

Originally Processed With FOIA(s):

S

FOIA Number:

S

# FOIA MARKER

**This is not a textual record. This is used as an administrative marker by the George Bush Presidential Library Staff.**

---

**Record Group/Collection:** George H.W. Bush Presidential Records  
**Collection/Office of Origin:** Speechwriting, White House Office of  
**Series:** Speech File Backup Files  
**Subseries:** Chron File, 1989-1993

---

**OA/ID Number:** 13807  
**Folder ID Number:** 13807-009

---

**Folder Title:**  
Detroit [Business Audience] 4/14/92 [OA 7571] [1]

---

Stack:	Row:	Section:	Shelf:	Position:
<b>G</b>	<b>26</b>	<b>22</b>	<b>4</b>	<b>4</b>

---

Fife associates  
apprenticeships w/ older  
people teaching younger  
people re: tech. that  
is outdated

also assoc. w/ unions.

Fife hates that.

---

Talk to Mike Cercone

4  
Macomb County  
Chambers of Commerce  
get dais list from  
Kris G.

To Carol  
Date \_\_\_\_\_ Time 4:10

**WHILE YOU WERE OUT**

M. ~~3~~ Chr Kris Miller  
of Giddings & Lewis  
Phone (313) 593-3000 ext 702  
Area Code      Number      Extension

TELEPHONED		PLEASE CALL	<input checked="" type="checkbox"/>
CALLED TO SEE YOU		WILL CALL AGAIN	
WANTS TO SEE YOU		URGENT	

RETURNED YOUR CALL

Message ~~call back~~  
get details  
on manufacturing  
interns  
Bobby  
Operator

Mike Conzone

Mike Cercone

— Apprenticeship area  
manufacturing interns

→ don't use this word

Detroit area

trade of machine tool builder

post high school +  
most have asso. deg.

4-yr. program, upon graduation  
journeymen in machine tool industry

— for degreed engineers

4 yr. Mech Eng or Elec Eng. deg.  
they spend a yr. in a rotational  
program thru all areas.

upon completion, they may choose area  
in which they will work. (if area is  
avail.)

— Continuous Qual. Improvement Program

QES - 20 hrs. training in Quality  
"do it right the first time"

— groups training for problem solving

— Statistical tools

VW →

CAD/CAM sys.

3D eng- training class  
to work on

system which links plants worldwide

# GIDDINGS & LEWIS

INTEGRATED AUTOMATION

FAX NUMBER: \_\_\_\_\_

## FACSIMILE (FAX) TRANSMITTAL SHEET

DATE: April 14, 1992

TIME: \_\_\_\_\_

TO: COMPANY: WHITE HOUSE

ATTENTION: CAROL AARHUS

FAX NUMBER: 1-202-456-6218

FROM: NAME: GIDDINGS & LEWIS

DEPARTMENT: \_\_\_\_\_ EXT.: \_\_\_\_\_

TRANSMISSION CONSISTS OF COVER SHEET PLUS 1 PAGE(S). OUR FACSIMILE PHONE NUMBER IS (313) 296-4656. OUR TELEPHONE NUMBER IS (313) 293-3000.

17801 FOURTEEN MILE ROAD  
FRASER, MICHIGAN 48026

GIDDINGS & LEWIS  
INTEGRATED AUTOMATION  
TRAINING PROGRAMS AT FRASER PLANT

- QUALITY EDUCATION SYSTEM - IN-HOUSE PROGRAM IN CONJUNCTION WITH CROSBY QUALITY SYSTEM STRESSING "ZERO DEFECTS" AND "DO IT RIGHT THE FIRST TIME"
- SPC TRAINING - STATISTICAL PROCESS CONTROL AND GEOMETRIC TOLERANCING TAUGHT AT MACOMB COMMUNITY COLLEGE. EDUCATION ON UNDERSTANDING TOLERANCES AND ACHIEVING A CONTROLLED PROCESS.
- AUTOCAD TRAINING - IN-HOUSE TRAINING PROGRAM TEACHING COMPUTER AIDED DESIGN TO EMPLOYEES.
- PROBLEM SOLVING AND DECISION MAKING - TRAINING PROGRAM ON LOGIC THINKING AND ANALYSIS PROVIDED BY KEPNER-TREGOE CORPORATION.
- RELIABILITY AND MAINTAINABILITY (R&M) - TRAINING IN CONJUNCTION WITH AUTOMOBILE COMPANIES, THE SOCIETY OF MANUFACTURING ENGINEERING (SME), AND THE NATIONAL CENTER FOR MANUFACTURING SCIENCE (NCMS) ON INCREASING RELIABILITY AND UP-TIME.
- FAILURE MODE EFFECTS ANALYSIS (FMEA) - TRAINING PROGRAM BY SME STRESSING RESPONSE TO DOWNTIME AND RECOVERY.
- EDUCATIONAL ASSISTANCE - REIMBURSED TUITION FOR ANY WORK RELATED EDUCATION.
- PC PURCHASE PLAN - PROGRAM TO FINANCE THE PURCHASE OF PERSONAL COMPUTERS AT 0% INTEREST TO EMPLOYEES.

