilateral economic relationship, yet others insisted that FTA is not the correct term or type of agreement to cover a broad economic agenda. The majority referred to an agreement that would be more comprehensive than a traditional FTA covering mainly tariffs and quotas. Some participants envisioned an agreement that would cover services, investment, the distribution system, intellectual property, and a dispute settlement mechanism.

[1] Comments in quotation marks are most often drawn from formal submissions and interview notes. In the case of interviews, the Commission endeavored to ensure that the quote accurately reflects the statements of the participant, although verbatim transcriptions were not made.

Judgments about the wisdom of pursuing FTA negotiations with Japan appeared to reflect a number of underlying assumptions. Views on the importance of trade policy relative to political and strategic considerations, U.S. goals in trade negotiations, the effectiveness of the present negotiating approach, the openness of the Japanese market, the difficulty of removing remaining Japanese barriers, and the issues that would be on the table in any FTA negotiations had significant bearing on each individual's judgement on the advisability of entering into FTA negotiations with Japan. Perceptions about the usefulness of the GATT generally, and as a means of redressing U.S. concerns about Japanese trading practices, also affected their views on the FTA approach. Finally, the sense of importance individuals placed on managing the U.S.-Japan trade relationship, relative to overall U.S. trade policy and to U.S. relations with other countries, was an important consideration.

Overview

Relatively few participants viewed the possibility of entering into FTA negotiations with Japan as a totally negative and unworthwhile exercise or, on the other hand, a totally positive and useful approach. The watchword was "caution." The vast majority of participants adopted one position or the other as a starting point, but noted their concerns or reservations about the viewpoint they were taking as well as conditions that might cause it to change. Moreover, no clearcut differences of opinion could be distinguished based upon participants' professional vantage points. U.S. government officials, academics, and business persons voiced similar ideas and concerns on many of the same issues. From an overall perspective, therefore, it would be misleading to portray the views received by the Commission in strictly black and white terms. Rather, the picture that was presented by most individuals was a mixture of optimism, pessimism, skepticism, and hopefulness.

A majority of participants cautioned against entering into negotiations on an FTA on the grounds that it would not provide significantly improved market access or substantial economic benefits for the United States. Many believed that FTA negotiations with Japan would tend to focus primarily on formal barriers to trade, not on what they saw as the more important but less visible remaining barriers to U.S. sales, such as the distribution system. Moreover, they did not think such issues could be successfully addressed in the context of FTA negotiations. Most U.S. participants believed that differences in industrial structure, business practices, legal systems, languages, and social customs would make it very difficult, if not impossible, to realize the goal of truly free trade between the United States and Japan. Many cautioned that FTA negotiations carried with them substantial risks and feared that what Japan wants most out of negotiations is to

avoid U.S. trade laws, particularly retaliatory action under Section 301.

Nevertheless, these individuals often acknowledged that the current aggressive U.S. negotiating strategy may have contributed to an overall deterioration of the bilateral relationship, and thought there might be some benefit to tackling issues more systematically and dispassionately. In certain areas, such as intellectual property, it was widely recognized that a more cooperative approach might be appropriate. Indeed, a number of individuals within and outside the Government believed that the growing interdependence of the two economies has fundamentally altered the negotiating environment. U.S. and Japanese participants, whether or not they favored the FTA approach, recognized Japan's importance as a supplier to the United States, its growing direct investment in U.S. facilities, increasing U.S. dependence on Japanese technology in areas such as electronics and telecommunications, and its growing role in U.S. financial markets. A number of present and former U.S. negotiators believed that these linkages have major implications for U.S. policy formulation. At the same time, many U.S. officials warned that competition in high technology—particularly in areas such as superconductivity, biotechnology, and new materials—is intensifying and could lead to bilateral tensions in the future.

A large number of participants, including negotiators and private sector representatives, were concerned about the effects of a bilateral FTA agreement with Japan on the multilateral framework of the GATT and on third countries. They feared retaliatory protectionist moves, trade diversion, and a weakening of the multilateral trading system. However, a number of these individuals stated that if an FTA were GATT consistent, outward looking in avoiding harm to other countries, or inclusive of other countries, they might favor negotiations. Many who were adamantly or partially opposed to FTA for a host of other reasons indicated that they might favor such an approach sometime in the future if the Uruguay Round stalled, if the EC's program to "complete the EC internal market" by 1992 turned out to be, in fact, a protectionist "Fortress Europe," or if there was a movement towards creation of other trading blocs.

Nearly all stated that U.S.-Japan relations would benefit from a more coherent and prioritized U.S. trade policy. A number also felt that movement away from the present mode of intense U.S. pressure, into a situation in which Japan begins to see liberalizing steps as in its own self-interest, would substantially improve the negotiating environment. Although Japanese movement in the direction of liberalization was widely recognized, many participants seemed to think that continued confrontations on the trade front were likely and healthy, given the fact that the United States and Japan are intense economic competitors as well as staunch political allies. Present negotiating forums and approaches were seen by a number of individuals, particularly current U.S. negotiators, as being sufficient and appropriate vehicles for tackling such issues as they arise.

Other participants, both in the United States and Japan, felt it is time to consider a new approach, believed it is both possible and desirable to develop a better way of resolving trade disputes, and thought an FTA or similar type agreement could accomplish this aim. Many of those who favor the FTA approach tended to believe that confrontational U.S. tactics have contributed to a deterioration of overall U.S.-Japan relations, without necessarily resolving some of the underlying barriers to U.S. market access in Japan. These individuals argued that an FTA would force the United States to develop a more coherent and prioritized approach to U.S.-Japan trade relations and yield an improved atmosphere for trade negotiations. They suggested that an FTA would strengthen the already substantial economic and political ties between the United States and Japan. FTA negotiations might also result in the creation of a more regular and systematic mechanism for resolving specific problems and a long-term vehicle for tackling difficult issues remaining on the bilateral agenda.

Advocates of this position seemed to have in mind a comprehensive and ambitious agreement, something that would go beyond a traditional FTA to cover a range domestic policies that adversely affect trade, such as the distribution system and antitrust enforcement. Some compared their goal to the European Community's present integration effort, whereas others envisioned a U.S.-Japan FTA that entailed stronger commitments than those expected from the Uruguay Round in areas such as services and intellectual property. Supporters of the FTA approach often admitted that it might be difficult to remove all of the remaining barriers in the Japanese market through FTA negotiations alone, but argued that even exploring the idea could lead the two countries to a better understanding of the problems and potential of the U.S.-Japan economic relationship.

It was generally held that an FTA would need to include some type of dispute settlement mechanism. However, many U.S. participants suggested that the United States should retain its ability to use Section 301, as it did under the U.S.-Canada FTA. Because they recognized that the United States and Japan both have a substantial stake in the maintenance of the multilateral trade system and in fostering good relations with third countries, many supporters of the FTA approach counseled for taking great pains to ensure that any potential agreement is GATT consistent. Some also called for leaving the door open to participation by other countries at some future date.

Perceptions About Market Access

A number of individuals offered their perceptions about remaining problems in market access with Japan in an effort to provide some context for their views on the advisability of entering into exploratory negotiations on an FTA. Most of the U.S. participants, especially businesses and non-governmental experts, believed that the Japanese market is much more closed than the U.S. market. America's deviations from free trade, such as quotas and "Buy-America" restrictions, were viewed by many in the United States as being limited and fairly transparent. Despite the removal of a number of formal barriers and generally low tariff rates in Japan, many Americans asserted that foreigners seeking to do business there face formidable obstacles. Most (though not all) Japanese participants, in contrast, tended to emphasize the limited number of formal barriers remaining in Japan and the importance of U.S. restrictions on imports of certain manufactured goods such as steel, autos and semiconductors.

In general, the United States was seen as offering open access to its markets for most manufactured goods, as well as to markets for financial, legal, and construction services. Many also felt that Japan has benefitted from open access to U.S. scientific laboratories and retail distributorships, and that its ability to freely acquire U.S. companies and to build upon their marketing and supplier networks was a substantial plus. However, the majority also acknowledged that the United States has formal or informal quota restrictions in major areas, such as textiles, steel, autos, and machine tools. In addition, a few non-governmental experts pointed out that, from the Japanese viewpoint, there are other less visible barriers in the U.S. market, such as Buy-America requirements, State banking laws and regulations, and State licensing and registration procedures for lawyers, architects, and engineers.

Japan's market was seen by a number of U.S. participants as highly resistant to imports, particularly to nonconsumer goods. However, perceptions about the significance of remaining Japanese barriers and their fundamental intent was often directly related to participants' experiences in Japan or their policy vantage point. For example, persons who had faced difficulties in marketing their products in Japan or those with direct negotiating experience on difficult issues were more likely to describe the Japanese market as being closed. Representatives of large companies that have been successful in establishing a presence in the Japanese market or those closely involved with successful negotiations in particular industry sectors were likely to report that the Japanese market, although a challenge, is relatively open with only a few remaining barriers.

It was generally agreed by the majority of participants that the most important remaining barriers affecting U.S. access to the Japanese market are not formal, border barriers such as tariffs and quotas, but are less visible barriers. Most of the remaining barriers in Japan were seen as being rooted in business practices and relationships fundamental to the Japanese economy and society. Japan's opaque and informal decisionmaking process, the labyrinthine distribution system, technical and regulatory requirements, a "buy-Japanese" mentality, industry targeting, patent infringement, and lax antitrust enforcement were among the most commonly cited impediments to U.S. firms. Many people believed that Japan's market is particularly resistant to imports of industrial goods, such as machinery, manufacturing equipment, and industrial supplies. In many cases, support for, or opposition to, an FTA was related to whether the individual believed that such less visible, informal barriers could be addressed in the context of FTA negotiations.

Some of these impediments to U.S. market access were generally referred to as industrial-structural barriers, such as close relationships between Japanese manufacturers and suppliers, legal and social restrictions that effectively prevent takeovers, a desire to control "excessive competition," the less preeminent role of price in Japanese purchasing decisions, Government policies that encourage high rates of saving and discourage consumption, and financial arrangements that permit Japanese companies to adopt strategies that may only pay off over the long term. Another type of barrier consists of societal factors that influence Japanese purchasing or importing patterns, such as the language, the noncontractual nature of the society, and its emphasis on group participation, consensus-building, full employment, and promotion by seniority. Separately or in some combination, these less visible barriers surface in the form of "buy national" attitudes, the industrial groupings (keiretsus), the dango system of dividing up construction contracts, industrial targeting, and loose enforcement of the antimonopoly law.

In the eyes of a majority of participants, these intangible barriers tend to make foreign penetration of various sectors of the Japanese economy difficult and limit foreign access to the distribution system, foreclose investment opportunities, and minimize effective patent and copyright protection. Some of these same factors, such as the high costs of establishing distributorships and close supplier relations, were recognized by both U.S. and Japanese experts as making it difficult for new Japanese producers to penetrate the Japanese market as well. One academic offered, ". . . some of it is really institutional, part of the Japanese system. There is a good deal of cross ownership of shares and as a result companies have a very stable shareholder base. That reduces risks for managers. When they're deciding to buy something they prefer their traditional suppliers: they have worked with them for a long time, they have proved to be

reliable, the two companies have jointly developed products and technology. So foreign suppliers have to cross that extra hurdle."

A number of representatives of large U.S. companies or trade associations indicated that they have been successful despite such barriers. Some contended that there are no more barriers in Japan than in other foreign countries and the real problem for U.S. firms is that they lack the patience and ability to commit to the Japanese market over the long term. Others said the problems are with U.S. competitiveness, not Japanese barriers. A number of U.S. business and Government officials lamented the fact that U.S. companies had not more actively taken advantage of the market opening steps Japan has taken over the past 5-years.

Nevertheless, the fact that some U.S. companies have been quite successful in Japan seemed to convince few U.S. participants that Japan's market is open. Some felt that, although the system can often be worked successfully, foreigners will always fundamentally be outsiders. Other former negotiators and current government officials claimed that U.S. firms seeking to compete head-on with Japanese companies in targeted or strategic sectors would formally or informally be kept out. Some claimed that in the past U.S. businesses often had to license key technologies in order to obtain access. As one participant put it, "Some companies can be successful, particularly if you are in a niche or if there is no major domestic competitor in Japan. But if you're working against the system in an industry like construction you have to work with a joint venture or license. It's do-able, but if its a real threat to an industry or sector, only do-able up to a point."

Other Japanese and U.S. officials cautioned that excessive emphasis on "peculiarity" of the Japanese market or economic system was dangerous, disingenuous, or misplaced. As one U.S. official said:

> The "system" is an exaggerated concern. The system for construction procurement is more inefficient than anything else. The distribution system is also not as serious a problem as it is often said to be. A system of small independently owned stores, where large chain stores have difficulties [entering the market] is not unlike the "system" in New York City or other places.

Some claimed that, despite the fact that other institutions and considerations come into play, price is still the driving force in economic decisions in Japan. One academic asserted that even though there are major entry barriers, Japan's natural tendency is towards intense competition in the domestic market. In the words of one Congressional aide, "Japan has a good balance between industrial policy and competition—even though they cooperate in some areas, companies really do seem to compete fiercely within Japan."

Perceptions about whether the remaining barriers to foreign access could be removed by changing Japanese Government policies or through macroeconomic pressures affected participants' opinions on the usefulness of FTA negotiations. Some experts believed that over a long period of time, many of the barriers in the distribution system and some of the attitudinal barriers will break down. Several nongovernmental experts pointed out that many of the barriers often assumed to be imbedded in Japanese social customs are actually economic behavior reinforced by practices such as discounts and sales incentives, which can be changed.

There are differing views about the degree of the Japanese Government's influence over the Japanese economy. Present and former officials at MITI acknowledge that the Japanese Government plays "a think tank role" and sees its mission as galvanizing Japanese firms into developing strategic industries. However, the role of the Government, and particularly that of MITI, is widely seen as having diminished since the 1950's and 1960's. Many Japanese firms no longer need Government financial support, several pointed out. "The ironic thing," one individual mused, "is that we keep trying to give MITI the control over industry which it had lost, for example in semiconductors and autos." Nevertheless, one U.S. businessman complained, and participants in Japan agreed, that "just because Japan is changing doesn't mean that they are becoming more like us". They claimed that although the Government's role has diminished, it is still quite influential, particularly since Japanese regulations and laws leave administering officials with a good deal of discretion. A number pointed out that the government's role is still quite important in new and leading edge technology industries, such as aircraft, superconductivity, and supercomputers.

Other participants, especially U.S. officials and business representatives in Japan, in particular, felt U.S. perceptions were not in step with present economic realities. Many felt that there have been dramatic changes in the Japanese economy during the past few years, reflecting both a change in policy orientation and changes resulting from the yen's sharp appreciation. Some changes have been made based on recommendations of the so-called Maekawa report, which encouraged the shift to a domestic demand-oriented economy. Several pointed to increases in Japan's imports of manufactured goods, particularly from the NIE's, as evidence that the Japanese economy was substantially influenced by market forces. One business person said, "In the two years since the appreciation of the yen, they've done more industrial rationalization than we've done in 15 years."

Other nongovernmental experts pointed to a renewed sense of confidence, strength, and international responsibility as the Japanese have

come to realize that their economy can grow even as exports decline. A more open, outward oriented perspective, especially among the younger generation, is reflected in shifts in Japanese imports, some claimed. In addition to structural changes and the gradual erosion of barriers through macroeconomic forces, bilateral negotiations are credited with producing real sales results in areas such as cigarettes, chocolate confectionery, and beef.

Some essentially believed that the presence or absence of barriers in Japan and the manner in which they are addressed are only minor factors in alleviating U.S.-Japanese trade problems. Several people noted that even though there are still barriers to market access in Japan, the real causes of the current high U.S. trade deficit with Japan are macroeconomic. Thus, these individuals suggested that the solution to the problem lies in macroeconomic adjustments such as reducing the budget deficit and encouraging savings.

Other nongovernmental experts and some U.S. government officials thought that exchange rate policies were the key to breaking down remaining barriers in Japan. "The biggest success [in opening the Japanese market] will come if you keep the Japanese yen strong enough for long enough so that things like the distribution system and traditional supplier relationships begin to break down." These participants tended to believe that more emphasis should be placed on enhancing the role of neutral economic forces and less on resolution of particular barriers.

Perceptions About The Present Negotiating Approach

A number of individuals reflected upon the present approach for handling U.S.-Japan trade problems as a backdrop for their comments on the advisability of entering into FTA negotiations. Participants expressing views on the present negotiating approach fell into three categories: those who felt that it was appropriate and successful, those who felt it worked but had become concerned about the toll it has taken on overall U.S.-Japan relations, and those who thought that it was counterproductive or ineffective. Some individuals claimed that problems in the management of U.S.-Japan relations were symptomatic of problems in U.S. trade policymaking generally.

The approach is successful

Many U.S. participants stated that significant progress has been made under current policies through a combination of high-level attention and diligent, working-level support. As one nongovernmental expert said, "Most of the time we can get what we really want out of the Japanese." The U.S. Government was viewed as having an important and legitimate role in securing a "level playing field" for U.S. business in foreign markets. Indeed, some stated that the more aggressive U.S. trade stance adopted since 1985 was overdue.

A number of persons, including business persons and non-governmental experts, believed the present U.S. approach to trade relations with Japan has been effective in eliminating specific barriers and containing U.S. pressures for protection. Pointing to liberalization in the areas of beef and citrus, public works construction, telecommunications, technical standards, and cigarettes, many of those with direct experience in negotiations said that the two countries have tackled and solved most prominent irritants in the bilateral relationship over the past 5 years or so. As one U.S. official put it, "This sense of failure is an optical illusion. In fact, bilateral market access negotiations have solved problems. Once issues are settled they are settled. We don't hear about cigarettes anymore. Trade negotiations don't lead to friction, they solve it."

Indeed, the U.S. Government was seen by a number of participants as getting better at identifying American interests and working the Japanese system to defend them. Coalition building, developing direct relations with influential Japanese politicians and taking their case directly to the Japanese public were all seen as tactics that had been employed by U.S. negotiators with growing skill in recent years. It was also suggested that a growing consensus about "hanging tough" with Japan has developed among trade policy makers in the United States. One U.S. official admitted that U.S. trade policy is essentially ad hoc, but credited the Administration's own initiatives for showing a sense of priority and focusing on sectors in which the United States has a strong comparative advantage. Given the importance of foreign pressure and high visibility in securing changes in Japan, many negotiators defended present U.S. tactics as necessary and worth the friction that may result. As one U.S. negotiator put it, "When has Japan ever changed a trade policy in the absence of confrontation?"

Many of those who believed the current approach is successful think that it is now time to assess what negotiating options (FTA or others) would be most advantageous at this point in increasing U.S. trade with Japan and the world. These participants argued that use of the GATT, Section 301, and sectoral negotiations have been good tools in negotiations with Japan. They acknowledged that outstanding trade problems need to be identified. Whether some of these problems could be resolved through negotiating an FTA, they say, should be the subject of careful scrutiny. Many remaining problems can be addressed using existing methods, they believed.

The approach works, but is not ideal

Some negotiators, nongovernmental experts, and business persons believed that the present negotiating approach produces results, but is time-consuming, exasperating, and incremental. "Nothing would thrill me more than to be able to

sign a beautiful piece of paper and tear up my passport," one U.S. negotiator exclaimed, "but I'm afraid we'll be doing this issue-by-issue stuff for the rest of our lives." A number of U.S. interviewees expressed dismay, disillusionment, and distrust in the wake of "endless, endless, endless" resistance by Japanese Government officials and business to requests for opening Japan's market to the free operation of economic forces. Many likened it to "peeling an onion layer by layer." As soon as one barrier is successfully negotiated a way, it becomes apparent that there is another barrier somewhere else in the system which continues to block imports, they claimed.

A host of nontariff barriers were cited by some participants in an effort to convey their frustration with the difficulty of trying to negotiate away Japanese barriers to U.S. goods and services, such as proposed standards that would have required a fundamental redesign of U.S. ski equipment because "Japan's snow is unique." "Even on small things, it's exceedingly difficult to move the Japanese," one remarked. Despite recognized market-opening steps, Japanese concessions were often characterized as too little, too late, and, for some individuals, a feeling of exploitation and bitterness seemed to linger. One U.S. negotiator remarked, "Mansfield's got it backwards, they're nickel and diming us!"

Furthermore, some did not perceive existing U.S.-Japan bilateral agreements as being fully successful, for a variety or reasons. Some felt that Japan's implementation of bilateral commitments was often not in keeping with the "spirit" of the agreement. Others suggested that new barriers had become apparent after the agreement was signed, although a few admitted that the agreements themselves never fully addressed the real sources of U.S. problems.

Some trade negotiators suggested that the United States should develop a better mechanism for evaluating and pursuing trade policy objectives, both generally and with respect to Japan. One U.S. official admitted, "Americans approach every negotiation as if God is on our side. We think we are always right. We often have not 'done our homework', that is, we have not fully studied the issue and the Japanese situation before we begin."

A wide range of participants, including U.S. negotiators and Congressional staff, thought that the present U.S. approach is biased towards "squeaky wheels" and crisis management and away from prioritizing, analyzing, preparing, and following up on agreements reached. "I'm not saying U.S. policy has been a failure, but I do think we've got to be better at setting priorities," one participant remarked. "Since agencies are reluctant to prioritize one product or industry over another," said one person, "the United States follows up on an industry request regardless of the benefits or priority." Consulting with businesses during the policy-making process on a more regular and comprehensive basis would enable policy makers to respond to a wider range of economic interests, rather than those who "complain loudest," several individuals suggested.

Quite a few business persons and nongovernmental experts complained that trade policy in the United States was fragmented among different agencies and that insufficient staff and translation resources had been devoted to negotiations with Japan. Others suggested that industry and technical expertise is not systematically plugged into the trade-policy process. Some complained that trade policy has been decoupled from overall macroeconomic policy in the United States, charging that the trade impact is not even considered when undertaking major domestic policy initiatives such as tax reform. Several trade negotiators pointed out that macroeconomic developments during the early 1980's had put trade negotiators in the unenviable position of trying to contain the microeconomic and political damage that ensued.

A number of government officials and nongovernmental experts believed that the time has come to take stock of what has been accomplished in the bilateral relationship, and to reevaluate America's trade-policy goals and approach towards Japan. However, many felt that FTA negotiations were neither a necessary nor a desirable context for such review, warning that at best, it could artificially restrict thinking about alternative approaches to trade problems, and at worst, it could create substantial problems of its own.

Others, including former negotiators, complained that the present negotiating approach involves too much micromanagement, too little emphasis on long-range goals, and too few results. They pointed to the fact that the United States and Japan have spent a large amount of resources and political capital resolving issues that are small in actual or strategic terms, whereas major issues, such as superconductivity and satellite procurement, are not addressed. Some called for a "grand strategy" for Japan, such as "managing" trade on a sectoral basis, setting deficit targets, or reaching an agreed upon reapportionment of global economic roles and responsibilities.

The approach is counterproductive

Some participants, particularly U.S. business and Government officials in Japan, felt strongly that the present issue-by-issue, confrontational approach to U.S.-Japan trade problems had resulted in unnecessary bitterness and acrimony. Persons on both sides of the Pacific blamed showmanship intended to play well to domestic audiences for blowing issues out of proportion to their commercial significance and for harming traditionally friendly post-war U.S.-Japanese trade relations. A number of participants, including Japanese officials, felt that the United States was employing "the same two-ton brick" to resolve every issue, and suggested that an approach more calibrated to particular circumstances might be

more effective and less harmful. Some also seemed to feel that, in its zeal to demonstrate toughness and progress on the trade front, the United States had placed too much emphasis on chasing foreign barriers and too little on putting its own house in order. A number of participants in both the United States and Japan complained that issues become politicized almost immediately, minimizing the chance for resolving them at a working level or in a nonemotional context.

Others complained that Japan must share the blame for the deterioration of relations. One typical view was, "I understand where Mansfield is coming from. In the final analysis, I share his perception that trade disputes are beginning to erode the overall relationship, but I put the blame on both sides. Japan has benefitted from the multilateral trading system and open access to the U.S. market, it has a huge trade surplus. It should have taken positive steps sooner." Some U.S. negotiators complained that Japan relies too much on foreign pressure (gaihatsu) because it has such a difficult time achieving consensus. They claimed that Japanese Government officials and the media "hype" disputes and U.S. pressures in order to make it acceptable for them to accede to U.S. demands for market opening. "The problem is that Japan asks for foreign pressure. They do it all the time, and frankly I find it upsetting. And the Japanese press tends to use militaristic terminology—U.S. interests are 'invading' such and such market." The inevitable fallout, these individuals suggested, is a public perception in Japan of a bullying and unreasonable United States.

At the same time, Japanese officials interviewed expressed resentment and hostility about what were seen as relentless, unfocussed, and often unfounded U.S. complaints. "Japan is fed up by the stream of requests from the United States," one participant said. A number seemed to bristle at what they characterized as U.S. unilateralism and high-handedness, comparing 301 procedures to a "kangaroo court" and complaining bitterly about U.S. obsession with "fairness" and "right." Several pointedly referred to the fact that the United States has a number of barriers, many on Japanese products, which are quite significant in dollar terms. Others seemed to view U.S. "high road" stands on some issues, such as rice, as hypocritical, since the United States maintains restrictions on sugar, meat, and dairy products.

However, the vast majority of Japanese participants seemed genuinely concerned that a heightened sense of threat and competition had led the United States down the road of "blame thy partner" policies, as one former Japanese official put it. Many believed that a comprehensive reassessment of the U.S.-Japan trade and economic relationship might enable the two countries to identify areas in which they could cooperate more closely in achieving shared goals and resolving particular problems.

General observations

Some business persons and former and present government officials regarded problems in trade negotiations with Japan as symptomatic of problems inherent in overall U.S. trade policymaking apparatus. If the United States trade-policy apparatus were improved, they argued, trade and other relations with Japan might improve as well. Organizational factors, resources, and expertise were all cited as possible weaknesses of the U.S. trade policy process.

Business representatives and academics pointed to organizational problems as hindering effective formulation of trade policy and priorities and impeding a coherent approach to U.S.-Japan trade relations. For example, they said that interagency rivalry within the United States has been hindering the realization of U.S. trade objectives. "Without a clear leadership role for either agency [USTR or Commerce]," one complained, "the result is no leadership." Some depict the present U.S. interagency process as cumbersome. Although the views of each agency are important, conceded one private sector representative, it is difficult to arrive at agreement between them.

A recurring concern of participants from all categories, whether or not they favored an FTA approach, and whether or not they criticized the trade-policy apparatus, was that the U.S. lacks staff and expertise in the trade area. Several remarked that the United States does not have enough trade negotiators to negotiate an FTA at the present time. A few, including current U.S. negotiators, argued that the United States does not even have enough resources to accomplish the current trade workload. Some observed that dealing with Japan, in particular, requires tremendous resources. One U.S. official argued that limited resources inhibit the Government's ability to decide which issues are important. As a result, the official said, "the lobbyists decide." The problem is seen as especially serious vis-a-vis Japan because, argued some, Japan does have an ample supply of well-trained trade negotiators and analysts with a career ladder that encourages their development. It was also noted that Japan has access to expertise on U.S. policies through former U.S. trade officials who are now in the private sector while U.S. access to former Japanese trade officials is much less extensive.

Participants from the legislative branch and private sector called for an improvement in several kinds of expertise and support for negotiations. One area mentioned by participants was quantitative analysis. One private sector representative said that the United States has "no mechanism to analyze industry that is directly tied into the policy-making process." Another interviewee said that the United States needs, for example, "more market analysis of the competitive position of U.S. products and production, as well as projections of where the United States could expand its sales." He also called for serious analysis of the impact of trade

barriers. Inadequate development and staying-power of the country expertise necessary to understanding foreign trade regimes, business practices, and trade barriers were considered by some to detract from the effectiveness of negotiations with Japan as well as other trading partners. The same argument was also made with regard to industry and Japanese language expertise.

Some participants were concerned about the general reluctance of the U.S. Government to devote resources to the study and examination of trade issues. Studies are an important way to generate thought and attention, observed some. "Moreover, studies in think-tanks and the academic sector cannot replace those undertaken within the Government", said one Administration official. "If they do not mesh with Governmental policy-making machinery, nothing happens," he said.

Some of those who criticized the current approach believe an FTA with Japan might offer a viable alternative but others did not. A few argued that the current shortcomings would result in a less than desirable agreement. They feared that until trade policy priorities are refined, an FTA might not achieve the goals it set out to obtain or yield real economic and trade benefits for the United States. Others observed that if these problems in negotiating approach and policy formulation were remedied, not only would overall trade policy be more successful, an FTA with Japan would not be necessary. Some believed that FTA negotiations might serve to galvanize the U.S. Government into taking more effective action.

Advantages of the FTA Approach

Viewing the present U.S. negotiating approach as ad-hoc and highly politicized, some participants suggested that FTA negotiations could offer benefits in terms of resource allocation, results, and the health of the overall U.S.-Japan relationship. At the same time, an FTA was seen as the "ultimate carrot" by some, who believed that Japan might be willing to make major changes in its domestic policies in return for more secure access to the U.S. market—still its number one source of export revenue. Even those who supported the FTA approach recognized that it would require an extensive U.S. commitment of time, resources, and planning in order to succeed. The words of one academic typified this view:

> This exercise could be very useful, if we really put all the barriers the Japanese still have on the table and do a thorough review job. Japan wants this agreement and the possibility of having it would be a big incentive for them to open up. Japan knows it can gain under an FTA and is concerned about the Canada FTA and EC 1992. . . . There are signs of basic changes in Japan. This kind of agreement could be used to give a political push for further changes. The time is good to review all barriers, if it were handled carefully, and the U.S. side is very well-prepared.

Force a reassessment of the overall relationship

Many participants, including U.S. business and government officials, indicated that it is time for a reassessment of U.S. trade goals and objectives in the context of the United States' overall economic, political, and strategic relationship with Japan. Several U.S. and Japanese participants pointed to growing interdependence and integration of U.S. and Japanese economies, and suggested that the U.S.-Japan trade relationship was at a point where a formal recognition of this phenomenon, perhaps via a bilateral FTA or other type of arrangement, was possible and desirable. One Japanese government official cited indicators of this interdependence—noting that the United States accounts for more than one-third of Japanese exports and one-fifth of Japan's imports, 35 percent of Japan's direct investment goes to the United States, and there are "enormous" capital flows between the two countries—and suggested that an FTA might be "a natural development." U.S. officials, including former high-level negotiators, shared the sentiment of one former high level official who asserted, "The size of the trading relationship, its complexity, its interrelationship with industrial sectors of the U.S. economy" are certainly worth exploring and preserving.

Others believed that entering into FTA negotiations could lead policymakers to more closely consider how U.S. trade and commercial interests with Japan should be treated in relation to political and defense interests. Several U.S. participants echoed the sentiment of the public remarks of one U.S. official:

> I do think its about time we took a look at some of the questions that clearly need asking . . . a global partnership between the United States and Japan—a partnership based on shared leadership and mutual responsibility—is now possible and, in fact, urgent . . . The time has arrived to look for ways to elevate our relationship with Japan. . . Free trade agreement with Japan? I don't know. Exploring one? Why not?[1]

A few complained that current American policy was exaggerating the importance of trade barriers relative to the overall economic and strategic relationship between the United States and Japan. However, a number of others believed that commercial considerations have been given second-class status to defense, and suggested that FTA negotiations would serve as an explicit recognition of the importance of trade in

[1] Speech by Secretary of Commerce C. William Verity before the Council on Foreign Relations, June 8, 1988.

the overall health of the U.S.-Japan relationship. "The economic relationship drives the defense and overall relationship, not the other way around," one former high level U.S. official asserted.

Improve the negotiating atmosphere

FTA negotiations could serve to formalize and cement the dynamic and growing trade and financial relationship between the United States and Japan, some participants believed, improving the climate for bilateral discussions and setting a positive tone for resolving outstanding disputes. One Japanese official noted:

> We spend an enormous amount of time, energy and political resources on minor issues—in terms of the scale of the whole relationship, seen from an overall perspective. Maybe it's time to think about a mechanism to deal with sectoral, individual issues in a more balanced, less politicized manner. Otherwise, those individual items might undermine a very important relationship.

One of the primary emphases of persons favoring the FTA approach was that nearly constant bickering on the trade front had sapped the reservoir of goodwill between the people of the United States and Japan, exacting a cost that they feel is excessive and ultimately harmful to U.S. interests in trade and other areas.[1] On this point, one official remarked, "The current conduct of negotiations is causing needless friction in Japan. In the United States, a ton of rhetoric equals an ounce of policy. This friction has had a bad spillover and is not solving our trade problems." Several participants in the United States and Japan stated that FTA discussions might break the din of complaints and acrimony now plaguing the relationship by adding a new emphasis on positive, mutual movement in the direction of market liberalization. FTA negotiations might provide a welcome opportunity to switch from "talking about blame and who's fault it is" to talking about the real trade problems, one U.S. business person in Japan claimed.

A number believed that an improved atmosphere for trade negotiations could make it easier to resolve specific problems as they arise and to tackle sensitive issues—such as agricultural trade, distribution, regulatory barriers, and restrictive business practices—remaining on the bilateral agenda. As one participant put it, "You can't argue with the premise that if overall relations were good maybe we could handle individual problems more peacefully and reasonably."[2]

"Lowering the temperature" could also have a positive effect on other parts of the relationship. Several individuals echoed the statement of one academic who said that, "A free trade area would be bound to improve and strengthen relations with Japan. The agreement itself would be a profoundly political achievement. It would signify a special trans-Pacific relationship . . .once in place, the free trade agreement would surely lead to enhanced cooperation in setting macro-economic policies and doubtless to closer collaboration in regional and global economic and political issues."

Several nongovernmental experts argued that FTA negotiations would improve the negotiating environment by legitimizing and making clear the goals of U.S.-Japanese trade negotiations. In the words of one academic, "We would get more from the structured approach of an FTA than from the continuing stream of ad hoc requests we're doing now. . . What we want, though we may not realize it, is an FTA—the removal of barriers and the harmonization of domestic institutions. Doing it implicitly has generated a lot of unnecessary frustration." Several Japanese and U.S. participants claimed that the United States and Japan have been moving towards a de facto FTA already, and suggested that it might be easier to "sell" the changes needed to make further progress towards that aim if the two sides mutually agreed on the goals, timetable, and forum for bilateral trade negotiations.

A number of people believed that it would be useful to change the nature of negotiations from the current unilateral approach, where the United States plays the role of demandeur and Japan the begrudging "accused party" to a more mutual negotiating process. At least one person said that the current approach works to the Japanese advantage because they can point to the United States—both at home and abroad—as being the "bad guy" and gain sympathy for their position as the "innocent, harassed victim" of Japan-bashing.

Under FTA negotiations, both the United States and the Japanese would presumably make concessions as well as demands. The outcome of negotiations could be more easily cast as a "win-win" situation, as compared with current negotiating approaches, in which the United States is often perceived by the Japanese public to be the "winner" and Japan the "loser." Some people felt that this would also enable Japan to view market opening as furthering its own interests—a perception seen as crucial if more

[1] As one business person said, "Disputes arising from such industry- and sector-specific concerns have frequently obscured the more positive trends in U.S.-Japan trade relations over the past decade. Indeed, specific commodity problems which in themselves may not be particularly significant have often been blown out of proportion and added tension to an already strained political situation. These industry- and sector-specific problems consequently have serious negative repercussions on the entire spectrum of U.S.-Japan trade, economic and potentially political and defense relations."

[2] A representative of Korea echoed this sentiment. "One of the advantages is that you could identify what the major problems are between the two countries. You wouldn't have to become continually highly sensitized about trade issues."

ingrained discriminatory attitudes and practices are to be turned around.

A better process for negotiations

A number of participants believe that the FTA approach could offer certain advantages with respect to the process and outcome of negotiations with Japan. FTA negotiations might enable the United States to identify and eliminate remaining barriers in the Japanese market more effectively. It could also result in the establishment of a framework for dealing with difficult issues over time and the creation of a mechanism for resolving disputes in a systematic and less confrontational manner.

Developing U.S. policy.—In the view of many participants, including those in business, government and academia, one of the primary advantages of entering into FTA negotiations is that it could lead to a rethinking of U.S. goals in trade negotiations with Japan. This view was most widely shared by those who felt that the United States currently lacks a coherent trade policy towards Japan and has no clear direction in its approach to negotiations. Some believed that a high-level decision to enter into FTA negotiations could provide the necessary leadership to forge a consensus among the numerous agencies involved in setting U.S. goals and priorities. "It could help the U.S. government get its act together," one participant claimed, a needed development since, "there is no strategy now."

Identifying barriers.—Some individuals believed that the high pressure, crisis-oriented nature of U.S.-Japan negotiations in recent years can be tied to the fact that the U.S. Government has been moving from issue to issue without having an opportunity to undertake regular, systematic analysis of potential problems and remaining barriers in Japan. Some suggested that preparing for FTA negotiations might be one way to break out of this mode.

Many participants echoed the sentiment of one U.S. official, "We don't do a good job of studying barriers in individual market sectors—there are no real resources devoted to it. We are organized along functional lines. We spend ninety percent of our time worrying about the hot issue of the day. We must learn what prevents U.S. products from selling in Japan. In any case you'll find out interesting things which would be helpful in bilateral market access negotiations and in advising U.S. business."

A few participants in Japan and in the U.S. legislative branch were concerned that the present crisis-oriented approach means that negotiators are dealing with symptoms, not their underlying causes (e.g., supercomputers rather than industrial targeting, semiconductors rather than dumping, orange juice distribution rather than the distribution system). As one Congressional trade expert put it, "we're dealing with the tail of the dog now." Others believed that the U.S. Government was not sufficiently prepared to handle challenges coming down the road, such as superconductivity and biotechnology. "We need to get into the distribution system, recession cartels, tendency to overproduce," one U.S. official observed, "we need to get out ahead of industry by going after potential problems, such as superconductivity."

A number of participants suggested that even "exploring the possibility" of an FTA would provide an impetus for taking stock of existing agreements and for evaluating, in a nonemotional atmosphere, where the most serious U.S. market access problems in Japan lie. The words of one former U.S. official were typical,

> Unless the issue is examined, microscopically, unless the U.S. government understands the dependencies, we're not in a good position to negotiate, even on an ad hoc basis. Maybe at the end of the exploratory process you'd say it's too difficult, but maybe you'd discover some sectors where you could pursue it. It's worth asking the question, and I don't know any other way of doing it than by giving deadlines, demanding results, as might be the case if we decided to explore this FTA concept.

One U.S. official in Tokyo suggested that there are a number of sectors of the Japanese economy in which U.S. sales increases have been disappointing since the yen began appreciating on foreign-exchange markets. He suggested that the systematic economic analysis of entry barriers and market failures "at the widget level," that would occur in preparing for an FTA negotiation, might provide U.S. policymakers with a better basis for determining which issues to put on the negotiating agenda. Another current negotiator suggested that one reason American negotiators often say that opening the Japanese market is like "peeling an onion" is because they haven't taken the time to "chop the onion in half, and examine each layer."

Setting priorities.—In addition to serving as a vehicle for identifying barriers, FTA negotiations could lead to a better and more systematized method of prioritizing trade issues. Under the present "squeaky wheel" system, according to participants in the United States and Japan, issues move to the top of the U.S. agenda in a haphazard and often politically driven way, either because particular lobbyists get the ear of the negotiators or because the problem somehow takes on a life of its own. Several offered examples of what they saw as misplaced priorities, such as the small amount of attention devoted to satellites, where the gains could have been in the billions, compared with rice, where Thailand, not the United States, is likely to be the main beneficiary.