ALSO, SOME EMPLOYEES ARE INVOLVED AS TUTORS FOR PROJECT LITERACY THROUGH THE MACOMB COUNTY LIBRARY.

# GIDDINGS & LEWIS®

FAX NO. (414) 929-4537

Total number of pages 4  
(Including cover page)

TO: Carol Arraus

FROM: Chris Miller

AT: White House

If you do not receive all pages,  
please call back as soon as possible to:

FAX NUMBER:

Darlene 414/929-4377

DATE: April 13, 1992

SUBJECT:

GIDDINGS & LEWIS, INC.  
142 DOTY STREET, P.O. BOX 590, FOND DU LAC, WI 54936-0590 U.S.A.  
TEL. (414) 921-9400, FAX (414) 929-4537

G&L Form No. 3474 - 1/92

*The last  
of the apprentice  
programs*

# GIDDINGS & LEWIS®

P R E S S   R E L E A S E

No. 08-14

FOR IMMEDIATE RELEASE

FOR INFORMATION:  
Chris Miller  
414-929-4314

## GRADUATION CEREMONIES FOR GIDDINGS & LEWIS' APPRENTICES AND ASSEMBLY TRAINERS

(FOND DU LAC, WI) -- The first nine students of the Giddings & Lewis Machine Tool Assembly Training program were honored during graduation ceremonies, Monday, July 22, 1991. Also receiving certificates were three graduates of the Giddings & Lewis apprenticeship program.

To ensure a talented, well-trained workforce for the "New Age of Manufacturing Creativity", Giddings & Lewis in cooperation with Moraine Park Technical College developed a tailored curriculum for future machine tool assemblers.

"The partnership between Giddings & Lewis and Moraine Park drew upon each of our strengths," said Paul G. Holland, director, Human Resources. "We identified the specific skills needed on our shop floor, and Moraine Park modified and expanded its standard one year machine repair training program to meet our needs."

The collaborative efforts of Giddings & Lewis and Moraine Park resulted in a specialized 36-week instructional program which began

-- more --

Graduation  
August 14, 1991  
Add one

November 12, 1990. The Wisconsin Job Service, which received more than 100 applications for the 14 openings, screened and tested the applicants. Interviews were completed by the Human Resources department and final testing was administered by MPTC's Testing and Assessment department.

"The program required commitment and sacrifices," said Michelle Preslaski, supervisor, Human Resources, during the graduation ceremonies.

Every morning, trainees spent five hours of on-the-job training at Giddings & Lewis ranging from subassembly, main erection, inspection and wiring to crane hook-up procedures followed by six hours of afternoon and evening classes at Moraine Park. They completed their coursework and on-the-job training in mid-July.

Group Vice President-Automation Technology Joseph E. Thompson talked of the challenges and opportunities facing each graduate at Giddings & Lewis.

"Companies who succeed must contribute to the efficient manufacturing of products for today's global market," said Thompson. "You represent a well-trained team who are truly ready to become part of this new age of manufacturing creativity."

The combined efforts of Giddings & Lewis and Moraine Park Technical College represents another first in the history of Giddings & Lewis.

-- more --

Graduation  
August 14, 1991  
Add two

"We cannot sit back and wait for today's youth to find career opportunities in the manufacturing arena," said William J. Fife, Jr., chairman and chief executive officer of Giddings & Lewis, Inc. "We must identify talented young people and then take a leadership role in accelerating the educational process for tomorrow's manufacturing work force."

More than 200 applications have been received to date for Giddings & Lewis' second Machine Tool Assembly Training program.

The graduation ceremony also marked the completion of the Giddings & Lewis apprenticeship program.

Apprentice certificates were awarded to Nicholas A. Casper and Richard A. Roth, both of Fond du Lac, and Rick R. Roth, Oakfield. Those receiving assembly trainee certificates included: Trent Bergman, Jeffrey A. Crites, Doug G. Pauly, Michael J. Smith, Joe P. Stollfus and Joseph M. Vera, all of Fond du Lac; Michael J. Thorp, Van Dyne; Brian A. Herzog, Elkhart Lake and Robert W. Guetzkow, Oshkosh.

Giddings & Lewis, Inc. is a leading factory automation supplier. Its products include high precision automated machine tools including cellular and flexible manufacturing systems. The company is headquartered in Fond du Lac, WI and employs 2,375 people worldwide. Other operations are in Janesville, WI; Menominee, MI; Round Lake Beach, IL and Arbroath, Scotland. The company's stock is traded on the NASDAQ National Market System under the symbol GIDL.