In contrast, some participants believe that if priorities were set within the framework of an FTA negotiation there might be a greater likelihood that the United States would actually make substantial gains in terms of market share or

increased exports. Some government officials and businessmen suggested that the MOSS approach was an example of how sectors can be chosen on the basis of potential U.S. sales in Japan or to develop useful precedents for addressing barriers rooted in Japanese regulatory and administrative practices (such as standards in the pharmaceutical industry). Several suggested that FTA negotiations could follow a "super-MOSS" model.

Others claimed that FTA negotiations might provide an incentive to U.S. negotiators to put priority on tackling the more systemic barriers in Japan, such as the distribution system and restrictive business practices, than the present negotiating approach, which "rewards" U.S. negotiators for identifying and reaching agreements on quantifiable barriers to specific U.S. products and services. Others felt that having a process to point to when special interests "come calling" would free U.S. negotiators to take a longer term view.

Providing a framework for negotiations.—Another advantage of entering into FTA negotiations is that it would provide a comprehensive framework for conducting trade negotiations and addressing trade issues over time. One participant said,

> A successful negotiation of a free trade area would make easier the resolution of future U.S.-Japan trade problems. The agreement itself would effectively remove some issues from contention, e.g., tariffs and quotas, which would disappear on a timetable. Norms for the conduct of bilateral trade relations otherwise would be defined in the agreement and would go beyond the rules laid down in the GATT. The agreement's dispute settlement mechanism would take the place of the ad hoc and inevitably politicized bilateral "negotiations" that have been customary.

In the view of many participants, a comprehensive framework would be desirable because it would move us towards a long-term, regularized means of addressing trade issues. FTA negotiations could also serve as a vehicle for institutionalizing discussions on new issues and provide a forum for followup on negotiations that have already occurred. Other individuals suggest that an FTA should be used as "a forum to carry on the needed sector-by-sector discussions."

Many participants indicated that another possible benefit of FTA negotiations would be the institution of a long-term, regularized dispute settlement mechanism. Such a mechanism could provide a less confrontational means of settling disputes at a lower level than presently, thereby minimizing the need for high-level political intervention and avoiding undue rancor and recriminations. Many participants, including some within government, felt that the current forums such as the Trade Committee have been ineffective in performing this task. With the creation of an interim consultative mechanism, there might be less of a need to elevate disputes to the GATT or to resort to Section 301. One U.S. official claimed, "relations could be improved if Japan were consulted under FTA dispute settlement procedures before institution of any Section 301 case." Some believed that a joint mechanism for handling grievances might serve to diminish the likelihood that the United States would feel compelled to take unilateral retaliatory actions such as it did in semiconductors.

A better mechanism for negotiating on remaining barriers.—A number of individuals, including business persons, former negotiators, and current U.S. officials, pointed out that the United States and Japan have tackled and solved nearly all of the barriers susceptible to elimination by traditional means, i.e., tariffs, quotas, and nonborder official barriers. What remains to be done goes beyond mechanisms such as the GATT and U.S. unfair trade law, some individuals believed. A more mutual negotiating approach, such as an FTA, might yield better results on areas in which international rules have yet to be developed, U.S. market access problems are linked to issues of social policy, or U.S. requests impinge on areas of national sovereignty in economic policymaking.

Some participants involved with trade issues noted that certain issues—such as services, investment, and intellectual property—are "ripe for rules." In FTA negotiations, Japan and the United States might be able to achieve agreements on these issues more quickly, and perhaps more ambitiously, than they would in the Uruguay Round, they claimed. Such agreements might serve as models for the Uruguay Round or future negotiations with other countries, some said.

A number of individuals believed the FTA approach may be a more appropriate means for dealing with domestic economic policies that have an impact on trade, such as enforcement of antimonopoly laws, industrial policy, and financial market regulation than the present confrontational approach. "We are not talking about tariffs and quotas. We get deeper and deeper into the structure of the economy, and Japan gets increasingly upset about the kind of suggestions we make about how their economy should be organized. . . there is a lot more the Japanese government can do, for example in the antitrust area, but we need the vision of a new framework and we need to know where we want to end up." A number of people suggested that, "we're reaching the point where further pressure from the United States will be counterproductive."

Many other barriers in Japan were viewed as being fundamentally linked to issues of social policy and industrial organization, in which international standards have yet to be developed. It was suggested that more cooperative, less confrontational efforts were called for to handle these areas, in which "fairness" and "right" are not clearly at issue, and Section 301 might, therefore, not be appropriate. Others believed

that creating a framework for bilateral negotiations through an FTA would make this delicate and long-term task more manageable, in both political and resource terms. "The Japanese are saying that people would like to have cheaper goods, but how do you take care of the four middlemen in the distribution system. It's not an economic problem, but part of the larger social and political problem of maintaining full employment and caring for the elderly." Others suggested that an FTA might provide a vehicle for encouraging Japan to undertake other needed economic reforms, such as changing land and credit policies and deregulating certain sectors of the economy.

Enhance U.S. negotiating leverage

Entering into FTA negotiations could enhance U.S. leverage over Japan, some participants believed, thus improving the prospects for U.S. success in gaining greater access to the Japanese market. As one individual put it:

> The United States would enter into the negotiations as Japan's largest overseas market. A free trade area pact would go a long distance toward assuring Japan that the hugely important American market would not be closed to Japanese goods and services. It would also relieve the Japanese leadership of the concern that Japan could be the odd-nation out in an emerging world containing a tightened European customs union and a putative U.S.-Canada-Mexico-Latin America free trade area. These considerations would give U.S. negotiators a strong initial position.

A majority of experts from a wide range of backgrounds believed that we would be offering the Japanese the "ultimate carrot" in FTA negotiations in the form of assured market access, predictable U.S. trade policy and a less confrontational approach to resolving trade issues. In return, some people believed that Japan might be willing to offer major concessions in areas of interest to the United States, such as agriculture and financial services. The United States has had only limited success on a sectoral or piecemeal basis, according to some, because there has been no incentive for Japanese to negotiate. Some believed that the United States could offer a large enough inducement to Japan in FTA negotiations to achieve broad concessions across a number of industries rather than only in very specific areas.

Present government officials suggested that even after an FTA is negotiated, U.S. leverage will not diminish, "I am not afraid we will lose leverage via FTA negotiations. Leverage is leverage, and as long as they have a huge trade surplus with us, we've got a lot of leverage." Several pointed out that the United States could "presumably still retain discretion to use Section 301 under an FTA with Japan, as we can even under the U.S.-Canada FTA," in order to maintain the leverage of being able to close the U.S. market to Japanese goods. One person said that initiating FTA negotiations "might be a good political move. It might put them on the defensive and be a carrot to dangle in front of them."

Encourage liberalizing forces already at play in Japan

A number of government officials and nongovernment participants suggested that FTA negotiations might be a good vehicle for building upon forces already at play within Japan which are moving it in the direction of internationalization and liberal trade. There appeared to be wide recognition that fundamental economic changes are occurring within Japan, partially as a result of Government policies, the yen's appreciation since late 1985, and sociological factors. As a representative of Korea said, "Japan has changed. With the high yen, they have increased their imports—cheaper prices encouraged them. They are importing things they produce and even thinking about placing quotas on Korean textiles." At the same time, domestic-led growth has taken root and consumerism is increasing. According to one participant, "There is a trend in U.S.-Japan relations toward liberalization. To really capitalize on this liberalization, it is necessary to have a symbol or goal. An FTA could supply such a goal."

Some suggested that FTA negotiations might be appropriate now, enabling the United States to shape these changes in ways that advance U.S. commercial interests. One U.S. official in Japan observed, "Conditions might be ripe right now. There is a real sense of confidence, an interest in, and growing commitment to, the idea of internationalization, opening up. Right now is a unique window of opportunity. Japanese young people want to be part of the world, less isolated . . . there is a sense of openness to the United States. . ."

Many nongovernmental participants and U.S. participants in Japan, in particular, felt that Japan is undergoing a historic transformation, getting ready to step onto the world stage in a bigger, more forceful way. They pointed out that Japan is increasingly looking at its options with countries other than the United States and is visibly expanding its presence in other Asian economies. Others pointed to Japan's concern about being locked out of major markets in the face of the U.S.-Canada FTA and Europe's integration effort. Some people suggested that a U.S.-Japan FTA might assure Japan of continued U.S. commitment, preventing it from becoming more defensive and insular by turning only to Asia for its economic and political future. "If we don't want to negotiate with Japan, what are we going to do? Korea, Taiwan, and China are going to negotiate with Japan."

Confer economic benefits

Many participants noted that FTA negotiations would compel the United States and Japan to negotiate the removal of substantially all

remaining formal barriers to trade. At the same time, some participants believed that FTA negotiations would make any particular barrier look more egregious by holding the practice against a yardstick of "free trade." One person commented, "An FTA would establish the principle that trade should be free. It would force negotiations on the exceptions. It would make both countries confront formal and informal barriers."

Current government officials and nongovernmental experts noted that an FTA could result in economic benefits in the form of lower prices for consumers and increased economic welfare for both Japan and the United States. According to one individual, "Some of the key export benefits to the United States would come from eliminating tariffs on processed foodstuffs and industrial machinery. Although Japan doesn't have significant tariff levels, even elimination of 4 percent tariffs has a beneficial effect." At least one trade association anticipated economic benefits from a U.S.-Japan FTA.[1]

In addition, an FTA would force both sides to eliminate inefficiencies in their economies. A few participants pointed to specific sectors, such as autos, in which the U.S. industry might become more competitive as a result of an FTA. Other U.S. government officials and business persons pointed to sectors, like agriculture, where the United States could clearly benefit from more open access in Japan.

An FTA itself would accelerate the ongoing process of integration between the U.S. and Japanese economies. In the words of one participant,

> Increased coordination and cooperation among the American and Japanese private sectors could ease the international flow of components and finished products and thus increase opportunities for suppliers and producers in both countries. [This] could have a mutually beneficial impact by helping to reduce production costs and costs to consumers, increase productivity, and provide mutual access to improvements in manufacturing and production technology. Indeed, American companies stand to benefit disproportionately more if an FTA was successfully implemented in the near future because they would gain increased access to the Japanese market in a period marked by increasing domestic growth in the Japanese economy.

An FTA would add an element of predictability of supply and assurance of access, enabling businesses to plan over the longer term. A number of persons thought that FTA negotiations might encourage U.S. firms to make a greater commitment to serving the Japanese market, a development viewed by some as a prerequisite for improving U.S. export performance in Japan. The existence of an FTA could also quell concerns by Japanese customers about the predictability of U.S. supply, some believed.

Promote changes in attitudes

Exploratory FTA negotiations between the United States and Japan might lead to greater understanding of each others' problems, economies, attitudes, and perceptions, some participants thought. Many individuals, from a wide range of backgrounds, said this was particularly important given the dramatic changes taking place in both countries' economies. "We should negotiate even if we don't get anything, we might learn something," one individual remarked.

A number of U.S. government officials in Japan and former government officials, felt that perceptions among the public and even negotiators have not caught up with changed economic realities. Some argued that the critical dependence of a number of U.S. industries on Japanese suppliers and the rapid changes in the Japanese domestic economy have yet to be fully factored into U.S. negotiating positions. Although some Japanese decisionmakers had developed a keen sense of global responsibility, many were viewed by participants as not accepting Japan's status as an economic superpower whose new role requires it to move away from its defensive "export or die" mentality and insular "buy Japan" attitudes.

Some nongovernmental experts even believed that FTA negotiations might provide the dramatic psychological shock needed to turn around fundamental attitudes and perceptions in Japan. One U.S. business representative in Japan spoke of how FTA negotiations could provide a "spirit of commitment" or a direction that could move Japan towards freer trade. He noted that although it would be difficult to change certain practices or regulations under an FTA, the negotiations themselves could send a signal to the "keepers of the system" to change the direction of the Japanese economy. A directive or "vision" of free trade handed down by the Japanese Government might have a wide-reaching impact, he believed.

Some expressed the view that FTA negotiations might also encourage working-level officials and the general public in each country to be less anti-Japanese or anti-American in their attitudes. Others claimed that the U.S. Government's intensive focus on Japanese "unfair trade" practices has spilled over to the American

[1] "A U.S.-Japan FTA, if negotiated properly, could mean wider telecommunications competition, more open procurement policies, and stable investment opportunities for our members and other U.S. companies in Japan. A free trade agreement could lead to free access to the telecommunications networks of the United States and Japan, which would open up a trans-Pacific network of services like data processing and storage services, video text, electronic mail, voice messaging and the like."

public, encouraging it to place the blame for America's competitive problems and overall trade woes at the feet of foreigners.

At a minimum, FTA negotiations could help correct misperceptions that seem to abound in both countries by providing a long-term channel for communications and for fostering a better understanding of each country. One person remarked, "Even if we don't set up an FTA, a dialogue would be good. . . We can't have tunnel vision on this. The more communication, the better."

Disadvantages of the FTA Approach

Many people suggested that the FTA approach would not be an improvement over present negotiating approaches, which have in their view at least produced sufficient success on a sectoral basis to maintain the United States' overall free trade direction. They cautioned that FTA negotiations could stall progress on outstanding trade problems and diminish valuable U.S. negotiating leverage. Moreover, most saw few real possibilities for U.S. economic gains from an FTA. They feared that the United States would be forced to give up protection in highly sensitive economic sectors, such as textiles and steel, without commensurate U.S. sales gains in other areas. Even a well-crafted agreement would run into serious implementation problems, some experts believed. Often pointing to the same issues raised by supporters of the FTA concept, many of those who opposed such an agreement did so because they believed that these issues could not be adequately addressed in the context of FTA negotiations. As one negotiator stated:

> I am convinced that the only way we will improve our market access in Japan is by banging away on an industry-specific basis. It's time consuming, but it works. If that's all you're going into an FTA for it's not worth it. The problems we do have with Japan—the distribution system, administrative guidance, relationships among companies—can't be handled by an FTA. I just don't see the problems we have with Japan being resolved in some sort of umbrella agreement. And they would want something from us . . . dispute settlement, [section 301]. Are we about to foreswear that in return for getting some nebulous concessions?

Not alleviate trade friction

An FTA is not likely to reduce the tensions or acrimony associated with the current approach nor is it likely to remove trade issues from their current high-level political profile, a number of participants from business and the legislative branch believed. Rather than reducing bilateral trade frictions, it was suggested that FTA negotiations could actually exacerbate them, especially in the short term. One individual noted, "Politically, an FTA with Japan is a very difficult process—my instinct is that the relationship is so high profile and disputes are so high profile that it would be difficult to treat as a sort of second-order-of-magnitude event. Japan is too important."

Several suggested that FTA negotiations could have a destabilizing effect by focusing an unprecedented amount of attention on every outstanding bilateral trade issue at one time. Given the tension and rancor associated with each single major issue, such as semiconductors or the Kansai airport project, just "imagine the political uproar if even more bilateral issues were combined on one negotiating platter," one participant exclaimed. A number foresaw a scenario similar to the U.S.-Canadian negotiations, where issues that had previously received minimum notoriety suddenly demanded a place on the bilateral negotiating agenda. "The rancor will not go away," one nongovernmental expert flatly stated.

A number of nongovernmental experts believed that the FTA concept was put forward as a political panacea and were suspicious that its real intent was to paper over fundamental tensions between the two economic systems by subduing the intensity of clashes on the trade front. Some participants agreed with the statement of one former negotiator. "The underlying premise for Ambassador Mansfield's FTA proposal is flawed. The root of our problem with Japan is not frictions and acrimony, but rather legitimate grievances about Japan's commercial practices." The only way to alleviate tensions is to resolve the real problems, not to "make the politics happy" by signing a "cockamamie agreement," as one former high-level Government official put it. These individuals were concerned that an FTA could distract U.S. policymakers from focusing on the underlying economic causes of friction and acrimony in the bilateral relationship, "bottling up" the tensions, and relegating them to second-class status, behind foreign policy and defense considerations.

Others expressed concern that the FTA approach might be an effort to channel trade complaints through a central foreign policy "filter" and to rein in an interagency structure and bilateral negotiating mode that has become both decentralized and specialized.

Political risks

The most significant drawback to an FTA approach according to a wide majority of participants including government officials, business persons, and nongovernmental experts is that if negotiations failed or an agreement could not be implemented, it could have disastrous consequences for overall U.S.-Japan trade relations. In the words of one individual, "What happens if we start one and can't finish? The status quo ante is not the alternative. There would be a lot of recrimination and bad feeling." A breakdown in negotiations could be viewed as a major foreign policy failure; signing an agreement that didn't work or which gave Japan more advantages would be a major domestic policy problem. Either scenario would likely lead to increased distrust and frustration on both sides of the Pacific. Some participants believed that the

U.S. administration's credibility in trade policy generally would be severely damaged.

Even discussing the prospect of an FTA was viewed as potentially harmful by some who feared that excessive expectations and high political stakes could compel negotiators to reach a deal that might not be in the United States' best interest. One individual said, "Once you start an FTA negotiation, it would be politically embarrassing for it to fail. This can result in pressure to arrive at an agreement."

Discussing the possibility of an FTA might also give rise to false expectations in both Japan and the United States about the possible concrete economic benefits of an FTA, which could cause further political damage if they were not realized. Many experts expressed similar views to this one, "The problem with a Japan FTA is that if it were done and were just cosmetic, it would be 'political dynamite'. If it were just a package with no content, it could exacerbate tensions in the relationship. It would only be a good idea if it were a good agreement."

A breakdown in negotiations or a "bad" agreement could have negative consequences for U.S. domestic policy as well. In the words of one participant, "An FTA would exacerbate the political problem. You'd end up with a worthless agreement focusing on tariffs, you'd have put 301's on hold, there would be a backlash when you discover that the rhetoric about the negotiations didn't work. One of our biggest problems now is when we negotiate agreements with Japan, [and] declare victory—people don't believe it or trust it will work." A few participants, particularly some in the legislative branch, claimed that the current approach has at least provided sufficient success to maintain the United States' overall free trade orientation. If the approach failed, some participants thought there might be a greater likelihood that protectionist measures would be taken or that other aspects of the relationship would be adversely affected.

Not a better negotiating approach

Although some participants believed that FTA negotiations could get away from the sectoral approach, most felt that eventually the negotiations would come full circle and the United States would be back, negotiating issue by issue. "While an FTA could in theory address all our problems, in fact FTA negotiations would turn into a tradeoff of little bits of protection. An FTA would degenerate into a series of bilateral sectoral negotiations." Others believed that, "Only detailed, lengthy, product-specific negotiations can get at these problems." The comments of one U.S. official were fairly typical of those involved directly in the negotiating process:

> There appears to be an assumption that if you are conducting negotiations in an atmosphere in which you'd be looking at the whole trade picture you would get away from having to deal on a case-by-case basis. Frankly, the piecemeal approach has solved a lot of specific problems. Look at the case of cigarettes. We were talking about that problem for 15 years. As a result of the Section 301 case, we solved a billion-dollar-a-year problem.

FTA negotiations were described by a number of current governmental officials and nongovernmental experts as a "ploy" or "trap" because they would allow Japan to stall negotiations on specific trade issues and in general control the negotiating agenda. On this point one person said, "I'm afraid that talking about an FTA will mean that you don't have to do anything, that it will serve as a stalling mechanism." The mere announcement of negotiations could lead to stalling, some believed. "Anytime you start a negotiation it sends a message. Once the message is sent, it's going to affect the way they handle problems . . . FTA negotiations might give them a way to get out of making concessions."

Japan would also seek to play one industry off against another and to dictate the agenda and terms of debate, some participants believed. The Japanese are considered by many, including current U.S. officials, to be more effective in developing objectives and an overall strategy in negotiations. By consolidating all of the bilateral issues into one set of negotiations, Japan would probably have an advantage. "The biggest problem with an FTA is that it would allow Japan to set the parameters and shape the agenda. We will have the terms and the parameters dictated to us."

A number of participants believe that because U.S. barriers are more visible, FTA negotiations could shift the focus of attention away from the real issue of market access in Japan to access in the U.S. market. A few, including Japanese officials, said that FTA negotiations would give Japan an opportunity to expose U.S. claims about "invisibles" as being unfounded because it would be very difficult for the United States to actually pinpoint or define them. Some people claimed that this is one of the problems with calling any bilateral arrangement with Japan an FTA. With its huge trade deficit and growing domestic pressures for protection, they argued that what the United States really wants is unilateral concessions from Japan and increased market access.[1] Furthermore, many, particularly U.S. participants, believed that the United States is more open than Japan already and wonder, "The whole idea of an FTA is that each side has to give up something. Why should we give up anything?"

[1] One academic said the "The U.S. faces an extended period during which it will be seeking to reconstruct its external accounts—that is, working its way back to a surplus in merchandise trade with the rest of the world. This will require greater access to the Japanese market, or anyway a much smaller bilateral trade surplus. The United States, in effect, will be the party looking for concessions, such as a differential pace of tariff reductions of a continuation of some Japanese voluntary export controls."

Because they perceived access to the U.S. market to be more open than the Japanese market, many believed that mutual concessions would merely perpetuate the current inequalities.

A few said that establishing a regularized basis for negotiations would reduce the sense of urgency for Japan to take action. Some issues might be placed on the negotiating agenda, but simply never get addressed. Issues that required immediate attention because of their economic, political or strategic importance might not be addressed in time to have an impact. Several U.S. negotiators suggested that ad hoc forums are advantageous because they underline the importance the United States places on fixing a particular problem.

Other participants did not see a need for any type of formal dispute settlement mechanism, one of the principal advantages seen by some supporters of the FTA concept, and would be against including one under an FTA. They argued that such a mechanism would duplicate other forums or mechanisms already in place, such as the Trade Committee and GATT. One Congressional staff person expressed particular concern that bilateral dispute settlement would "inevitably turn into a negotiation between the two countries," potentially leading to a redefinition of U.S. trade laws, such as those dealing with dumping and intellectual property protection.

Participants in both business and government held the view that the fragmented nature of the U.S. policy-making process will always make it difficult if not impossible to achieve enough agreement among various trade policy interests to develop a coherent trade strategy towards Japan. Entering into FTA negotiations would not have any different effect on the policy-making process than the current sectoral approach because the system is inherently reactive. In the words of one government official, "We have to decide on our priorities before we even begin discussing the idea. If a consensus builds up in Japan, they will go all out to get there by bringing in the press and academics. The U.S. reaction would be fragmented, given the diversity of our system and the lack of consensus among businesses in different areas." The greater access of Japanese interests in the domestic U.S. policy making process was also seen as making the development of a coherent policy toward Japan more difficult. Trade-offs between trade policy and other policy goals (e.g., macroeconomic, defense, strategic interests) were viewed as unworkable or unattainable given present political realities and the current U.S. institutional structure for trade policy making.

Could diminish U.S. leverage

Some participants, including former negotiators, expressed particular concern that the United States could lose leverage under more mutual discussions, leverage that has proved crucial in securing concessions from Japan in the past. A number suggested that it is virtually impossible to resolve thorny trade issues, such as agriculture and construction, without raising them to Japan's highest political levels. An FTA would not eliminate the need to resort to such pressure. Some said that the only way to achieve concessions is to "push the Japanese against the wall" through constant pressures and threat of retaliation and that this approach has served the U.S. interests well in the past.

A number of participants from a wide range of backgrounds feared that the United States would lose negotiating leverage under an FTA approach because it could reduce the United States' ability to act unilaterally and employ its most significant bargaining chips such as section 301. "The only things we have to give up are [section] 301 and dumping. These are our only sources of leverage . . . There will be problems with the Japanese eventually because there always are. What if we need to do something on our side? This approach takes away our ability to use [section] 301." Many believed that Japan likely would seek to circumscribe U.S. ability to take retaliatory action under Section 301 or under other provisions of U.S. trade laws, including those dealing with dumping, patent infringement, and national security.

Use of [section] 301 has served a more general purpose than just sector-specific leverage, according to a negotiator, "[section] 301 as a tool has been effective in applying pressure to Japan. It is a consensus society and foreign pressure helps push Japan. It helped push them not necessarily on the trade side, but also on the macroeconomic side . . ."

Others feared that the United States would lose negotiating leverage because, as one put it, "horsetrading [among different U.S. industries and issues] would result in us losing leverage." Some believed that the current approach works to the U.S. advantage because it allows the United States to apply all its leverage on particular sectors, to avoid tradeoffs between issues, and to avoid giving anything up. As one U.S. negotiator put it, "Right now, the only concession we make is how much time we give them to change their foolish ways." Furthermore, many believed the United States should not have to pay for things twice. One Congressional aide asserted, "Japan's barriers are already impairing our access and limiting our sales there. By entering into negotiations on an FTA, the United States would have to offer even greater market access in return."

As a practical matter, a number of negotiators pointed out that it is not politically possible to tradeoff one industry against another. "I don't agree that overall an FTA will help resolve problems. The political reality is that you can't trade off one issue against another in this country. We can't tell the semiconductor industry to get lost because we're getting a good deal on beef and citrus."

Little increased market access and economic benefits

Perhaps the greatest concern among the majority of participants from all groups interviewed was that an FTA would achieve little,

if any, benefits for the United States in terms of increased market access or increased U.S. exports. "It would inflict extensive damage to U.S. economic interests . . . while providing meager benefits at best." It was agreed that Japan currently has the world's lowest average tariff rate, and few quotas or other official barriers to imports. Therefore, potential U.S. gains from an agreement focusing on formal border barriers would likely be small, a number of participants claimed.

A sizeable majority of those interviewed, especially current and former U.S. negotiators, were highly skeptical that the FTA approach would result in greater U.S. access to the Japanese market. As one former U.S. official put it, "I think it's the most ridiculous idea I've ever heard. The proposal totally ignores the nature of trade and economic relations between the United States and Japan, totally ignores enormous differences in the societal, economic and political systems of the two countries . . . It's a political proposal not an economic proposal." Many participants think that the real problems of doing business with Japan—such as a "buy Japan" mentality and the close-knit relationships among Japanese business and Government—are difficult or impossible to remedy through an FTA. A number echoed the following sentiment:

> The U.S. and Japanese social, political and economic systems are fundamentally different. The major differences between our systems would make a U.S.-Japan FTA unworkable and highly injurious to the U.S. economy. . . an FTA won't change the fact that Japan regards its key industries—from steel to semiconductors—as vital national assets.

One legislative aide said, "My guess is that an FTA would be a poor way of accomplishing our objectives. Problems in Japan tend to be structural: the distribution system, public procurement system, at least one step removed from border measures. How do you have an FTA with a country whose main barriers are not formal trade barriers?" In addition, some said that an FTA would not address issues or barriers that are likely to develop in areas relating to new technologies. "The next level of issues that will have to be dealt with between the United States and Japan involve leading edge technology—research and development, intellectual property and other trade barriers to trade in high technology are not amenable to an FTA."

Some Japanese business practices that restrict market access are not clearly within the Japanese Government's direct influence and are probably not good candidates for government-to-government negotiations, some believed. To the extent the government does play a role, securing changes to these largely domestic practices will be a delicate and formidable task, one unlikely to be completed via a single agreement like an FTA, others suggested. Many participants, including business persons and nongovernmental experts, believed that other barriers to U.S. interests are ingrained in the Japanese economic and social system, and they are thus not susceptible to elimination by "the stroke of a pen." Others thought that these barriers are so deeply rooted in historical or traditional practices that only changes within Japanese society itself can get at them. "FTA" is really not the proper term for a comprehensive agreement that is trying to address underlying structural barriers, a number of persons said.

Many participants, and particularly current negotiators, believed that the only way to address remaining barriers such as the distribution system or restrictive business practices is to negotiate on each problem separately. They thought FTA negotiations would not be a good way to handle more informal barriers like the distribution system. One governmental expert said, "I doubt you can sit down and resolve all the distribution issues at one time, first because it's hard to identify all of them and second, because of the political costs Japan would bear. You've got to attack them one at a time, over a period of years."

According to some, the Japanese will not open their markets unless they decide it is in their best interest. Japan has taken some measures to open its financial markets, for example, because there was pressure from Japanese banks and security companies to do so. One participant claimed that an FTA might "make it harder for them to develop consensus for liberalization if it was perceived that opening was in our interests, as a result of foreign pressure, not on their own initiative and on their own terms."

Economic costs

Major manufacturing industries in the United States, such as steel, autos, machine tools, and textiles, could face adjustment difficulties if an FTA with Japan were concluded, a number of participants predicted.[1] These sectors were most frequently mentioned by participants as being adversely affected by an FTA if it included the removal of quota restrictions. The majority of participants believed that the removal of VRA's would be one of the first items on the Japanese "wish list" for negotiations. Numerous other sectors were mentioned as being adversely affected by an FTA, including light-weight trucks, semiconductors, and banking. "Because our

[1] One view expressed by a trade association was that, "An FTA would cause severe injury to the domestic steel industry even if steel mill products were totally excluded from such an agreement...Thanks to surging U.S. imports of Japanese machinery and automotive products and stagnant U.S. exports to Japan of these same products, Japan now accounts for about 40 percent of America's current indirect steel trade deficit. We are convinced that an FTA with Japan would only accelerate this adverse trend—to the detriment of the domestic steel industry, many of our key customers, and the U.S. economy at large. Another participant said, U.S. trade barriers are more visible, and as a result of an FTA, imports from Japan would increase rapidly in areas like machine tools, autos, high technology. Our exports may not rapidly increase and therefore the FTA would not have much monetary value."

markets are open, Japan will take every inch legally. . . If the law permits something up to a certain ceiling, the Japanese will maximize under it."

Many people believed that an FTA would likely worsen the U.S. trade deficit at least in the short-term with Japan because the United States is a consumer-driven economy and is already more open to imports, whereas Japan's policies favor the producer. In the words of one person, "Exporting to the United States is like rolling a ball down a hill, the momentum is with you. But importing into Japan is like fighting against the tide, it's not normal to be successful, it's a struggle, but once in a while it does happen." The United States' well-developed distribution and marketing channels for imports, and Japan's export-oriented economy would lead to a substantial and rapid increase in U.S. imports from Japan, a number predicted.

The majority of participants doubted that the United States would be willing to bear the political and economic costs of giving up protection in the areas of steel, textiles, autos, machine tools, or semiconductors. One participant said, "Anything we could give them in terms of access would be incredibly sensitive politically." Another claimed that whereas Japan is accustomed to the idea of letting some of its domestic industries die, such as coal, aluminum smelting or shipbuilding, the United States is not.

Implementation problems

Even if an FTA could be negotiated successfully, there would be problems in ensuring implementation, some believed. One individual said, ". . . if past experience is any guide, on paper they will agree, but it can't be carried out." Some former government officials and other nongovernmental experts wondered why we would conclude another trade agreement with Japan, when previous bilateral agreements have produced such dismal results. "Success means both sides walk away satisfied, but we've never been satisfied with the results we've gotten from talks with Japan—it's like peeling the onion," he said. "The aluminum baseball bat case is a good example, the Japanese changed 15-18 laws and yet other barriers were found to selling bats in Japan."

Some stated that the Japanese have found ways to get around previous agreements that have been negotiated such as the semiconductor agreement. "We've gotten agreements from Japan to provide market access which Japan has found ways to get around. . . . Their industries always find a way out. Our efforts to gain access to their market are not as good as we hoped for and don't last very long."

One individual directly involved in negotiations with Japan noted that the reason agreements might not be enforced is not because the Japanese are "dishonorable," but rather that, "You have to nail down everything. Never assume the ambiguities will be interpreted in your favor. You can't do a tough issue with Japan in one week. It may take 3 months spelling out every detail with Japan."

A few claimed that even if the United States could negotiate or remove existing barriers, new ones would spring up to replace them in the form of testing requirements, licensing, standards, or other less formal barriers. One negotiator said, "It would take years to find out where all the little barriers are. We'd have to spend 10 years thinking up all the possible problems we have in Japan. And then they'll find 10,000 more ways to get around it. We could never cover the whole thing." Others pointed out that unforeseen problems or barriers are often brought to the attention of U.S. negotiators during the course of negotiations or after an agreement is actually reached.

Government and public attitudes will not substantially improve

Some participants were skeptical that entering into FTA negotiations would have an impact on the Japanese Government, businesses or the public in terms of galvanizing attitudes in the direction of free trade. One person remarked: "Some say an FTA might have a galvanizing effect. But its difficult to negotiate that kind of thing. Frankly, I wouldn't want to defend it on those grounds if we were seeking authority to negotiate from Congress." One expert suggested that free trade per se is a very vague concept and thought it is unlikely that the United States and Japan would interpret it in the same way. A number of negotiators believed that most Japanese think they already have an open market. Others claimed, "Most Japanese people don't realize the barriers are there."

Little political support in the United States

The majority of participants from all of the groups interviewed in the United States believe that there is very little political support in the United States for entering into FTA negotiations with Japan.[1] One said, "Politically, getting an FTA approved would be an uphill battle in this country, mostly because of the public perception of difficulties with the Japanese system. The public would be wary that an FTA would not solve these problems. . . The U.S. domestic political problems with gaining acceptance for a U.S.-Japan FTA are due to the emotional baggage that has surrounded U.S.-Japan trade relations in recent years. . . These have led to public misperceptions. To the U.S. public, the U.S.-Canada agreement seemed obvious . . . not so with a U.S.-Japan FTA. There will be more

[1] One U.S. official said, "Ambassador Mansfield's call for a free trade agreement between the United States and Japan has created much interest in Japan. I too would like to see all barriers, formal and informal, to trade and investment in both goods and and services between our two countries completely disappear...but I must be candid in saying that as things now stand, this is not a realistic possibility. That is because most Americans the that a Free Trade Zone between our two countries would be a one-way street, with Japan getting all the benefits of an open American market, but the Japanese market would remain as difficult for U.S. companies to crack as it always has been."

need to offer evidence of the advantages." However, a few Congressional staff members noted that if an FTA proposal were put forth, there are members on key committees that would support it.

A large number of people thought that the political feasibility for entering into negotiations on an FTA, from the U.S. point of view, could improve if any of the following developments should occur: 1) a new administration made this objective a cornerstone of its trade policy; 2) the current negotiating climate deteriorated because of macroeconomic factors, a large increase in the bilateral trade deficit, or other political factors; 3) a stalemate developed in the Uruguay Round or GATT that appeared to be long term; 4) the integration of Europe in 1992 resulted in an increase in external barriers or restraints to foreign access; 5) there was a clear trend towards bilateralism in other parts of the world, e.g. in the Pacific Rim.

Impact on Relations with Third Countries

Two themes were commonly cited with regard to the impact of U.S.-Japan FTA talks on third countries. First, a large number of participants expressed concerns about the possible adverse impact that U.S.-Japan FTA talks might have on political relations and trading patterns with third countries, especially those in the Asian Pacific region. Secondly, many participants felt that U.S.-Japan FTA talks might provide a means to maintain pressure on the EC to keep its internal market open after the planned integration in 1992. Some of the participants who held this view generally opposed U.S.-Japan FTA negotiations for a host of other reasons, but conceded that this might be one instance in which discussing an FTA could actually be advantageous to U.S. interests.

Political relations and trading patterns might be adversely affected

A majority of participants in both the United States and Japan felt that countries in the Asian Pacific region, particularly Korea, Taiwan, Australia, and New Zealand, would react negatively if U.S.-Japan talks appeared to be or proved to be exclusionary. In this regard, a typical view was that countries such as Korea would worry that the United States and Japan might put together an FTA that other countries of the region could not penetrate. As one government official remarked:

> If Korea saw the United States and Japan negotiate an FTA they would be scared. They would be concerned about creating an FTA that would exclude them. It would change the advantages Japan has in sourcing manufacturing in Korea. Other supplier relationships between Taiwan and Korea would be affected.

One Japanese official described in more detail how FTA negotiations could destabilize U.S. political and economic relations with countries in the region:

> Japan's future lies in Asia and it must not do anything to undermine that. On a purely economic basis, Asian countries will be more important suppliers to Japan, and important future markets for Japan. A bilateral FTA with the United States might tie us in too closely with the United States and lead to distortion of supply. Japan has been joining with the United States in encouraging the NIE's to liberalize their markets and this [a bilateral FTA] would be a bad signal to them, viewed as a regression that might provide an excuse for not opening up their markets.

Numerous participants including representatives of third countries stated that excluding other countries of the Asian Pacific region from a bilateral agreement would also disrupt trading patterns in the area and create inefficiencies in supply relationships. They noted that the economies of Japan and the Asian-Pacific region are too closely integrated at present for a U.S.-Japan FTA not to have adverse consequences on supplier relationships among these countries. One nongovernmental expert said:

> The two biggest economies would be conducting their affairs independent of the international system. It would discriminate against other trading partners. What about countries like the Philippines? The consequences would be adverse. The losses would be greater than the gains to the partners to the bilateral agreement. It might be possible to bring in the Philippines, Taiwan, and ASEAN, but you wouldn't be able to negotiate it. You would get some structure like GATT. From the beginning it would be a doomed enterprise. So the first reason for being against the idea is that it is impractical in political and economic terms.

One U.S. official said that Australia and New Zealand might be concerned that an FTA could result in a decrease in their exports of raw materials to Japan and a decline in the currently significant levels of trade with that country.

Considerably fewer cautions about the effect of an FTA on Canada were expressed, although a Canadian said that, among other things, Canada's reaction would depend on whether the United States viewed a U.S.-Japan FTA as an exclusive arrangement, or as an extension of the U.S.-Canada accord. He stated that Canada would be mostly concerned if a U.S.-Japan FTA were perceived purely as a bilateral deal and thought that Canada would want to be part of any U.S.-Japan negotiations. In particular, he noted that if the United States reached a bilateral

agreement with Japan, Canada's exporters of natural resources would be put at a disadvantage to U.S. exporters in the Japanese market.

Several participants stated that U.S-Japan FTA talks would very likely worsen U.S.-EC relations. Some suggested that a U.S.-Japan FTA could cause fears about the EC's integration effort becoming protectionist to result in a self-fulfilling prophecy, displacing U.S. and Japanese suppliers from the European market. One private sector expert said:

> It's a vicious circle because the more we talk about it, the more likely we are to get a backlash from the Europeans. The EC already doesn't like the special arrangements made under MOSS talks. This strengthens those in Europe who support the "Fortress Europe" idea and support protectionism. A U.S.-Japan FTA would be seen by the EC as a protectionist trend.

Another said that as a political issue it is hard to see how an FTA would work with just Japan and not the EC.

The effect on the world economy could be negative

In the view of numerous participants, U.S.-Japan FTA discussions could have a detrimental effect on the world economy as a whole. Many stated that the two biggest economies in the world could not conclude a free trade agreement without seriously affecting the rest of the world. These fears were expressed by both Japanese and U.S. Government officials. One Japanese official stated, for example, that an FTA linking two economies which, he said, account for more than a third of the world's GNP should be carefully discussed. A former U.S. official expressed concern about fragmentation in world trade and said that "I do not think we can afford to have any major pillar [the EC, Japan, or the United States] in a trading bloc. It sends the wrong signal on the security side if any of the three pillars are not included."

Third countries could be included

To avoid or minimize disruptions in trading patterns or political and economic relations, many participants, from all groups interviewed, urged the United States and Japan to use caution in pursuing a bilateral agreement, to leave any agreement open to membership by other countries, or to multilateralize a bilateral accord. By leaving open or expanding membership, many participants believed that an FTA could help liberalize the multilateral trading system. Some suggested that a bilateral FTA be negotiated first and provide the possibility for entry by others later. Others suggested the United States could invite other countries of the Pacific Basin to join in free trade and noted that Pacific countries have strong trade ties with both the United States and Japan. One participant said:

> One can expect that any U.S.-Japan discussions would lead to broad-based regional pressures not only from the Asian NIE's, Australia, New Zealand, and perhaps Canada, to develop a broad-based Pacific Basin regional trading arrangement.

A Japanese official suggested that Korea and Taiwan might want to be included from the beginning. Another Japanese official suggested that membership could be open to developing countries who could take on some responsibilities under a new agreement on a transitional basis. After speculating about the negative effects of trade diversion a U.S.-Japan FTA could cause, one participant stated that the United States could turn a bilateral agreement to its advantage by seeking an FTA with the EC after negotiating with Japan. The key point is to "multilateralize the approach after putting an FTA in place", he said.