Chris Miller  
Co. spokesperson

Maine Park Tech. School

train people that would  
very competitive  
13 people

on-line work  
machine tool construction

---

00000

Lamar used 44 -  
it's wrong.

NJ Kicked ~~off~~ today <sup>→ included in 43.</sup>

Am 2000 43? or 44?

Jay Diskey

↓  
Scully

**CONTACTS:**

Stephanie Comai-Page [[Koh-m eye]  
Governor Engler's Office  
Social Services Policy  
517-335-7824

Ron McGraw  
Michigan Employment Security Commission  
313-876-5427

George Zumburs  
Michigan Employment Security Commission  
313-876-5480

**I. MICHIGAN STATE UNEMPLOYMENT FIGURES**

January: 8.9% (seasonally adjusted)  
9.8% (unadjusted)

February: 9.8% (seasonally adjusted)  
9.8% (unadjusted)

**II. MACOMB COUNTY UNEMPLOYMENT FIGURES**

January: 9.8% (seasonally adjusted)\*\*

February: 9.7% (seasonally adjusted)\*\*

\*\* Unadjusted numbers are not calculated for the county.  
Wherever possible, we should use the seasonally adjusted numbers -- they're the most honest, and most average/accurate numbers to use. They account for Christmas employment, construction decreases in winter, etc.

**III. MICHIGAN STATE TRANSPORTATION INDUSTRY**

January: 267,000 employed in transportation industry

February: 281,000 employed in transportation industry

George Zumburs at the Michigan Employment Security Commission says that the number employed is projected to rise again, approximately 4-6,000 for March. In February, there were a number of call-backs. This trend is expected to continue.

# # # #

# GIDDINGS & LEWIS®

DATE: 9 April 1992

FROM: Chris Miller  
Director of Public Relations  
414-929-4314 929-4537 (FAX)

TO: Laura Melillo 202-456-6423 (FAX)  
John Herrick 202-456-2820  
Bob Simon 202-456-6218  
Kelley Gannon- 313-441-9146  
Room 1015

SUBJECT: FACT sheets

Attached are two FACT sheets about Giddings & Lewis and the Russian contracts. We hope they are helpful in your preparation for Tuesday's speech.

Kelley, be advised that I will be in Fraser about 9:00 a.m. Friday morning. Looking forward to meeting and working with you.

8 Pages follow

# GIDDINGS & LEWIS®

**For More Information:**

Dale H. Norton

414-929-4244

Chris Miller

414-929-4314

## FACT SHEET

- Giddings & Lewis is the largest supplier and integrator of industrial automation equipment and systems in North America and the fourth largest in the world.
- The Company's products are, in effect, "the machines that make machines," and consequently are the backbone of any nation's industrial infrastructure. They are used in over 250 industries worldwide, in more than 50 countries, to boost productivity, lower costs and improve quality.
- Among the primary end products produced by Giddings & Lewis automation hardware and software are automobiles, construction equipment, aircraft and aircraft engines and power generation equipment. In addition, Giddings & Lewis controls are used in such diverse applications as high speed packaging and staging for the touring road show, "The Phantom of the Opera."
- The market for industrial automation is highly competitive, with substantial competitors in the United States, Europe and Japan. Giddings & Lewis has succeeded with a combination of strategies which focus on customer service, state-of-the-art product development, broad product lines and creative application expertise.
- During the last five years, sales have increased from \$125 million to \$327 million. Operating income before taxes, interest and special charges has risen from \$5.9 million to \$30.1. Giddings & Lewis acquired the Cross & Trecker Corporation on October 31, 1991. Had the acquisition occurred January 1, 1991, Company revenues would have been \$643 million.
- Non-U.S. revenues account for approximately 27 percent of Giddings & Lewis' business. Recently, for example, major orders have been received from automotive companies in Italy, Germany and the United Kingdom.
- The Fraser, Michigan plant currently has approximately 700 skilled employees, who supply a wide range of automated metalcutting equipment for high-to-low volume factories. Giddings & Lewis has 4,500 employees worldwide.
- Major customers worldwide are in the automotive, off-road and heavy vehicle industries. An example is a piston manufacturing system for the Moskvich Automobile Factory in Moscow, which is currently being "run off" for customer approval.
- Giddings & Lewis was named 1991 Manufacturer of the Year in the large category for the State of Wisconsin.
- Business Week for the second year in a row ranked Giddings & Lewis number one in its industry and among the highest of all industries in research, product development and engineering.

## Corporate Profile

Giddings & Lewis is the largest supplier of industrial automation products and machine tools in North America and the leading producer and integrator of flexible automation solutions. Its products are used worldwide in more than 50 countries by customers in some 250 different industries.

The company has focused its mission and strategies on developing the leadership role in the industrial automation market by providing customers with creative, single-source responsibility for a broad range of manufacturing products and services.