U.S. negotiating leverage with the EC could increase

Many participants, including current government officials, believed that U.S.-Japan FTA talks or an FTA agreement could strengthen the negotiating position of the United States and Japan vis-a-vis the European Community. Numerous participants expressed a view similar to this one, "One of the most useful results of negotiating an FTA with Japan would be to scare the EC." Many felt that FTA discussions might be one way to guard against the possibility that Europe 1992 would close the United States and others out of the EC market. If it became clear that completion of the EC internal market was indeed likely to restrict imports from outside countries, U.S.-Japan FTA negotiations might help put pressure on Europe to open up, a number believed.

Liberalization in other countries could be encouraged

Some participants, and especially nongovernmental experts, said the United States could use bilateral FTA talks with Japan for further liberalizing the multilateral system. One predicted that "development of regional trading blocs is inevitably the wave of the future." He stated that by generating anxiety among other countries, such as the EC and countries of East Asia, about bilateral deals, the United States may be able to convince those and other countries to expand free trade. He said that Japanese anxiety over being left out from the Canada FTA is behind the movement for a U.S.- Japan FTA. By talking about a U.S.-Japan FTA, he reasoned, the United States would generate the fear among other countries that they will be left out and, as a result, they would move in the direction of liberalization. He argued that "the United States has to do everything possible to achieve maximum liberalization, and an FTA could be another way to achieve that objective." One academic said:

> the United States should proceed with discussions . . . making it clear that the context should be one of nonexclusivity, openness, and widened market access in

a process by which bilateral discussions can lead to global liberalization, but not balkanization.

Along the same lines, a few individuals stated that serious U.S.-Japan bilateral talks could put pressure on countries such as Korea and Taiwan to liberalize their markets. Another participant who was opposed to an FTA with Japan said that "a better approach than the current one is to get the United States and the EC to gang up on Japan multilaterally."

Implications for the Multilateral Trading System

Opinions differed widely as to whether an FTA would support or detract from U.S. multilateral aims. A large number of individuals expressed concern that a U.S.-Japan FTA would damage the trading system by weakening the most-favored-nation principle, segmenting trade, and diminishing the prospects for success in the Uruguay Round. Others believed that it is possible to conclude a U.S.-Japan free trade arrangement that would be consistent with GATT rules. They claimed that the prospect of such an agreement may encourage other countries to take the Uruguay Round more seriously and suggested that a U.S.-Japan FTA might lead to the development of "model agreements" in areas such as services and intellectual property. Individuals from both groups urged the two countries to devote primary attention to improving the GATT system in the Uruguay Round over the coming year or two.

The multilateral trading system

Views on the potential impact of a U.S.-Japan FTA on the multilateral trading system reflected overall perceptions about the value and role of multilateral versus bilateral approaches in achieving U.S. trade policy goals, both generally and with respect to Japan. A large number of individuals representing a broad spectrum of interests believed the United States has a major stake in maintaining and improving the GATT system, viewing it as the most effective and efficient means to ensure the realization of overall U.S. trade objectives. The GATT has also been a useful, though not always sufficient, tool for dealing with Japan, many participants claim.

Almost all participants expressed support for the multilateral trading system. Many preferred multilateral approaches for achieving U.S. aims and view bilateralism as a second best alternative. In the words of one industry association:

> The marketing reality . . . is that trade is conducted on a global, not bilateral basis. Even if trade liberalization occurs in one country, unfair practices and policies in other parts of the world can dilute or nullify the gains achieved . . . The industry can best ensure its longevity in Japan if a global commitment . . . can be reached.

Another industry association asserted that "increasing access to international markets and safeguards have been addressed in the system of international trade agreements, even with their inadequacies in many areas."

Many participants, both in the United States and Japan, pointed out that the United States has long been the linchpin of support for an open multilateral trading system and suggested that relinquishing that role would not serve U.S. interests. They argued that the impetus for multilateral liberalization must continue to come from the United States. Discussing an FTA with Japan, some say, would "destroy U.S. credibility as the defender of open trade."

Many argued that an FTA with Japan would weaken the GATT or at best, "it could not be a plus." If a U.S.-Japan agreement were full of exceptions and special arrangements, cautioned another, it would not enhance the multilateral system. "If the number one and number two trade powers write the rules off in a corner alone," said one administration official, "why should anyone else bother with the multilateral system?"

A number of participants saw the trend toward bilateral agreements as detrimental to free and open world trade. Some warn that bilateral FTA agreements divert trade and distort comparative advantage. One senior trade authority noted that "there is little evidence to show that FTA's are good vehicles for promoting trade liberalization." Others cautioned that negotiation of a U.S.-Japan FTA could lead to a balkanization of trade. One academic said that if the United States and Japan were to conclude an [FTA] agreement with Japan, "the outlook for the multilateral system would be distinctly unfavorable" because smaller GATT members would be forced to seek accommodation in trading blocks. A farm spokesman asserted that U.S. farm interests are opposed to bilateral agreements and strongly support the MFN principle of the GATT.

Others, although supporting multilateralism, saw bilateral free trade agreements as an alternative that might remedy inadequacies of the multilateral system. Some former officials asserted that the United States and other countries are reaching a point at which they need to try to accomplish their national objectives beyond the GATT process, but without abandoning the GATT altogether. Some believe an FTA with Japan could complement and be consistent with the system, and others were willing to "take the chance" even if it were not.

Most participants insisted that if an FTA were negotiated with Japan, it should be GATT consistent. Several pointed out that bilateral agreements are permitted by the GATT under certain circumstances. GATT article XXIV:4 does recognize the "desirability of increasing freedom of trade" through arrangements such as FTA's. It also states that the purpose of an FTA "should be to facilitate trade between the constituent territories and not to raise barriers to

the trade of other contracting parties with such territories." To be consistent with GATT obligations an FTA must provide that duties and other restrictive regulations on commerce on "substantially all the trade" between the countries are eliminated and tariffs and other regulations "shall not be higher or more restrictive than the corresponding duties and other regulations of commerce existing . . . prior to the formation of the free-trade area."[1]

One U.S. official expressed confidence that a GATT-consistent agreement could be designed, as did a Japanese Government official. A trade attorney noted that the GATT recognizes occasions in which regional free-trade arrangements can be liberalizing. One private sector spokesman said his firm also has "no problem with bilateral agreements as long as they are complementary to the GATT." But others wondered, "Is it realistic or practical to think that you could have an FTA with Japan that enhances the Uruguay Round or the GATT?"

Many see a middle ground. "The GATT and FTA's are two ends of a spectrum," observed one government official, "there may be successful approaches down the middle." Exercising GATT rights is good trade policy but not the only avenue, one observed. Another government official observed that bilateral channels are already in place and are a legitimate way to handle problems. A number asserted that an FTA is not necessary to make further progress with Japan because the multilateral system does not preclude various levels of bilateral negotiations to resolve problems. Some believed that since the GATT already provides a dispute settlement mechanism, a bilateral dispute settlement mechanism under an FTA is neither necessary nor desirable.

The Uruguay Round

Views on the impact of FTA discussions on the Uruguay Round were colored to a large degree by whether the individual was optimistic or pessimistic about the round's prospects for success in "fixing" the GATT system. Some were not confident that the Uruguay Round can achieve enough improvement in existing rules orsufficiently broaden its coverage to new areas. Others believed that the round offers a real opportunity to make headway in some of the new areas such as services and intellectual property.

Most participants believed that the United States and Japan stand to gain from strengthening the GATT in the Uruguay Round, and therefore urged caution in considering whether to initiate FTA negotiations. Some participants believed strongly that negotiating an FTA with Japan would derail the Uruguay Round, others argued that it may serve as a fall back if U.S. goals in the Uruguay Round are not met, and a few say that exploring the idea might give impetus to the Uruguay Round. Nearly all agreed that FTA discussions should not begin until the Uruguay Round is given a year or two more to play out.

A foremost concern of many participants, including current government officials, nongovernmental experts and industry groups, was that the time was not right for initiating discussions on an FTA, in particular, while completing the Uruguay Round and strengthening the GATT need to take top priority. "This Administration believes in and will continue to pursue the multilateral GATT trade negotiations in the Uruguay Round," wrote United States Trade Representative (USTR) Clayton Yeutter. "The GATT round should be the centerpiece of American trade policy over the next several years," said another. "We should press for what we're trying to accomplish in the Uruguay Round," urged an Administration official, and "not lose sight of our goals there."

An FTA is premature, they argue, both for reasons of policy and resources. A number of participants believed that the United States does not have the resources to do a good job on the Uruguay Round and an FTA, particularly one with Japan, at the same time. According to many governmentat officials, "We're overstretched already."

Others asserted that making "a multilateral system that works successfully will require the political will of its principal members." One prominent concern is that Japan and the United States are the two countries who first pushed hard to get the Uruguay Round launched, and, in the eyes of many participants, they still need to be seen as leaders in the negotiations. "The Uruguay Round is the only game in town. . . It is not a good idea to make it look like we're giving up," one U.S. official said.

Several participants predicted that FTA discussions would effectively derail the Uruguay Round or, at the least, slow the process. "The commitment of the United States to the new round would be seriously questioned," cautioned one academic. Indeed, such a move would be "an admission that the Uruguay Round is dead," one individual claimed. One industry association stated that "U.S. companies do not want to see the Uruguay Round derailed."

On the other hand some, including current government officials, thought that FTA discussions could have a positive effect on the Uruguay Round. If an FTA were negotiated to be within the bounds of the GATT, one official claimed, it could "help multilateral efforts succeed." One argued that the effect on the Uruguay Round will depend on the details of the FTA negotiated and recommended that "we should try to make it a positive force." For example, some suggested that the United States and Japan might be able to develop legal language and principles that could be used later in multilateral agreements. In this regard, it was noted that the two countries have already gone beyond most others in the areas of financial services, construction and engineering services, and legal services. One academic thought the

[1] GATT article XIV also calls on countries entering into such an agreement to notify the Contracting Parties, who may make recommendations regarding the agreement.

prospect of a bilateral FTA could serve as a bargaining chip with Japan in GATT talks.

A few, including representatives from third countries, argued that the threat of an FTA might help pressure other countries to take the Uruguay Round more seriously. "If [U.S.-Japan] free trade negotiations were to begin and be taken seriously," argued one academic, "the other GATT parties would try to forestall a successful negotiation by a demonstration that the multilateral system does offer a viable alternative."

While acknowledging this possibility, one person cautioned that this is a risky strategy. "Instead of encouraging results in the GATT talks," he argued, "it could result in others giving up in the GATT and moving into regional trading blocks." Another stated firmly that it is "not a good idea to use exploration of an FTA with Japan as a tactic to get the round moving, it could backfire, or it could result in an FTA the United States had not carefully considered."

Many participants, from all groups interviewed, think the United States should wait and see what benefits the United States derives from the Uruguay Round, and if it gains little, perhaps it should consider an FTA with Japan, or explore other options. USTR Clayton Yeutter wrote, "As we evaluate progress in achieving our objectives in the Round, we may explore ways in which bilateral agreements can complement or enhance these efforts."[1] An industry association argued that "the need for a free trade area with Japan . . . hinges largely on the results of the multilateral trade negotiations. Should these negotiating avenues . . . prove unsuccessful, we would endorse trade talks with Japan as the next best resource." However, one policy analyst characterized FTA's not a second best alternative to the multilateral system, but as the "third, fourth, or fifth best option."

Some participants were less concerned about negotiating an FTA and the Uruguay Round at the same time. One nongovernmental expert argued that it would be no threat to the round if the United States went on the offensive for openness with an FTA as well. One reason offered for going ahead with FTA discussions was lack of optimism that the GATT talks would bring about free trade, so "there is no point in waiting to see if things shape up in the GATT Round." An academic argued that the Uruguay Round would not bear much fruit because the United States and other major trading partners are not willing to make the kinds of concessions that will make it a success, so "we might as well get started in other areas like an FTA."

A few argued that since only agreements on general principles are likely to result from the Uruguay Round, the United States and Japan could begin crafting detailed and ambitious rules on investment, intellectual property, and services that could go further than rules that may result from the round. Nevertheless, noting that these issues are high on the Uruguay Round agenda, some participants preferred that the GATT first be given a chance to work its course on them.

Usefulness of the GATT in resolving U.S.-Japan trade issues

Many participants believe that the GATT has been useful in advancing U.S. aims with Japan. Some individuals, however, assert that the GATT is not always relevant to U.S. trade problems with Japan. Participants were divided about whether U.S. market access problems with Japan would be wholly or partly resolved in the Uruguay Round.

Many participants believe the GATT has been a useful tool in resolving bilateral issues with Japan. Supporting this view, one participant argued, "Our bilateral problems are in fact multilateral, shared by our trading partners. Japan must open its market to Korea's steel and televisions as well as to U.S. satellites. Japan's closed market is a multilateral problem, therefore a bilateral solution is a less good alternative."

Several pointed out that the United States benefits from the opportunity to bring multilateral pressure to bear when seeking to resolve particular problems with Japan. "By employing multilateral pressure and consensus," one negotiator said, "it is easier for a country being attacked to take action." Another noted that, since most of the specific problems of concern to the United States are not unique to Japan (e.g., patent infringement, antitrust enforcement, industrial targeting), but are also problems with other countries, it is still necessary to fall back to the multilateral system.

A number of individuals asserted that the United States has an interest in the multilateral opening of Japan's market and the expansion of its imports from all sources. One even went so far as to assert that "Japan is destabilizing the trade system by its mercantilist approach to trade." They suggested that it is in the United States' interests to bring multilateral pressure to bear on "the Japan problem."

Other participants, including current and former government officials, did not believe the GATT adequately addresses many U.S. concerns with Japan. "GATT provides a very weak basis for the kind of discussions we've had with Japan," said one participant. "Either the issues are not covered by the GATT, or are covered by only general language."

A few stated that the United States was unlikely to significantly advance its interests with Japan in the Uruguay Round. Others believed that it might lay the groundwork for resolving particular bilateral problems. Progress in the areas of dispute settlement, intellectual property, and services could improve U.S.-Japan relations, a number of participants believed. Another emphasized the scope for potential in the Uruguay

[1] Formal submission for the record, Clayton Yuetter, United States Trade Representative, Aug. 23, 1988, reproduced in Appendix E.

Round and urged, "Let Japan show us they are serious about liberalization in that forum."

Some government officials also believed that some U.S. trade problems with Japan can be addressed within the Uruguay Round. They argued that Japan is taking the GATT and the Uruguay Round seriously and that Japan realizes that strengthening the GATT is in its own interest. "The number of proposals they have tabled in negotiating groups in Geneva show that they take the negotiations seriously," one person claimed. Nevertheless, as one Japanese official remarked, "We like the multilateral GATT system, but in the reality of European integration and U.S.-Canada agreement, we cannot ignore an FTA offer."

Alternative Negotiating Approaches

Participants suggested a variety of alternatives to an FTA for improving the U.S.-Japan relationship, for increasing market access in Japan, or for handling some of the recurring issues and disputes in U.S.-Japan trade relations in a different context or forum. In general, these ideas focused on (1) developing a series of broad economic understandings with Japan, (2) managing bilateral trade through numerical goals, (3) developing new institutions, whether bilateral or plurilateral, for consideration of bilateral or regional issues; or (4) trying other ideas for shaping the future of the bilateral relationship. Many stated that closer management of the U.S.-Japan relationship was needed. They frequently suggested that such management would be more effective than an FTA in improving bilateral relations or increasing market access in Japan.

Reapportionment of global economic roles and responsibilities

Several participants suggested that the United States needs to develop a broad strategy to deal with Japan aimed at reducing, over the long term, the differences in the two economic systems and reapportioning economic roles and responsibilities. This "grand strategy" would involve reaching a series of understandings with Japan over a variety of global and bilateral issues. They suggested that the strategy should encompass all facets of the U.S.-Japan relationship, not just trade.

One business person suggested that the actions that might be included in such a strategy are (1) adjustment of macroeconomic policies, including a correction of the U.S. budget deficit and possibly a further decline of the U.S. dollar; (2) further liberalization of the Japanese market, including changes in the Japanese distribution system, increased U.S. access to particular sectors, especially autos and electronics, and increased LDC access to Japan's market; (3) increased cooperation on the LDC debt problem; and (4) a more equitable sharing of the defense burden.

Another participant echoed this sentiment, suggesting that the United States needs "a coordinated series of understandings with Japan over 'internationalization' issues." In his view, these understandings should include (1) continued expansion of domestic demand in Japan, particularly by measures designed to increase Japanese consumption; (2) higher contributions by Japan to multilateral financial institutions, not just increased official development assistance by Japan (which he believes is often designed exclusively to serve Japanese commercial interests); (3) increased imports of manufactured goods by Japan, especially from developing countries; (4) shaping Japanese competition policy to create a free market in Japan and to end industrial targeting by Japan; and (5) a faster pace of market liberalization in Japan along with modernization of Japan's distribution system.

Another former government official suggested that the United States and Japan should design a bilateral "economic pact." He said that such an agreement could help anticipate problems so they can be dealt with before becoming confrontational. The pact would include a framework for dispute resolution to mediate differences before they reach "a political flash point," and extend to financial issues, investment, and LDC debt.

One Japanese organization called for a "new economic alliance" between the United States and Japan that would include three objectives: trade liberalization, exchange rate stabilization, and burden sharing for international assets. Specifically, the organization proposed removing all remaining border measures over a period of 5 to 10 years, a standstill on additional trade barriers or protectionist legislation, removal of Japanese domestic measures that tend to restrict the entry of goods and services, internationalization of the yen, establishment of a framework for adjusting macroeconomic policies, and increased bilateral cooperation in sharing the future burden of international public assets.

Managing bilateral trade with numerical goals

Three approaches were suggested for managing bilateral trade relations through setting numerical goals. Several persons suggested that numerical goals for the bilateral deficit in merchandise trade should be set. Another called for sectoral reciprocity. One expert suggested that it might be useful to negotiate agreed-upon ranges of sales increases as part of all bilateral market access agreements.

Several nongovernmental experts called for the institution of trade-deficit targets. One suggested that the goal would be set by the United States and that Japan should be allowed to reach it either by cutting its exports to the United States or increasing its imports from the United States. Another person suggested that a numerical goal of such a process should be a gradual reduction of about 10 percent a year in the deficit. This process, it was suggested, could include regular reviews of progress toward reaching the targets,

along with required adjustments, in the form of U.S. restrictions, if the targets were not met.

Still others recommended that the United States adopt sectoral reciprocity in trade with Japan. One former high-level U.S. official suggested that, perhaps on a sectoral basis, the United States could seek "equal conditions of competition between producers in both economies. Reciprocity, equal access to the other's market, is the key here," he said.

Another person suggested that, "Maybe an alternative would be to agree upon a set of benchmarks, ranges of sales. Maybe each agreement needs to have some sort of range against which you measure success. If the two sides have a very different idea of the benchmark, you could tell that the two of you had different expectations about the effectiveness of the agreement."

A number of current and former U.S. officials held the view that "managed trade," particularly on a sectoral or bilateral basis, is not sound trade policy. Many people echoed the words of one individual, who said, "while I am not comfortable with the status quo, I am not prepared to buy into the obvious alternative—managed trade."

Developing new institutions or approaches to bilateral relations

Some individuals expressed the view that developing some sort of a new forum for bilateral relations might be more appropriate than negotiating an FTA. These ideas included creating a new forum for the Pacific region, which would include the United States, Japan, and other countries, or establishing a bilateral free trade commission of some sort.

New forum for Pacific countries.—On the subject of creating a forum for the Pacific region, several envisioned the establishment of an information-gathering organization, a forum for research and factfinding that could serve as a useful advisory board and perhaps set guidelines for member states. They did not see such an organization as a mechanism to resolve specific trade disputes. They stated, however, that such a forum could be useful, since many of the developing countries in Asia are outside the OECD now. A Japanese official suggested that "perhaps the U.S. and Japan could consider working together to develop a loose arrangement among Pacific Rim countries" rather than a bilateral FTA.

Others also spoke to what they perceived as a need for a new institution in the Pacific. One academic elaborated on the idea of a formal organization for the region. He said:

> Lack of regional institutions in Asia are a problem in our relations with the area. A regional organization for study of issues, for example a body like the OECD to which trade or finance ministers could turn for close study of contentious issues that could be sorted out after study, such as construction procurement practices around the world. The expansion of the OECD to include more countries of Asia might be very appropriate, instead of developing an entirely new organization. This could allay the fears that an Asian regional organization could create in Europe.

A Japanese official also advocated a regional institution of some sort. He stated that at present, Japan does not have regular opportunities to "discuss issues frankly with the Asian NIE's." He said, "Japan proposes that it be possible for other countries to join the OECD or that a very loose forum be formed in the Pacific region in which every participant will share prospects for economies in the region." He thought that such an arrangement could allow a more beneficial exchange than at present and be valuable for relations among countries in the region. He speculated that if the United States and Japan could be successful in including the Asian countries and enhancing regional trade relations, "this would promote their growth, encourage their integration into the multilateral trading system, and assure that the economic growth is consistent with the world economic order." Some participants expressed the opinion that a Pan-Pacific FTA with noncommunist countries in the region would be a mistake. One said that the countries in the area are at such different levels of development that such an attempt would add momentum to the idea of developing regional blocs.

Bilateral trade commission.—Certain participants mentioned the idea of developing a bilateral free-trade commission either by itself, or as part of the broader effort to give a better sense of context to bilateral relations. One academic felt that given what he identified as the rapid changes taking place within Japan, it would be premature to lock both countries into a formal FTA agreement at the present time. In addition, he suggested that the United States does not necessarily need an FTA with Japan to pursue the objective of building free trade. He presented the idea of a free trade commission as a possible alternative that could be designed to pursue the same goals as an FTA. He cited the Japanese Economic Planning Agency's economic forecast as a model. He described the model as a vision of the future, which provides a way of cuing people in Japan about a desirable direction for building a consensus between government and business, although it carries no weight formally. He opined that a bilateral free trade commission could develop that sort of document for encouraging free trade between the United States and Japan. He said that such a document would prove valuable, and the Japanese would take it seriously.

Several participants perceived a need for "encasing U.S.-Japan trade relations in a broader context." On this point, one academic suggested that it would be useful to establish a semipermanent, unofficial commission or group, broadly representative of business, labor, academia, and agricultural interests, with a mandate to look at the whole spectrum of U.S.-Japan relations—political, security, and economic. He said that such a commission could

do in-depth research on basic problems and make recommendations to the respective governments. This would help the governments anticipate problems and look at the longer range issues, he suggested. For example, he stated that a commission could develop ideas for making integration of the two economies smoother and for taking the political heat off relations, which comes from dealing with issues when they reach a crisis point.

Some participants who suggested developing bilateral commissions thought they would be a better alternative than previously created "wisemen's" groups tasked with looking at various bilateral issues.[1] They suggested that such wisemen's groups have been far too narrow in their constitution and outlook, lack review of their recommendations, and do not have sufficient institutional memory to be effective. Another criticism of "wisemen's" groups came from a former high-level U.S. Government official who stated that a problem with "forums such as wisemen's groups is that the Japanese establish an aura of sweet reason," and "Americans are swept into a position of neutrality." Others believed that such groups are too divorced from the realities of negotiations to be able to make practical suggestions. Others disagreed with this assessment, arguing that "wisemen's" groups can serve a useful function.

Other ideas for shaping the future of the bilateral relationship

Several approaches were mentioned as possible ways to handle trade issues outside the context of an FTA or the alternate institutions described above. These proposals include ideas that deal not with using institutions for handling trade disputes and negotiations, but rather with using certain methods of negotiation, or adopting certain goals for trade talks.

One participant suggested that a bilateral trade agreement limited to two areas, tariff elimination and a dispute settlement mechanism, could be beneficial to U.S. producers. Tariff reductions would be useful, it was suggested, because tariffs, although low, are higher on certain specific products. This participant also said that a dispute resolution mechanism modeled after the U.S.-Canadian approach, minus special review procedures for antidumping and countervailing duty laws, could be beneficial for resolving bilateral disputes.

Some simply suggested conducting trade negotiations with like-minded countries should the Uruguay Round of GATT negotiations turn out to be unsuccessful. One mentioned that conducting negotiations with the goal of harmonizing regulations might be useful. He suggested that as the United States carries out a policy of opening markets it ought to be thinking about whether there are formulas for international regulation. There would be a lot of difficulty achieving a consensus on this, he said, but bilateral harmonization of regulations might be useful.

Certain participants suggested that if the Uruguay Round failed to modernize GATT, then trade negotiations to establish bilateral or regional FTA's might be appropriate. One suggested that the United States should be planning now for the possibility of failing to achieve its objectives in the Uruguay Round, or to supplement a successful GATT round. He suggested that, in the event of a Uruguay Round failure, the United States may need another way to try to achieve those objectives, whether through FTA's, case-by-case negotiations, use of section 301, or MOSS-type negotiations. He suggested that the United States needs to look at the whole framework and not limit its options on trade policy. In this vein, he mentioned that perhaps something like the Williams Commission of the early 1970's could be useful.

Some individuals stated that the area of financial matters between the United States and Japan needs as much or more attention by the governments than trade issues. For example, one participant said that the United States and Japan need a financial agreement more than a free trade agreement. He asserted that the two countries need a more cooperative arrangement with respect to exchange rates. He said a financial agreement with Japan could focus on (1) exchange rates, and (2) intermediation of funds, such as pertaining to Latin American debt. According to this individual, the United States probably does not need the free trade agreement to get a financial agreement, and a special financial arrangement might be better than an FTA.

Some participants suggested an examination of bilateral problems as a way to start solving U.S.-Japan trade problems. For example, one suggested that a first step in developing new approaches or institutions for handling regional issues might be to invite academics, business persons, policymakers, and industry representatives from the United States and Japan and other countries of the Pacific to examine informally the idea of setting up Pacific FTA's. Such an examination would also have to consider relations with Europe, he noted. He stressed that one has to carefully examine those issues before launching negotiations. As an alternative to bilateral FTA negotiations, one individual suggested that the United States and Japan should take 4 or 5 subcabinet level people and 2 or 3 business people and put them on an island and get them to figure out what the real problems are and how to solve them.

[1] Generally, the term "wisemen's group" refers to temporary "blue ribbon panels" of experts—often former high-level government officials, representatives of the U.S. business, and academics—commissioned to examine and make recommendations on specific aspects of the bilateral relationship. Over the past decade, two such groups were established with a mandate to report to the President and the Prime Minister on long-term economic issues facing the two countries, and to develop proposals for strengthening the bilateral relationship. A similar group was recently set up by the U.S.-Japan Business Conference.

APPENDIX A
FORMAL SUBMISSION BY U.S. AMBASSADOR TO JAPAN MIKE MANSFIELD

Embassy of the United States of America

Tokyo, Japan

STATEMENT ON A U.S.-JAPAN FREE TRADE AGREEMENT
by Ambassador Mike Mansfield

Having observed intensively this bilateral relationship for the past 12 years from Tokyo, I believe the United States' policy objective of market access in Japan has been correct and has led to satisfactory conclusions to a number of trade and economic issues. We are at a point in the relationship, however, when it is logical to evaluate our access and give some thought to the future of our trade relationship. A study of existing agreements, including even bilateral committees, may suggest to the astute observer that the United States and Japan have already created some type of de facto free/fair trade arrangement.

The basis for my suggestion that we at least study the shape of a free trade agreement is the belief that the U.S. should switch from approaches which politicize trade issues, exacerbate friction, raise emotional stakes, erode public support here for American objectives and risk undermining both countries' commitment to the alliance. We have no alternatives at present to our piecemeal approach which could last--but should not--into the next century.

Negotiation of a free trade agreement or something similar would permit both sides to deal with the entire economic relationship. All of our trade complaints and demands could be addressed in a comprehensive package: for example, manufacturing, services, patents, standards (particularly for down the line high-tech products), energy, transparency, financial services and the like. The Japanese could also raise concerns, including perhaps demands to abolish VRAs, which they have been reluctant to do for concern about political backlash in the US. And if we ever expect to get away from "gaiatsu", then negotiation as equals is necessary. Consolidating our discussions with the Japanese rather than dealing with issues in piecemeal fashion could put all the issues into better perspective and bring out the pros and cons of having a free trade agreement.

The Foreign Ministry and the Ministry of International Trade and Industry already have established study groups to look into a free trade arrangement with the U.S. or possibly a larger scheme including other Pacific nations. I have never advocated an exclusive arrangement so believe it would be appropriate that the scope of our studies cover all possibilities. It is indisputable, however, that the U.S. and Japan would be the backbone of whatever might evolve.

I believe it essential that the U.S. Government begin a study separate from Japanese Government efforts. Not only would it complement Japan's review but it also would prepare us to talk to the Japanese when and if either side is ready to move. A government group also could interact with American industry and academic groups that are beginning to explore the shape of a free trade agreement. The next Shimoda Conference (1990) could be an apt forum to key to the FTA study as it brings together American and Japanese private sector and government specialists from a variety of fields.

Exploration of a free trade arrangement could help Japanese and Americans accept that economic interdependence is real and that benefits can be found in showing how to make it work better. I believe it is fundamental to U.S. - Japan interests to have an economically intimate relationship.

Key in any agreement would be a dispute settlement mechanism. If we are ever ready to move forward formally, experience would have been gained in the U.S.- Canadian binding arbitration arrangement. As we gain experience with this new system, some type of trans-national dispute settlement system could be worked into the U.S.-Japan system. Even a strengthened GATT dispute mechanism could be appropriate.

It is important to add that free trade agreements need to be compatible with multilateral agreements. Bilateral or even plurilateral arrangements can be a model for multilateral agreements and serve as a reminder to other nations that the U.S. will look to other solutions if the political will to make GATT work is lacking. Of course, the GATT does sanction customs unions and free trade areas. In my view even a study of a U.S.-Japan arrangement could give impetus to the Uruguay Round.

Finally a common study should explore whether the national treatment principle is sufficient for this bilateral free trade agreement or whether we should build in a principle of reciprocity, which today often means retaliation. Unless negotiated away, the uniqueness of some Japanese practices may suggest that reciprocity is desirable. This, however, must be carefully considered including in the global context of U.S. interests. Unleashing reciprocity could be detrimental to other U.S. interests.

A U.S.-Japan free trade agreement might not be concluded even in four or five years. Many people, including the Congress, would have to be persuaded of its merit. I believe, however, that a study either separately or jointly, will give us a better handle on and

insights into our trade problems -- bilaterally with Japan, regionally in the Pacific, and even globally. The study could be as comprehensive as participants wish but initially I do not think anything should be excluded.

Before any decision is reached on a United States - Japan free trade agreement many questions should be asked and answered. Some are:

Are long-standing U.S. market access and free/fair trade policy objectives with Japan appropriate objectives?

What specifically do we mean by a U.S.-Japan free trade arrangement? By collecting all bilateral trade, financial, economic agreements/understandings/committees together, do we already have what is needed?

Are the tactical approaches of single - product talks and sectoral negotiations still appropriate in some cases? Would an FTA approach narrow US tactical choices too much?

How has the almost constant escalation of bilateral trade friction impacted the overall relationship?

Can a FTA work given distances between countries and differences in cultural outlooks (such as on approaches to anti-trust issues)?

Is consolidation of the present course possible and would it efficiently use U.S. resources?

What would be the attitude of the EC and other Asian countries to some type of exclusive U.S. - Japan free trade agreement or regional effort?

What will be the effect of another regional trade grouping on the multilateral trade round?

Given the fact that about 40% of Japan's exports to the US are controlled in some manner, what would happen to some of our industries such as steel, textiles, and autos if quantitative restrictions were removed?

Each person will have to make up his mind. I have provided my thoughts. It is clear that the time has come to study the pros and cons of such an agreement. Many groups in both countries are looking into the issue. We welcome the addition of the International Trade Commission's investigation.

Mike Mansfield

7/7/88

APPENDIX B
LETTER OF REQUEST FROM SENATOR LLOYD BENTSEN
CHAIRMAN, SENATE COMMITTEE ON FINANCE

LLOYD BENTSEN TEXAS CHAIRMAN
SPARK M. MATSUNAGA HAWAII
DANIEL PATRICK MOYNIHAN NEW YORK
MAX BAUCUS MONTANA
DAVID L. BOREN OKLAHOMA
BILL BRADLEY NEW JERSEY
GEORGE J. MITCHELL MAINE
DAVID PRYOR ARKANSAS
DONALD W. RIEGLE JR. MICHIGAN
JOHN D. ROCKEFELLER IV WEST VIRGINIA
TOM DASCHLE SOUTH DAKOTA
BOB PACKWOOD OREGON
BOB DOLE KANSAS
WILLIAM V. ROTH JR. DELAWARE
JOHN C. DANFORTH MISSOURI
JOHN H. CHAFEE RHODE ISLAND
JOHN HEINZ PENNSYLVANIA
MALCOLM WALLOP WYOMING
DAVID DURENBERGER MINNESOTA
WILLIAM L. ARMSTRONG COLORADO
JAMES D. GOULD STAFF DIRECTOR AND CHIEF COUNSEL
ED MIHALSKI MINORITY CHIEF OF STAFF

United States Senate

COMMITTEE ON FINANCE
WASHINGTON, DC 20510-6200

June 15, 1988

1449

The Honorable
Susan Liebeler
Chairman
United States International
Trade Commission
701 E Street, N.W.
Washington, D.C. 20436

Dear Madame Chairman:

In December 1987, the U.S. Ambassador to Japan, Mike Mansfield, suggested in several speeches in Japan that a joint exploration of the possibility of negotiating a free trade area agreement between our two countries could serve as a means of developing a more comprehensive and fruitful approach to the resolution of problems in U.S.-Japan trade relations.

On January 14, 1988, Senator Byrd met with Japanese Prime Minister Takeshita and proposed that the United States and Japan immediately undertake separate studies on the advantages and disadvantages of initiating negotiations with the ultimate goal of establishing a free trade area agreement between our two countries. Senator Byrd further suggested that the initial studies should be completed within a short period of time. Senator Byrd reiterated his proposal in a letter to the Prime Minister on January 28, 1988. We understand that, in response to Senator Byrd's proposal, the Japanese Government has begun several studies on possible implications of negotiating a U.S.-Japan free trade agreement.

In pursuance of Senator Byrd's suggestion, and to assist us in our possible future thinking on Ambassador Mansfield's proposal, the Commission is requested, pursuant to section 332(g) of the Tariff Act of 1930, to institute an investigation for the purpose of providing the Committee with a summary of the views of recognized authorities on U.S.-Japanese relations on the pros and cons of entering into negotiations with Japan to explore the possibility of establishing a U.S.-Japan free trade area which could include, in addition to the eventual complete elimination of all tariffs and other restrictive regulations of commerce on substantially all trade between our countries, the removal of

barriers to investment and trade in services and the guarantee of adequate protection of intellectual property rights. If the experts believe there are peculiarities in the Japanese economic and political system which would render the completion of the FTA less than ideally effective, your report should clearly identify those problem areas and present their suggestions for alternative ways that the United States should approach them.

It is expected that the Commission's report on this investigation will reflect the views of knowledgeable government officials who have worked in the area of U.S.-Japanese relations, including the office of the Special Trade Representative, scholars, private business officials, and others that could contribute to our assessment of this proposal.

The Commission's report on this investigation should be submitted as soon as possible, but not later than 90 days after formal initiation of the investigation, or September 16, 1988, whichever comes sooner.

Sincerely,

Lloyd Bentsen

APPENDIX C
FEDERAL REGISTER NOTICE
AND
LIST OF SUBMISSIONS AND HEARING PARTICIPANTS

Minerals Management Service

Development Operations Coordination Document; Mobile Exploration & Producing U.S., Inc.

AGENCY: Minerals Management Service, Interior.

ACTION: Notice of the receipt of a Proposed Development Operations Coordination Document (DOCD).

SUMMARY: Notice is hereby given that Mobile Exploration & Producing U.S. Inc. has submitted a DOCD describing the activities it proposes to conduct on Lease OCS 0478, Block 116, Eugene Area, offshore Louisiana. Proposed plans for the above area provide for the development and production of hydrocarbons with support activities to be conducted from an existing onshore base located at Morgan City, Louisiana.

DATE: The subject DOCD was deemed submitted on June 20, 1988.

ADDRESS: A copy of the subject DOCD is available for public review at the Public Information Office, Gulf of Mexico OCS Region, Minerals Management Service, 1201 Elmwood Park Boulevard, Room 114, New Orleans, Louisiana (Office Hours: 8 a.m. to 4:30 p.m., Monday through Friday).

FOR FURTHER INFORMATION CONTACT: Mr. W. Williamson; Minerals Management Service, Gulf of Mexico OCS Region, Field Operations, Plans, Platform and Pipeline Section, Exploration/Development Plans Unit; Telephone (504) 736-2874.

SUPPLEMENTARY INFORMATION: The purpose of this notice is to inform the public, pursuant to section 25 of the OCS Lands Act Amendments of 1978, that the Minerals Service is considering approval of the DOCD and that it is available for public review.

Revised rules governing practices and procedures under which the Minerals Management Service makes information contained in DOCDs available to affected States, executives of affected local governments, and other interested parties became effective May 31, 1988 (53 FR 10595). Those practices and procedures are set out in revised § 250.34 of Title 30 of the CFR.

Date: June 21, 1988.

J. Rogers Pearcy,

Regional Director Gulf of Mexico OCS Region.

[FR Doc. 88-14671 Filed 6-28-88; 8:15 am]

BILLING CODE 4310-MR-M

INTERNATIONAL TRADE COMMISSION

[Investigation No. 332-255]

Report on the Pros and Cons of Initiating Negotiations With Japan To Explore the Possibility of a U.S.-Japan Free Trade Area Agreement

AGENCY: United States International Trade Commission.

ACTION: Institution of investigation, scheduling of hearings, and request for comments.

EFFECTIVE DATE: June 23, 1988.

FOR FURTHER INFORMATION CONTACT: Kim Skidmore Frankena (202-252-1265) or Diane Manifold (202-252-1271), Trade Reports Division, Office of Economics, U.S. International Trade Commission, Washington, DC 20436.

Background

The Commission instituted investigation No. 332-255 following receipt of a letter dated June 15, 1988 from the Senate Committee on Finance, requesting that the Commission conduct an investigation under section 332(g) of the Tariff Act of 1930 (19 U.S.C. 1332(g)) to provide a summary of the views of recognized authorities on U.S.-Japan relations on the pros and cons of entering into negotiations with Japan to explore the possibility of establishing a U.S.-Japan free trade area agreement. The Committee requested that the report be submitted by September 16, 1988.

In the letter requesting the investigation, the Committee stated that U.S. Ambassador to Japan Mike Mansfield had suggested in several speeches that joint exploration of the possibility of negotiating a free trade area agreement could serve as a means of developing a more comprehensive and fruitful approach to the resolution of problems in U.S.-Japan trade relations. The Committee letter noted that in January 1988, Senator Robert Byrd met with Japanese Prime Minister Takeshita and proposed that the United States and Japan undertake separate studies on the advantage and disadvantages of initiating negotiations with the ultimate goal of establishing a U.S.-Japan free trade area agreement. The letter said that the Committee understands that the Japanese government has begun several studies on the possible implications of negotiating such an agreement.

As requested by the Committee, the Commission's study will summarize the views of recognized authorities on U.S.-Japan relations on the implications of entering into negotiations with Japan to explore the possibility of establishing a free trade area which could include, in addition to the eventual complete elimination of all tariffs and other restrictive regulations of commerce on substantially all trade between the two countries, the removal of barriers to investment and trade in services, and the guarantee of adequate protection of intellectual property rights. The Committee also requested that if the experts believe there are peculiarities of the Japanese economic and political system which would render the completion of an FTA less than ideally effective, the report should indentify these problem areas and present the experts' suggestions for alternative ways that the United States should approach them.