This approach has led to substantial gains in market position, through combination of internal growth and acquisition. During the last five years, sales have increased from \$125 million to \$327 million. Operating income before taxes, interest and special charges has risen from \$5.9 million to \$30.1 million.

The company's headquarters is located in Fond du Lac, Wisconsin, where it has been since 1859. Its North American manufacturing locations are in Wisconsin, Michigan, Illinois, Ohio, and Ontario, Canada. Plants in Europe are located in Scotland, England, and Germany. Licensees and joint venture partners are in China, India, South Korea, Australia and Japan.

Giddings & Lewis common stock is traded on the NASDAQ National Market System under the symbol GDL. Preferred stock is also traded on the NASDAQ under GIDLZ.

### Over Illustration

Strategies for success in today's dynamic and hi-tech industrial world must start with customer needs. Giddings & Lewis has taken this philosophy one step further to focus not only on the needs of our customers, but also on the needs of our customers' customers. Our Triple Win Solutions mean that each customer receives the full spectrum of products and services that represent a Win for our Customer's Customer, a Win for our Customer and a win for Giddings & Lewis.

## Products and Services

**AUTOMATION TECHNOLOGY GROUP**  
 Smart Manufacturing Systems  
 Vertical/Horizontal Turning Centers  
 Vertical/Horizontal Machining Centers  
 Horizontal Production Centers  
 Planer-type Machining Centers  
 Cell Controllers and CNC Controls  
 Accessories  
 Tooling and Fixtures  
 Drill Point Grinders, Contouring Heads, Tool Presetters  
 Castings  
 Remanufacturing and Control  
 Retrofitting  
 Special Machines  
 Subcontracting

**INTEGRATED AUTOMATION GROUP**  
 Synchronous and Non-Synchronous Assembly Systems  
 Synchronous Assembly Machines  
 Automotive Body (Welding) Systems  
 Special Application Assembly Machines  
 High Volume Flexible Transfer Machines  
 Special Machining Systems  
 Medium/High Volume Transfer Lines  
 Broaching Machines  
 Piston Turning Machines  
 Quill, Slide and Tap Units  
 Index Tables

**AUTOMATION MEASUREMENT AND CONTROL GROUP**  
 Manufacturing Consulting  
 Manufacturing Systems Integration  
 Programmable Industrial Computers  
 Control Software Solution Packages  
 Servo Systems  
 Coordinate Measuring Machines and Systems  
 Flexible Inspection Systems  
 Gaging Instruments  
 Printed Circuit Boards

**EUROPEAN OPERATIONS**  
 All Giddings & Lewis Products and Services

## C O N T E N T S

Financial Highlights	1
Letter to Shareholders	2
Triple Win Solutions	8
Global Market Opportunities	10
Operations Review	16
Selected Financial Data	22
Management's Discussion and Analysis	23
Market Prices and Dividends	25
Financial Results	26
Officers	40
Board of Directors	41
Shareholder Information	42

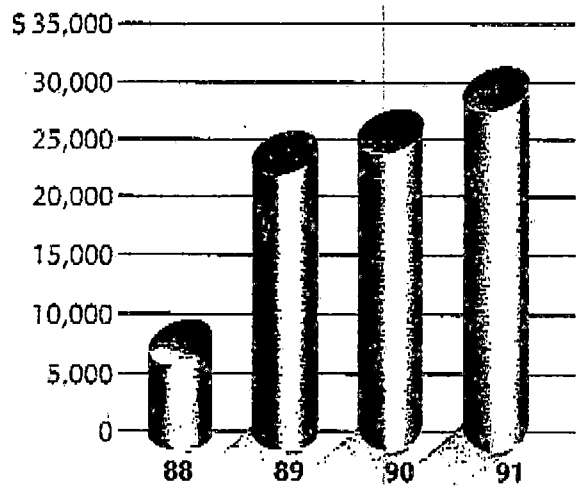
## Financial Highlights

### Giddings & Lewis, Inc.

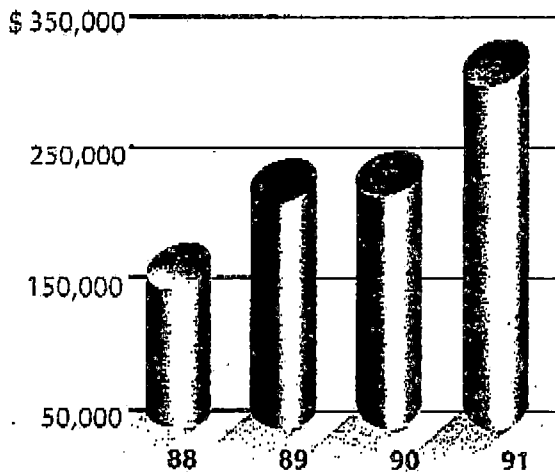
(000's omitted, except per share data)