Public Hearing

A public hearing in connection with this investigation will be held in the Commission Hearing Room, 500 E Street, SW., Washington, DC 20436, beginning at 9:30 a.m. on July 27, 1988. All persons shall have the right to appear by counsel or in person, to present information, and to be heard. Requests to appear at the public hearing should be filed with the Secretary, United States International Trade Commission, 500 E Street, SW., Washington, DC 20436, no later than noon, July 20, 1988. Prehearing briefs (original and 14 copies) should be filed no later than noon, July 21, 1988. Post-hearing briefs are required by August 3, 1988.

Written Submissions

In lieu of or in addition to appearances at the public hearing, interested persons are invited to submit written statements concerning the matters to be addressed in the report. Commercial or financial information that a party desires the Commission to treat as confidential must be submitted on separate sheets of paper, each clearly marked "Confidential Business Information" at the top. All submissions requesting confidential treatment must conform with the requirements of § 201.6 of the Commission's *Rules of Practice and Procedure* (19 CFR 201.6). All written submissions, except for confidential business information, will be made available for inspection by interested persons in the Office of the Secretary to the Commission. To be assured of consideration by the Commission, written statements relating to the Commission's report should be submitted at the earliest practical date and should be received no later than August 3, 1988. All submissions should be addressed to the Secretary of the

Commission at the Commission's office in Washington, DC.

By order of the Commission.

Issued: June 24, 1988.

Kenneth R. Mason,

Secretary.

[FR Doc. 88-14643 Filed 6-28-88; 8:45 am]

BILLING CODE 7020-02-M

JOINT BOARD FOR THE ENROLLMENT OF ACTUARIES

Advisory Committee on Actuarial Examinations; Invitation for Membership on Advisory Committee

The Joint Board for the Enrollment of Actuaries (Joint Board), established under the Employee Retirement Income Security Act of 1974 (ERISA), is responsible for the enrollment of individuals who wish to perform actuarial services under ERISA. The Joint Board has established an Advisory Committee on Actuarial Examinations (Advisory Committee) to assist in its examination duties mandated by ERISA. The term of the current Advisory Committee will expire on November 1, 1988 and the Joint Board proposes to renew such Advisory Committee's charter for a further two year period. This notice describes the Advisory Committee and invites applications from those interested in serving on it.

1. General

To qualify for enrollment to perform actuarial services under ERISA, an applicant must have requisite pension actuarial experience and must satisfy knowledge requirements as provided in the Joint Board's regulations. The knowledge requirements may be satisfied by successful completion of Joint Board examinations in basic actuarial mathematics and methodology relating to pension plans qualifying under ERISA.

The Joint Board, in cooperation with the Society of Actuaries and the American Society of Pension Actuaries, jointly administer examinations which are acceptable to the Joint Board for enrollment purposes, and which are acceptable to those actuarial organizations as part of their respective examination programs.

2. Purpose

The Advisory Committee plays an integral role in the examination program by assisting the Joint Board in offering examinations which will enable examination candidates to demonstrate the knowledge necessary to qualify for enrollment. The purpose of the Advisory Committee, as renewed, will remain that of assisting the Joint Board in fulfilling this responsibility. The Advisory Committee will discuss the philosophy of such examinations, will review topics appropriately covered in them, and will make recommendations relative thereto. It also will recommend to the Joint Board proposed examination questions. The Joint Board will maintain liaison with the Advisory Committee in this process to ensure that its views of examination content are understood.

3. Function

The manner in which the Advisory Committee functions in preparing examination questions is intertwined with the jointly administered examination program. Under that program, the participating actuarial organizations draft questions and submit them to the Advisory Committee for its consideration. After review of the draft questions, the Advisory Committee selects appropriate questions, modifies them as it deems desirable and then prepares one or more drafts of actuarial examinations to be recommended to the Joint Board. (In addition to revisions of the draft questions, it may be necessary for the Advisory Committee to originate questions of its own and include them in what is recommended.)

4. Membership

The Joint Board will takes steps to ensure maximum practicable representation on the Advisory Committee of points of view regarding the Joint Board's actuarial examinations extant in the community of actuaries. In this regard, appointment will be made from the actuarial community at large and from nominees provided by the actuarial organizations. Since the members of the actuarial organizations comprise a large segment of the actuarial profession, this appointive process ensures expression of a broad spectrum of viewpoints. All members of the Advisory Committee will be expected to act in the public interest, that is, to produce examinations which will help ensure a level of competence among those who will be accorded enrollment to perform actuarial services under ERISA.

Membership normally will be limited to actuaries previously enrolled by the Joint Board. However, individuals having academic or other special qualifications of particular value for the Advisory Committee's work also will be considered for membership. The Advisory Committee will be comprised of not more than nine members.

The Advisory Committee will meet about six times a year. Advisory Committee members should be prepared to devote from 100 to 150 hours, including meeting time, to the work of the Advisory Committee over the course of a year. Members will be reimbursed for travel, meals and lodging expenses incurred, in accordance with applicable government regulations, with respect to their attendance at Advisory Committee meetings.

Actuaries interested in serving on the Advisory Committee should express their interest and fully state their qualifications in a letter addressed to: Joint Board for the Enrollment of Actuaries, c/o U.S. Department of the Treasury, Washington, DC 20220.

Any questions may be directed to the Joint Board's Executive Director at 202-535-6787.

The deadline for accepting applications is September 15, 1988.

Dated: June 23, 1988.

Leslie S. Shapiro,

Executive Director, Joint Board for the Enrollment of Actuaries.

[FR Doc. 88-14644 Filed 6-28-88; 8:45 am]

BILLING CODE 4810-25-M

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

[88-64]

NASA Advisory Council (NAC), Space Systems and Technology Advisory Committee (SSTAC); Meeting

AGENCY: National Aeronautics and Space Administration.

ACTION: Notice of meeting.

SUMMARY: In accordance with the Federal Advisory Committee Act, Pub. L. 92-463, as amended, the National Aeronautics and Space Administration announces a forthcoming meeting of the NASA Advisory Council, Space Systems and Technology Advisory Committee.

DATE AND TIME: July 20, 1988, 8:30 a.m. to 4 p.m.

ADDRESS: National Aeronautics and Space Administration, Room 625, Federal Office Building 10B, Washington, DC 20546.

FURTHER INFORMATION CONTACT: Ms. Joanne Teague, Office of Aeronautics and Space Technology, National Aeronautics and Space Administration, Washington, DC 20546, 202/453-2775.

SUPPLEMENTARY INFORMATION: The NAC Space Systems and Technology Advisory Committee (SSTAC) was established to provide overall guidance to the Office of Aeronautics and Space Technology (OAST) on space systems and technology programs. The Committee, chaired by Mr. Norman R. Augustine, is comprised of 20 members. The meeting will be open to the public

SUBMISSIONS FOR THE
RECORD
332-255

Steven Beckman
United Automobile, Aerospace and Agricultural Implement Workers of America

C. Fred Bergsten
Institute for International Economics

A.G.W. Biddle
President, Computer and Communications Industry Association

Nathaniel P. Breed
Shaw, Pittman, Potts and Trowbridge on behalf of Federal Express Corporation

Ann Chadwick
California State World Trade Commission

Stephen D. Cohen
Professor, American University

R.N. Cornell
Department of the Treasury

Milton Deaner
President, American Iron and Steel Institute

William Diebold
Former Director of Economic Studies, Council on Foreign Relations

Carolyn B. Gleason
Heron, Burchette, Ruckert and Rothwell, on behalf of California Cling Peach Advisory Board

Carolyn B. Gleason
Heron, Burchette, Ruckert and Rothwell, on behalf of California Arizona Citrus League

Jim Gradoville
Director Trade Policy, on behalf of Motorola Inc.

Eleanor M. Hadley
Lecturer, Jackson School, University of Washington

James L. Henry
President, Transportation Institute

James A. Kelly
National Security Council

William B. Kelly
Former Deputy Director of the GATT

Edward J. Lincoln
Senior Fellow, The Brooking Institute

Mike Mansfield
U.S. Ambassador to Japan

Robert M. McElwaine,
President, American International Automobile Dealers Association

Julian C. Morris
President, Automotive Parts and Accessories Association

Richard T. O'Connell
President, Chocolate Manufacturers Association

Hugh Patrick
Columbia University

Andrew A. Procassini
President, Semiconductor Industry Association

O. M. Roetman
Vice President, Boeing Corporation

Elizabeth M. Singley
of Lipsen, Hamburger and on behalf of American Dehydrated Onion and Garlic Association

Sid Smith
President, National Association of Hosiery Manufacturers

Donald M. Spero
President, Fusion Systems Corporation

H. William Tanaka
Tanaka, Ritger and Middleton

Nathaniel B. Thayer
Professor, Johns Hopkins University School of Advanced International Studies

Philip H. Trezise
The Brooking Institution

Peter F. Warker
Director of International Affairs, TRW

C. William Verrity
Secretary of Commerce

Charles Owen Verrill
Wiley, Rein and Fielding on behalf of Chaparral Steel Company.

Clayton K. Yeutter
United States Trade Representative

Neil W. Zundel
President, American Institute of Steel Construction, Inc.

TENTATIVE CALENDAR OF PUBLIC HEARING

Those listed below appeared as witnesses at the United States International Trade Commission's hearing:

Subject	:	Report on the Pros and Cons of Initiating Negotiations with Japan to Explore the Possibility of a U.S.-Japan Free Trade Area Agreement
Inv. No.	:	332-255
Date and time	:	July 27, 1988 - 9:30 a.m.

Sessions were held in connection with the investigation in the Main Hearing Room 101 of the United States International Trade Commission, 500 E Street, S.W., in Washington.

WITNESS AND ORGANIZATION

Robert McElwaine, President, American International Automobile Dealers Association, Washington, D.C.

David J. Steinberg, President, U. S. Council for an Open World Economy, Incorporated, Alexandria, Virginia

APPENDIX D
CHRONOLOGY OF U.S.-JAPAN TRADE DEVELOPMENTS

CHRONOLOGY OF MAJOR U.S.-JAPAN TRADE DEVELOPMENTS 1983–1988

1/13/83	The Japanese government announces a major new package of market access measures, which is welcomed by United States Trade Representative (USTR) William Brock. The package includes unilateral tariff reductions, simplification of import testing and certification procedures and import promoting administrative reforms.
2/15/83	Japan agrees to extend voluntary restraints on auto exports to the United States for a third year (April 1983–March 1984) at the same 1.68 million unit level.
2/23/83	The American Iron and Steel Institute and domestic U.S. makers refile their Section 301 complaint against Japanese steel exports after U.S. Trade Representative William Brock fails to press the Japanese for voluntary exports on steel.
2/25/83	USTR rejects the American Iron and Steel Institute petition.
3/10/83	The U.S. National Tool Builders Association files a complaint with the Commerce Department about imports from Japan and Europe, charging that they represent threat to national security.
3/26/83	Japan announces simplified import standards and certification procedures affecting 17 laws. Foreign test data and testing will now be accepted in lieu of Japanese tests for important goods such as pharmaceuticals, medical equipment and electric appliances.
4/8/83	Japan seeks bilateral consultations under the General Agreement on Tariffs and Trade (GATT) on the U.S. decision to raise tariffs on motorcycles.
4/22/83	The U.S. government denies Houdaille Industries' petition for protection from Japanese machine tool imports in a long-awaited decision. A Gallup poll indicates a decline in the American public's trust of Japan.
4/25–26/83	The United States and Japan discuss Japan's beef and citrus import quotas at a meeting in Washington. This is the first meeting after a long hiatus following the breakdown of discussions in the fall of 1982.
6/3/83	Prime Minister Nakasone asks the Nippon Telegraph and Telephone Public Corporation (NTT) to purchase U.S. products and build ties to U.S. firms.
6/6/83	President Reagan meets with NTT's president on the procurement issue. NTT promises to increase foreign procurement and ease procedures.
6/21–22/83	The United States-Japan Advisory commission is formally launched. The first order of business is to develop a list of problems to be tackled.
6/30/83	The Reagan administration files a complaint with the GATT protesting Japanese agricultural quotas on a series of products other then beef and citrus, mainly processed foods. (GATT–12)
7/1/83	Japan announces its intention to seek consultation with GATT on high tariffs imposed by the U.S. on motorcycles.
7/10/83	The U.S.-Japan GATT consultations on agricultural trade begin in Geneva. At issue are a number of agricultural products (other than beef and citrus) subject to quota restrictions in Japan. (GATT–12)
7/26/83	More than one hundred U.S. Congressmen send a letter to Prime Minister Nakasone urging an extension of Japan's voluntary auto export restraint.
8/9/83	Japanese and American representatives debate U.S. specialty steel import quotas in the GATT, after failing to reach a bilateral accord.
9/14–15/83	U.S.-Japan talks in Tokyo on beef and citrus end in stalemate as the Japanese continue to rebuff U.S. pressure for a timetable for complete liberalization.
10/11/83	Japanese steel makers agree to self-restraint on rolled steel exports to the United States beginning in 1984 in order to avoid legal battles with U.S. producers.
11/1/83	MITI extends the voluntary export restraint agreement on automobiles to the United States for a fourth year, but includes a 10-percent increase in the volume of cars to be shipped.
12/5/83	A U.S. appeals court reinstates the 14-year old Zenith color TV antitrust case against Japanese makers, claiming the test of evidence was applied too strictly.

CHRONOLOGY OF MAJOR U.S.-JAPAN TRADE DEVELOPMENTS

1983–1988—Continued

12/16/83	President Reagan approves tighter rules on textile imports. The Japanese are affected, as well as a number of other nations.
3/8–10/84	American and Japanese negotiators tackle the issue of legal protection in Japan for authors and users of computer programs.
3/22–23/84	U.S. and Japanese negotiators continue financial liberalization talks in Tokyo.
4/6/84	The Cabinet approves a compromise Ministry of Posts and Telecommunications-MITI proposal to deregulate the domestic telecommunications equipment and services market effective April 1, 1985.
4/7/84	Japan agrees to expand its beef, orange and citrus juice import quotas by significant margins over the next four years.
4/12–13/84	The U.S.-Japan High Technology Working Group meets in Hawaii, but reports no progress in resolving differences over Japan's proposals for software protection.
4/23/84	Washington agrees to put a two-year hold on the complaint it had filed with the General Agreement on Tariffs and Trade in July 1983 on 13 of Japan's 22 agricultural import quotas in exchange for Japanese concessions on some of these products. (GATT–12)
4/27/84	Japan unveils another market access package—the fifth in recent years—aimed at placating the United States and other major trading partners.
5/15–16/84	Ruling on a U.S. complaint brought in November 1982, a GATT arbitration panel concludes that Tokyo's quantitative restrictions on leather imports violate international trade rules. It calls on Japan to lift the quotas that have limited U.S. leather sales to 1 percent of the market.
5/29/84	The Joint Japan-U.S. Ad Hoc Group on Yen/Dollar Exchange Rates, Financial and Capital Market Issues submits its final report to Treasury Secretary Reagan and Finance Minister Takeshita.
6/12/84	By a 3–2 vote the International Trade Commission rules that increasing steel imports in five major product lines are a substantial cause of the U.S. steel industry's serious problems.
7/17/84	The lower house of the Diet approves a plan to reorganize the Japan Tobacco and Salt Public Corp. into a semi-public company April 1, 1985 and liberalize import and distribution procedures for foreign-made cigarettes.
7/20/84	The Diet's lower house approves three measures to convert NTT into a semi-governmental company and open Japan's domestic telecommunications market to the private sector April 1, 1985. Foreign firms will be able to freely enter the secondary services market (data and specialized communications) but can only provide common carrier services if foreign ownership is one-third or less.
9/19/84	President Reagan rejects the ITC recommendation in the 201 case initiated by Bethlehem steel to impose quotas, extra tariffs or tariff quotas on roughly 70 percent of U.S. steel imports. He announces instead that the United States will seek voluntary restraint agreements with major suppliers.
12/3–5/84	The United States and Japan come to terms on the broad outlines of a steel restraint agreement. Washington accepts a new compromise offer from Tokyo to restrict shipments of steel mill products to 5.8 percent of the American market in exchange for a guarantee that no trade or antitrust suits will be filed against Japanese steel exporters. Many details remain to be settled.
12/14/84	Japan announces new market opening measures designed to help developing countries. The package features accelerated tariff cuts on more than 1,000 manufactured products and agricultural commodities of special interest to these suppliers.
12/20/84	The lower house of the Diet reapproves a three-bill package of telecommunications reforms, paving the way for the deregulation of Japan's domestic telecommunications market and the privatization of NTT effective April 1, 1985. Passage of the legislation does not end the bilateral dispute over the reforms, however, as the United States immediately reiterates its concerns about standards, testing and certification procedures.
1/2/85	Mr. Nakasone proposes a series of high-level negotiations, dubbed market-oriented, sector-selective (MOSS) talks, in the four areas singled out by President Reagan—forest

products, medical equipment and pharmaceuticals, telecommunications equipment and services, and electronics.

1/23/85 In a friend-of-the-court brief, the Justice Department urges the U.S. Supreme Court to reverse an appeals court ruling that a 15-year-old civil antitrust suit against Japan's major consumer electronics makers should go to trial. In its suit, Zenith Electronics Corp. charged the companies with conspiring to drive their U.S. rivals out of business by dumping, price fixing and other means.

1/29–30/85 Japan and the United States hold the initial round of MOSS negotiations in Tokyo.

2/26/85 Formal MOSS negotiations begin.

3/1/85 The United States and Japan eliminate their tariffs on semiconductors, which had been set at 4.2 percent.

3/13/85 After six months of often contentious negotiations, Japan and the United States finally iron out the details of an arrangement limiting U.S.-bound shipments of Japanese steel mill products to 5.8 percent of the American market. The restraints will remain in place for five years, with a retroactive starting date of October 1, 1984.

3/18–19/85 Japan proposes the bilateral elimination of tariffs on a long list of electronics products, including computer parts, at the second round of MOSS talks on electronics products in Tokyo.

3/28/85 MITI Minister Murata announces that Japan will extend restraints on U.S.-bound car exports for one more year, with shipments capped at 2.3 million units.

4/1/86 JTS is transformed into a semi-public organization known as Japan Tobacco Inc. NTT becomes a semi-public corporation—Nippon Telegraph and Telephone Corp.—and Japan's domestic telecommunications equipment and services market is opened to private competition.

4/9/85 Japan unveils another package of market access initiatives. The package will guide the preparation and implementation of a three-year "action program" designed to provide additional market opportunities in Japan for foreign suppliers.

5/30–31/85 Japanese and American trade negotiators hold a second round of talks in as many months on NTT's procurement policies. Administration officials are concerned that the semi-private NTT will not feel bound to the terms of the procurement pact signed in January 1984.

6/3/85 Japan announces an emergency import package worth $2 to $3 billion in a further effort to alleviate trade frictions.

6/14/85 The Semiconductor Industry Association charges Japanese manufacturers with unfair trade practices in complaint filed with the Office of the USTR under Section 301 of the 1974 Trade Act.

6/25/85 Japan fills in the details of the tariff changes it had promised in its April market access package. Roughly 1,800 of the 2,400-plus four-digit agricultural and industrial products in Japan's tariff schedule are slated for tariff cuts of at least 20 percent or for duty-free treatment starting April 1986.

7/11/85 USTR Clayton Yeutter orders a 301 investigation into allegations of unfair Japanese trade practices in semiconductors in response to a Semiconductor Industry Association complaint.

7/30/85 The long-awaited "action program" for improving foreign access to Japanese markets is announced. Reform of Japan's standards and approval processes is billed as the centerpiece of the package, which also outlines changes in tariffs, import quotas, government procurement, financial and capital markets, services and import promotion measures.

8/8/85 In a preliminary ruling, the ITC finds a reasonable indication that American semiconductor producers are being injured by imports of 64K DRAMs from Japan allegedly sold at less than fair value.