	1990	1991	% Change
Sales	\$242,962	\$326,609	34.4%
Net Income	\$ 19,723	\$ 22,002	11.6%
Net Income per Common Share	\$ 1.85	\$ 1.90	2.7%
Cash Dividends per Common Share	\$ .16	\$ .16	—
Total Debt/Capitalization	0%	20.9%	
Total Assets	\$181,573	\$560,167	208.5%
Equity	\$134,503	\$272,195	102.4%
Book Value per Share	\$ 12.62	\$ 16.32	64.0%

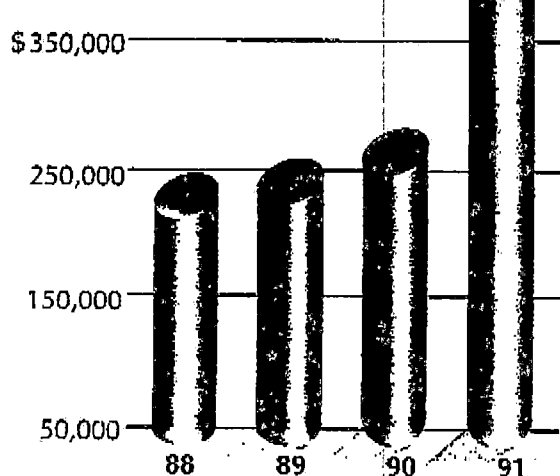
### Operating income



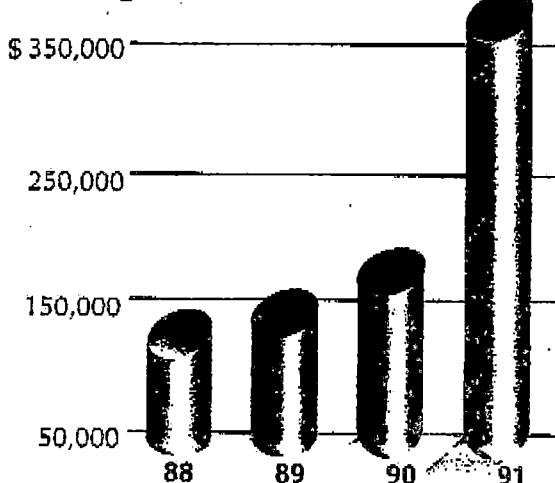
### Sales



### Bookings



### Backlog



## To Our Shareholders:

In 1991 a new company was born into the modern, high-tech world of industrial automation.

That new company is Giddings & Lewis. Our acquisition of the Cross & Trecker Corporation on October 31, 1991, means that manufacturing firms around the world can now call on a single partner to provide the integration skills, flexibility and new creativity they require to meet today's increasingly intense competitive challenges.

In the few short months since our acquisition was concluded, we are pleased to report substantial progress. At the same time that our people are integrating our two companies into a single, streamlined entity, they are also keeping their eyes on the ball and are delivering impressive operating results.

Among the highlights for 1991 were the following:

- Net income, sales, bookings, and backlog hit record levels for the year. Net income rose 11.6 percent. Sales increased 34.4 percent. Bookings were up 49 percent. Backlog now stands at a record \$382 million.

- We expanded our customer base to more than 250 industries (SICs) in more than 50 countries, compared to 180 SICs in 1990.

- We now have 18 manufacturing facilities in the United States, Canada, Scotland, England and Germany, as well as licensing or

joint venture arrangements in Japan, India, South Korea, Australia and China.

- Several smart manufacturing systems were successfully demonstrated and turned over to customers, and add-ons were ordered for others.

- We have received several orders for equipment to meet the demanding specifications of a number of different subassem-



*William J. Fife, Jr.  
Chairman and Chief Executive Officer*

blies for the new Boeing 777 aircraft, both from Boeing and its subcontractors.

- We were recently named 1991 Wisconsin Manufacturer of the Year.

- Only 11 days after the conclusion of the acquisition, we received an \$18 million order from an Italian manufacturer

for the first phase of a major automation project. Subsequently, additional orders totalling \$40 million have been received from this same customer.

- Fourth Quarter bookings for our European Operations totalled more than \$70 million, including our first order from France in more than five years.

- We booked a number of orders for smart manufacturing systems to produce such diverse products as compressor parts, engine components and space shuttle booster rockets.

- Pratt & Whitney recently placed an order for a smart manufacturing system in which we will integrate a Giddings & Lewis vertical turning center with several five-axis machining centers which were formerly produced by Cross & Trecker. All the machines will be controlled by our CM-9000 controller and software.

- We launched important customer "partnerships" with several firms, in which we will provide them with our advanced automation equipment and substantial support activities, both in the U. S. and in other countries.

Among the many spin-off benefits of space exploration is demand for precise metal-working technology. Giddings & Lewis' automated machine tools will be used to produce components for Space Station Freedom for Boeing Defense & Space Group, a NASA contractor.