8/28/85 President Reagan rejects an ITC recommendation to impose quotas or higher tariffs on expanding shoe imports, which the commission had found were a substantial cause of serious injury to American producers in a 201 proceeding.

CHRONOLOGY OF MAJOR U.S.-JAPAN TRADE DEVELOPMENTS

1983–1988—Continued

9/7/85	In a pair of unprecedented steps, Mr. Reagan initiates investigations under Section 301 of the 1974 Trade act of restrictions allegedly maintained by Japan (cigarettes), Korea (life insurance) and Brazil (data processing equipment) that block access for U.S. goods and services and sets a December 1 deadline for resolution of two long-running unfair trade practices cases involving Japan (leather and leather footwear) and the EC (canned fruit).
9/26/85	Secretary of State Shultz and Foreign Minister Abe agree to try to resolve all outstanding issues connected with the MOSS negotiations on telecommunications equipment and services, medical equipment and pharmaceutical, electronics and forest products by the end of 1985.
11/14/85	The ITC finds a reasonable indication that American semiconductor manufacturers are being injured by imports of EPROMs from Japan allegedly sold at less than fair value.
11/28/85	Six foreign securities firms, including three headquartered in the United States, gain membership on the Tokyo Stock Exchange, marking a major step in the liberalization of Japan's financial markets.
12/2/85	In a preliminary ruling, the Commerce Department calculates dumping margins ranging from 8.9 percent to 94 percent on sales of 64K DRAMs by four Japanese suppliers.
12/6/85	President Reagan takes the unprecedented step of ordering a dumping a investigation of 256K and higher-density DRAM chips from Japan.
12/21/85	Washington and Tokyo work out an agreement that ends their dispute over Japanese restrictions on imports of leather and leather footwear. The compromise deal allows Japan to continue to protect manufacturers of leather and leather products, although through tariff quotas rather than straight import quotas.
3/11/86	Commerce Department issues preliminary ruling that certain Japanese semiconductors are dumped in the U.S.
8/21/86	U.S.-Japan machine tool talks begin.
9/2/86	U.S. and Japan sign 5-year agreement under which the Japanese government promises to encourage imports of foreign semiconductors and prevent dumping of their components in both the United States and third country markets.
10/3/86	The U.S. and Japan reach agreement on liberalizing Japan's market for cigarettes.
10/23/86	USTR drops Rice Miller's Association complaint against Japan's rice import curbs.
11/20/86	Japan agrees to voluntary export restraints on machine tools to the United States for five years. Treasury Department officials urge Japan to change its "twin taxation" on alcoholic beverages to facilitate imports. The EC commission holds talks with Japan and the U.S. under the GATT to persuade both to amend the Japan-U.S. Semiconductor Pact, challenging its contents as being discriminatory against the EC.
12/10/86	U.S. announces that it will investigate Japanese practices with regard to supercomputers.
12/16/86	President Reagan announces restraint agreements with Japan and Taiwan on machine tools imports.
1/21/87	Sen. Murkowski (R-Alaska) announces his intention to bring an unfair trade practices complaint against Japan regarding the Kansai Airport project.
1/27/87	Japan extends voluntary auto export restraints for seventh consecutive year.
2/4/87	Japan and the U.S. renew bilateral science and technology cooperation agreement.
3/17/87	Sen. John Danforth warns that Japanese domestic development of the FSX would impair U.S. relations.
3/27/87	White House announces retaliation against Japan for alleged failure to honor semiconductor accord.
4/30/87	U.S House of Representatives approves omnibus trade legislation, including the controversial Gephardt amendment.
8/7/87	The U.S. and Japan exchange letters formalizing an agreement under which Japan will simplify its bidding and procurement procedures by public agencies for supercomputers.

CHRONOLOGY OF MAJOR U.S.-JAPAN TRADE DEVELOPMENTS

1983–1988—Continued

8/17/87	Commerce Department rules that Japan has dumped tapered roller bearings in the U.S.
8/18/87	U.S., Japan conclude talks on auto parts trade.
10/9/87	U.S. ends import quotas on heavy motorcycles six months ahead of schedule.
10/26/87	Cray Research announces supercomputer sale to MITI research organization.
11/5/87	Reagan administration removes second portion of economic sanctions imposed against Japan. Bilateral talks on Kansai airport end without agreement.
12/3/87	House of representatives approves measure to ban Japanese construction firms from bidding on U.S. public works projects.GATT panel rules that certain Japanese agricultural import restrictions are inconsistent with international trading rules. (GATT 12 case)
1/27/88	MITI announces that Japan will continue its "voluntary restraints" on car exports to U.S. in FY 1988—limiting total shipments to 2.3 million units.
1/28/88	MITI states plan to launch "feasibility" study on Japan-U.S. free trade agreement.
2/3//88	Japan announces it will liberalize import restrictions on 8 of the 10 farm products cited by the GATT. (GATT–12)
5/27/88	Agreement signed to open up the Japanese construction market to foreign firms.
6/20/88	United States and Japan reach an agreement to provide for gradual liberalization of Japanese imports of beef and citrus within 3 years.
6/24/88	Japan signs $468 million contract for AEGIS radar and weapons system to be installed on a Mitsubishi-made destroyer.
6/29/88	USTR rejects a 301 petition by the U.S. Rice Millers Association.

Source: Excerpts from *Japan Economic Survey,* Japan Economic Institute, Washington, D.C., January 1983–June 1988.

APPENDIX E
FORMAL SUBMISSIONS FOR THE RECORD BY
CLAYTON K. YEUTTER
UNITED STATES TRADE REPRESENTATIVE
AND C. WILLIAM VERITY
SECRETARY OF COMMERCE

THE UNITED STATES TRADE REPRESENTATIVE
WASHINGTON
20506

August 23, 1988

DOCKET/USITC
88 AUG 29 P3:18

Mr. Kenneth R. Mason
Secretary
United States International Trade Commission
500 E Street, S.W.
Washington, D.C. 20436

Dear Mr. Mason:

This responds to your letter dated June 29 in which you request our views on "the pros and cons of entering into negotiations with Japan to explore the possibility of establishing a U.S.-Japan free trade area agreement" (FTA), a request pursuant to the Commission's Notice of Investigation No. 332-255 responding to the letter to Chairman Liebeler dated June 15 from Senator Lloyd Bentsen, Chairman of the Senate Committee on Finance.

Let me state at the outset that this Administration believes in and will continue to pursue the multilateral GATT trade negotiations in the Uruguay Round. It is our belief that this effort will result in liberalization of trade in goods and services, including agriculture, improved intellectual property protection, and strengthened disciplines over international investment measures. This commitment to the multilateral approach has been strong not only in this Administration but in previous administrations, which have placed high priority on the GATT rounds of trade negotiations.

We are now in the midst of moving the Uruguay Round negotiations forward. As we evaluate progress in achieving our objectives in the Round, we may explore ways in which bilateral agreements can complement or enhance these efforts. When additional results can be achieved bilaterally, we should not hesitate to move in that direction--including, if appropriate, the negotiation of FTAs with such countries as Japan.

We remain receptive to bilateral initiatives such as the U.S.-Canada FTA, which we believe to be fully consistent with the GATT. The appropriateness of similar bilateral arrangements with other countries, however, is an issue that future administrations must address. It would be inappropriate to rule out an FTA or to begin negotiations with the Government of Japan on an FTA when the implications of that decision will be the responsibility of the next administration.

I hope this responds to your question regarding the advisability of entering into negotiations with Japan to explore the possibility of establishing a U.S.-Japan FTA. I look forward to the results of your study.

Sincerely,

Clayton Yeutter

THE SECRETARY OF COMMERCE
Washington, D.C. 20230

SEP 6 1988

RECEIVED
88 SEP 8 P12:10
OFFICE OF THE SECRETARY
DOCKET/USITC

Mr. Kenneth R. Mason
Secretary, United States
International Trade Commission
Washington, D.C. 20436

Dear Mr. Mason:

Thank you for your letter requesting my views on proposals for negotiating a U.S.-Japan Free Trade Agreement (FTA).

Our trade policy with Japan and other nations continues to be formulated within the broader context of our GATT and multilateral obligations. At present, our primary objective is a successful GATT Round and preservation of an open international trading system.

The Uruguay Round negotiations are making progress. As we continue to evaluate this progress, we will explore ways in which bilateral agreements can complement or enhance our efforts. If warranted, this will include examining negotiation of FTA's with such countries as Japan.

The issue of whether agreements similar to the U.S.-Canada pact should be negotiated with other nations will be the responsibility of the next Administration. We do not believe that we should begin negotiations with Japan on such a pact at this time, nor would it be appropriate to rule out such negotiations in the future.

The International Trade Commission's effort to assess diverse views on this important concept is very helpful. I look forward to reading your report.

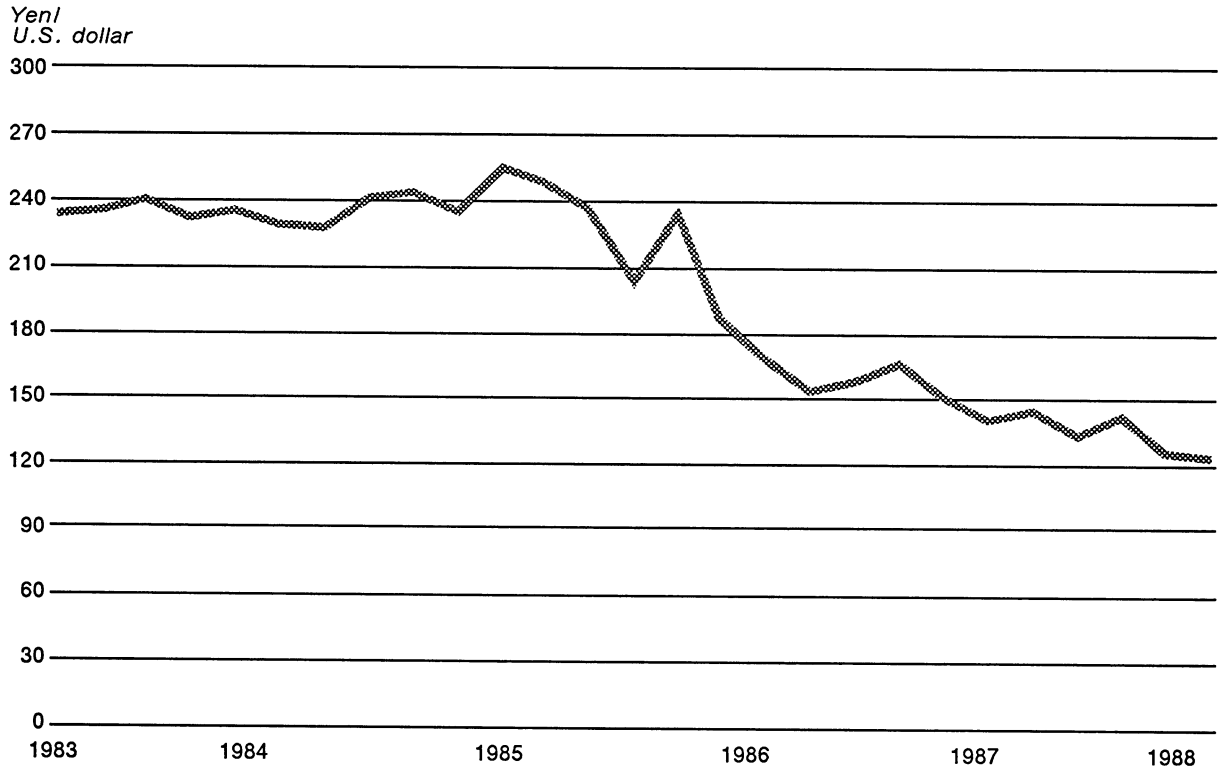
Sincerely,

William Verity

Secretary of Commerce

APPENDIX F
TRADE AND ECONOMIC DATA

Figure F-1
Exchange rates, Japanese yen, 1983-88



Source: International Monetary Fund's International Financial Statistics.

Table 1

U.S.-Japanese exchange rates, Japanese Yen/U.S. dollar, January-March 1983 to April-June 1988, quarterly and annual averages

Year	*YEN/$US*
1983	
Jan-March	235.74
April-June	237.53
July-Sept	242.53
Oct-Dec	234.24
Annual	237.51
1984	
Jan-March	231.01
April-June	229.61
July-Sept	243.46
Oct-Dec	246.02
Annual	237.52
1985	
Jan-March	257.68
April-June	250.73
July-Sept	238.64
Oct-Dec	207.09
Annual	238.54
1986	
Jan-March	187.88
April-June	170.13
July-Sept	155.77
Oct-Dec	160.29
Annual	168.52
1987	
Jan-March	153.17
April-June	142.67
July-Sept	146.92
Oct-Dec	135.79
Annual	144.64
1988	
Jan-March	128.00
April-June	125.61

Source: International Monetary Fund's International Financial Statistics.

Table 2

Japan's exports, imports, and trade balance with the world, 1983-87 (millions of U.S. dollars)

Type of Trade	*1983*	*1984*	*1985*	*1986*	*1987*
WORLD					
Exports (FOB)	146,982	169,748	177,189	210,804	231,332
Imports (CIF)	126,520	136,142	130,516	127,660	150,926
Trade Balance (X-M)	20,462	33,606	46,673	83,144	80,406

Source: International Monetary Fund's Direction of Trade Statistics.

Table 3

Japan's trade with the Republic of Korea, Taiwan, Hong Kong, and Singapore, 1983-87, billions of U.S. dollars

Country Period	*Exports*	*Imports*
Republic of Korea		
1983	6.008	3.368
1984	7.204	4.214
1985	7.097	4.092
1986	10.474	5.292
1987	13.229	8.075
Taiwan		
1983	5.090	2.623
1984	5.970	3.191
1985	5.025	3.386
1986	7.852	4.691
1987	11.346	7.128
Hong Kong		
1983	5.292	0.669
1984	6.551	0.842
1985	6.509	0.767
1986	7.161	1.073
1987	8.872	1.561
Singapore		
1983	4.450	1.469
1984	4.593	1.764
1985	3.860	1.594
1986	4.577	1.463
1987	6.008	2.048

Source: Japan Tariff Association, *The Summary Report on Trade of Japan,* April 1988, and Statistics Bureau, Management and Coordination Agency, *Japan Statistical Yearbook, 1987.*

Table 4

U.S. exports, imports, and trade balance with the world, 1983-87, January-May 1987, and January-May 1988

Year/type of trade	*Millions of dollars*
1983	
Exports	201,070
Imports	256,680
Trade balance	-55,609
1984	
Exports	217,310
Imports	322,990
Trade balance	-105,679
1985	
Exports	212,961
Imports	343,553
Trade balance	-130,592
1986	
Exports	216,555
Imports	368,657
Trade balance	-152,101
1987	
Exports	243,859
Imports	402,066
Trade balance	-158,207
January-May 1987	
Exports	95,687
Imports	156,255
Trade balance	-60,568
January-May 1988	
Exports	123,778
Imports	175,974
Trade balance	-52,196

Note: Exports are domestic exports, imports are imports for consumption, customs basis.

Source: Official statistics of the U.S. Department of Commerce.

Table 5

U.S. imports for consumption from Japan, 1983-87, January-May 1987, and January-May 1988

(Thousands of dollars)

SITC rev 2 commodity	*1983*	*1984*	*1985*	*1986*	*1987*	*January-May*	
						1987	*1988*
Total all commodities	40,887,306	56,595,926	68,241,856	81,985,873	84,008,499	32,593,507	34,905,860
0—Food & live animals	337,247	401,105	452,787	446,600	392,916	149,358	140,612
1—Beverages & tobacco	22,264	28,753	31,817	37,735	42,162	18,114	15,866
2—Crude mat'l—inedible,not fuel	92,972	103,412	128,814	136,315	158,288	62,819	73,168
3—Mineral fuels, lubricants, etc	11,614	53,623	65,963	79,567	88,128	18,191	59,155
4—Oils & fats—animal & veg prod	6,986	7,443	8,650	10,958	17,256	8,193	5,104
5—Chemicals	1,078,220	1,283,174	1,381,562	1,757,976	2,108,219	844,912	949,121
6—Man'd goods by chief material	5,271,866	7,290,007	7,615,562	6,833,591	6,569,658	2,629,855	2,982,820
7—Machinery & transport equip	29,928,613	42,079,855	51,968,786	65,118,259	66,716,722	25,898,799	27,371,149
8—Miscellaneous man'd articles	3,780,098	4,947,357	5,841,081	6,736,153	7,077,426	2,641,126	2,941,797
9—Commodities & transactions nec	357,426	401,196	746,835	828,720	837,723	322,140	367,068

Note.—Imports are customs value.

Source: Official statistics of the U.S. Department of Commerce.

Table 6

U.S. domestic exports to Japan, 1983-87, January-May 1987, and January-May 1988

(Thousands of dollars)

SITC rev 2 commodity	*1983*	*1984*	*1985*	*1986*	*1987*	*January-May*	
						1987	*1988*
Total all commodities	21,225,749	22,692,129	21,602,930	22,890,847	26,903,632	9,758,149	14,171,226
0—Food & live animals	4,268,764	4,684,870	3,987,900	4,105,483	4,652,843	1,623,541	2,335,304
1—Beverages & tobacco	442,402	398,949	417,340	390,401	864,489	355,212	432,402
2—Crude mat'l—inedible,not fuel	4,183,200	4,449,789	3,948,895	4,064,395	4,952,908	1,766,875	2,614,542
3—Mineral fuels, lubricants, etc	1,995,147	1,813,969	1,783,388	1,312,109	1,298,379	540,761	666,595
4—Oils & fats—animal & veg prod	65,454	57,580	55,924	54,151	45,502	20,449	33,045
5—Chemicals	2,626,105	2,974,158	2,923,955	3,111,444	3,445,766	1,375,792	1,638,072
6—Man'd goods by chief material	1,382,066	1,428,178	1,268,658	1,325,451	1,808,720	663,171	957,380
7—Machinery & transport equip	4,784,453	5,210,525	5,501,065	6,213,261	7,066,791	2,398,423	3,994,726
8—Miscellaneous man'd articles	1,357,736	1,469,908	1,457,415	1,779,706	2,358,371	848,363	1,256,430
9—Commodities & transactions nec	120,422	204,202	258,389	534,445	409,861	165,561	242,731

Note.—Exports are f.a.s. value.

Source: Official statistics of the U.S. Department of Commerce.

Table 7

U.S.-Japan trade balance, 1983-87, January-May 1987, and January-May 1988

(Thousands of dollars)

SITC rev 2 commodity	*1983*	*1984*	*1985*	*1986*	*1987*	*January-May*	
						1987	*1988*
Total all commodities	-19,661,557	-33,903,797	-46,638,926	-59,095,026	-57,104,867	-22,835,358	-20,734,634
0—Food & live animals	3,931,517	4,283,765	3,535,113	3,658,883	4,259,927	1,474,183	2,194,692
1—Beverages & tobacco	420,138	370,196	385,523	352,666	822,327	337,098	416,536
2—Crude mat'l—inedible,not fuel	4,090,228	4,346,377	3,820,081	3,928,080	4,794,620	1,704,056	2,541,374
3—Mineral fuels, lubricants, etc	1,983,533	1,760,346	1,717,425	1,232,542	1,210,251	522,570	607,440
4—Oils & fats—animal & veg prod	58,468	50,137	47,274	43,193	28,246	12,256	27,941
5—Chemicals	1,547,885	1,690,984	1,542,393	1,353,468	1,337,547	530,880	688,951
6—Man'd goods by chief material	-3,889,800	-5,861,829	-6,346,904	-5,508,140	-4,760,938	-1,966,684	-2,025,440
7—Machinery & transport equip	-25,144,160	-36,869,330	-46,467,721	-58,904,998	-59,649,931	-23,500,376	-23,376,423
8—Miscellaneous man'd articles	-2,422,362	-3,477,449	-4,383,666	-4,956,447	-4,719,055	-1,792,763	-1,685,367
9—Commodities & transactions nec	-237,004	-196,994	-488,446	-294,275	-427,862	-156,579	-124,337

Source: Official statistics of the U.S. Department of Commerce.