# GIDDINGS & LEWIS®

For More Information  
Dale H. Norton  
414-929-4244  
Chris Miller  
414-929-4314

## FACT SHEET

- Giddings & Lewis is supplying an automated piston manufacturing system for the Moskvich Automobile Factory in Moscow, Russia.
- The system is similar to those Giddings & Lewis has provided to other worldwide automobile manufacturers. Such systems are producing more than 40 million pistons per year. They represent high-precision, state-of-the-art manufacturing technology.
- Final commitment for the loan guarantee of \$ 33,834,714 was received on July 18, 1991. However, payment under those guarantees has been withheld due to lack of funding caused by continuing financial and political uncertainties in the Russian Federation and the Commonwealth of Independent States.
- Current status:
  - The system is currently being demonstrated or "run off" for representatives from Moskvich.
  - It is scheduled to be shipped to the Moscow plant by the end of August 1992, pending financial resolutions.
  - Framework agreements are expected to be signed shortly between representatives from the Export-Import Bank and the Russian Federation, with loan agreements to be signed soon thereafter.

## INTEGRATION OF CROSS & TRECKER OPERATIONS

During the months leading up to the completion of the Cross & Trecker acquisition, our people spent a tremendous amount of time and effort analyzing the company. We established a game plan to integrate all of our operations and began to take specific actions immediately after the closing.

During the first few weeks of November, we announced the closing of the former Cross & Trecker corporate offices, a data center in Cleveland, and manufacturing plants in Solon, Ohio, and in Telford, England. Employment levels were reduced by approximately 560 people. These steps will reduce our total payroll by more than \$25 million on an annualized basis and will also result in additional operating savings not related to the personnel reductions.

Certainly we understand that these are extreme measures, and we all deeply regret the personal sacrifices involved.

However, the moves are necessary now to bring employment levels in line with existing orders, and to insure the continued health of the total organization.

All products, systems and services are sold worldwide under the Giddings & Lewis marquee, so that we go to market as a single, integrated company. Within the first few days after the acquisition, products bearing the Giddings & Lewis logo were shipped from our new facilities.

Once these initial changes were quickly implemented, our people were able to get on with the business of serving our customers in a healthy, synergistic new environment.

### THE "TRIPLE WIN"

The ability of Giddings & Lewis to integrate diverse products and systems and to provide a wide variety of solutions to manufacturing challenges has been enhanced enormously. We now offer the broadest array of products and services of any supplier in our industry, worldwide.

It is extremely important for us to be able to offer this flexibility to our customers as we compete on a global basis. We can now better help our customers economically manufacture a single part the same way 10,000 times — or 10,000 different parts only once. So our customers can respond more quickly to changes in their own markets and, in turn, help their customers.

This strategy is at the heart of what we call the "Triple Win." We are all familiar with "Win-Win" business relationships. In our automation projects, we take "Win-Win" one step further — our customer's customer wins,

our customer wins, and Giddings & Lewis wins. On pages 8 and 9 of this annual report, you will find specific examples of how our customers' customers are benefitting from the lower costs and higher quality of Giddings & Lewis "Triple-Win" manufacturing solutions.

### FLOWTHROUGH MANAGEMENT STRUCTURE

In order to serve our diverse customer base quickly and efficiently from our various operations, we have implemented a new "Flowthrough Management" organization that combines both centralized and decentralized concepts. The focal point is our centralized sales organization, offering customers a wide range of manufacturing solutions from a single contact point.

The sales organization is responsible for working directly with our four decentralized operating groups to insure that the customer's needs can be met quickly and fully. We have also centralized our finance, administration, engineering/total quality and business planning and development functions on a global basis.

This combination of centralized and decentralized management concepts pushes decision-making power down into the operations, and at the same time, emphasizes company-wide control and resource-sharing. The result is a customer-oriented organization which lets the

The information explosion around the world is generating continuous business for the printing industry. An important market for Giddings & Lewis automated machining centers and systems.

proper solution to a customer need "flow through" the company and back to the customer as fast as possible.

#### STIMULATING NEW INVESTMENT BY MANUFACTURERS

The coming years hold great promise for aggressive and fast-moving companies like Giddings & Lewis. As the benefits of the free market system unfold in what were formerly tightly-controlled societies, we expect new investment in advanced manufacturing equipment to increase steadily.

In the industrialized countries, capital expenditures will increasingly be driven by the need to

improve quality, increase productivity and reduce production costs. Companies will have no other choice if they expect to remain competitive.

To stimulate capital projects in the United States and thus make manufacturing firms more competitive, we continue to advocate various actions by the United States Congress and the Administration in Washington. Quick action is essential, because our strategic window of opportunity may not be open long.

The United States is one of the few countries in the world which has not actively supported its manufacturing infrastructure, which provides the driving force

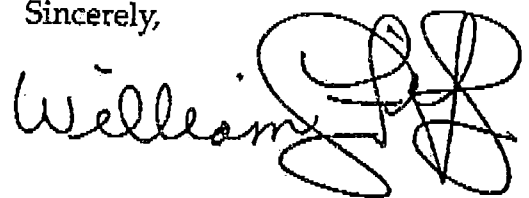
for our economic growth. While we do not believe in government subsidies, a more focused effort to level the playing field with our international trading partners is certainly needed.

#### OUTLOOK FOR THE FUTURE

Giddings & Lewis is fortunate to have large numbers of creative and dedicated people. Their willingness to "color outside the lines" and apply their creative skills to tough manufacturing challenges is at the heart of our success in today's competitive arena.

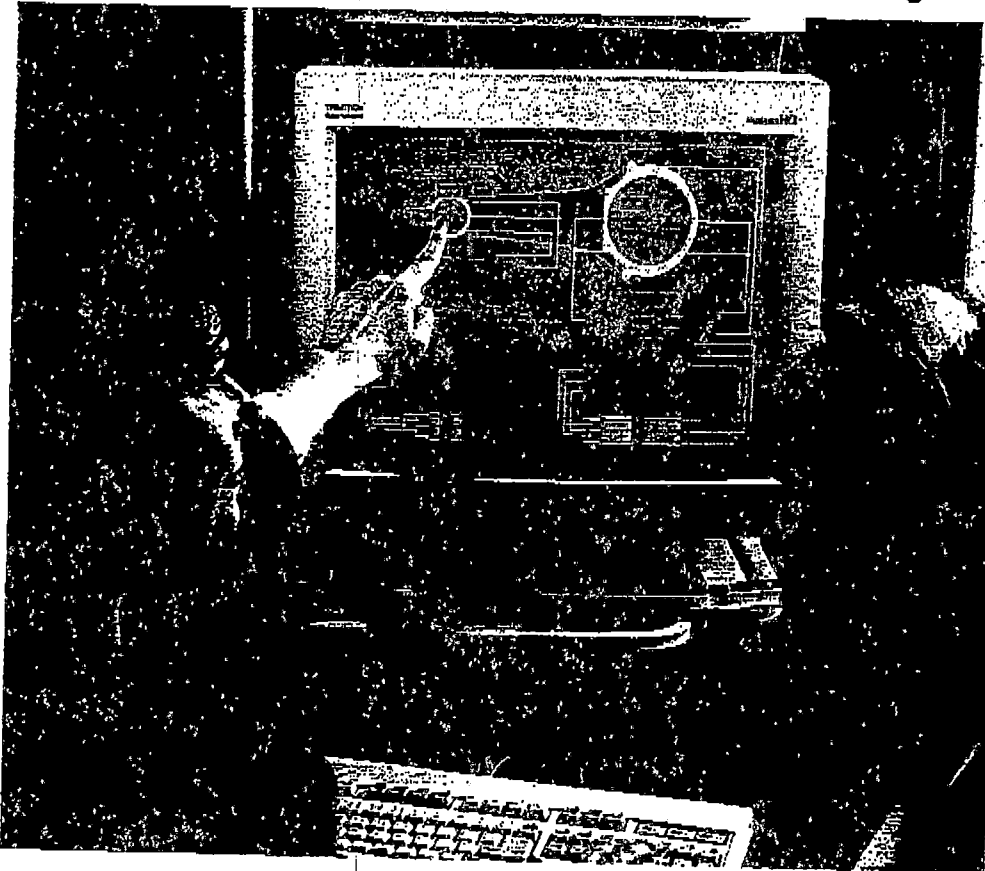
We appreciate their efforts and the loyalty and support of our customers and shareholders. We look forward to exciting times in 1992 and the years beyond.

Sincerely,

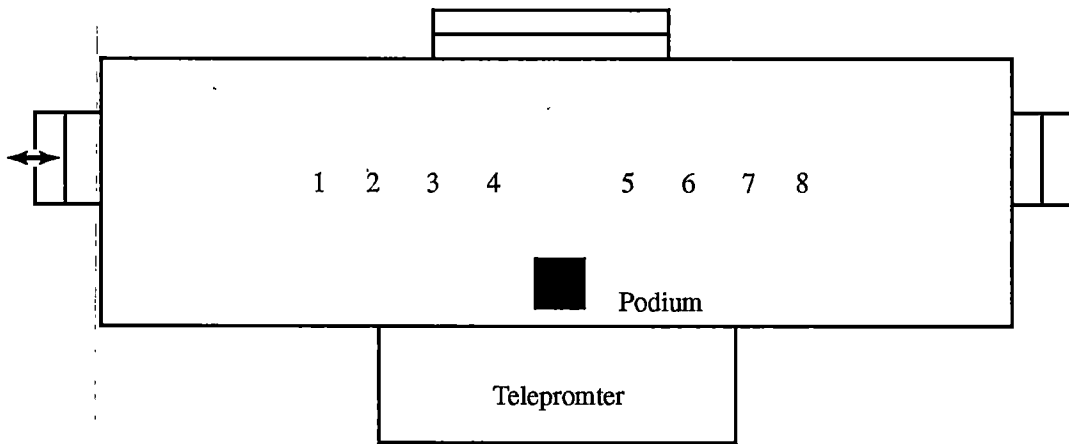


William J. Fife, Jr.  
Chairman and Chief Executive Officer

*Projected growth of airline travel through the 1990s is requiring expanded airline fleets and maintenance facilities, creating new opportunities for Giddings & Lewis products and services.*



*New automated gaging system quickly identifies out-of-tolerance conditions with computer-based, easy-to-read graphics.*



- ⑥ 1. Ms. Linda Walling, Sterling Heights Chamber of Commerce
- ④ 2. Ms. Barbara Hollett, Metro East Chamber of Commerce
3. THE PRESIDENT
- ① 4. The Honorable John M. Engler, Governor of Michigan
- ③ 5. Mr. William Fife, Jr., Chairman & CEO, Giddings & Lewis, Inc.
- ② 6. The Honorable Lynn Martin, US Secretary of Labor
- ⑦ 7. Mr. James Williams Warren, Center-Line, Sterling Heights Chamber of Commerce
- ⑤ 8. Mr. Geary Maiuri, Central Macomb Chamber of Commerce

KEY:  
→ THE PRESIDENT

(Ferguson/Aarhus)  
April 6, 1992  
Draft One  
DETROIT

PRESIDENTIAL REMARKS: DETROIT BUSINESS AUDIENCE  
TUESDAY, APRIL 14, 1992  
XX:00 PM

[Acknowledgments] → Lyn Kennelly

I would like talk to you today about the things we must do together -- government and business, public servants and private citizens -- to leave our children a legacy worthy of America. I think we agree on what that legacy must be. We want a world at peace; we want strong, wholesome families; and we want an economy that provides rewarding jobs for all.

More than any country on earth, America has afforded each generation the opportunity to leave such a legacy. It has done so by offering its people the freedom to adapt to the new, to test the untested, to change as times change and the world changes.

We have that opportunity once again. Today, the world is changing at a pace undreamed of a generation ago, and now America, which has led the world's transformation, must change as well. This afternoon I will discuss five areas which I believe are overdue for reform -- five key ways in which America must change, if we are to honor coming generations with the legacy they deserve.

As businessmen and -women you understand the urgency. For each of the problems I will address today presents itself to you not as an abstraction but in the most immediate way: as a cost of doing business. Too often these are costs beyond your control,

drawing resources away from your primary goals of expanding your companies and providing jobs for your communities.

When our legal system becomes incapable of resolving disputes in a civil and timely manner, business loses the incentive to innovate and take risks. When health care costs escalate, business picks up much of the tab. When government imposes barriers to trade, business pays the cost in lost marketshare. When our children leave school without rudimentary skills, business bears the burden in lost productivity. And when government grows cumbersome and intrusive, business can no longer plan rationally for the future.

Let me start with the crying need to reform our country's civil justice system. We have all heard the stories of bizarre and frivolous suits -- the one about the psychic, for example, who sued her doctor after a CAT scan <sup>allegedly</sup> destroyed her power to commune with a 17th century poet.

The stories would be funny if the price weren't so high. And American companies pay much of that price -- not only in dollars but in lowered productivity and a business environment inhospitable even to ordinary competitive practices. According to a recent survey, for example, 40 percent of companies that had been the target of product liability suits have discontinued certain types of product research.

Lawsuit madness is an affliction our world competitors do not share. Only the United States has seen the number of lawyers double over ~~the last generation.~~ Only the United States spends <sup>a 20-yr. period.</sup>



Note  
Journal  
article

ABC  
Speech

ABC  
Speech

more than \$80 billion annually in direct litigation costs, perhaps four times that in indirect costs.

ABC speech

We must remove this ball and chain from our ability to produce and compete worldwide. My competitiveness council, led by Vice President Quayle, has offered 50 recommendations for legal reform, including reasonable limits to the discovery process, alternative means of resolving disputes, and a "loser-pays" rule that would discourage frivolous lawsuits.

ABC speech

This broad legal reform won't be easy. We introduced a bill to reform our product liability laws in 1990. Congress wouldn't budge. We introduced the reform again in 1991. Senate Democrats refuse even to bring that bill to a vote; in the House, it's stuck in two committees. The special interests are lining up against legal reform, and we can use your help in moving it forward.

ABC speech

If we're successful, the effects will be far-reaching, extending into another area critically in need of change -- our nation's health care system. The litigation explosion has hit Michigan's health care hard. Your physicians' and hospitals' medical costs are among the highest in the nation, adding ~~an~~ approximately average of \$300 to the average patient's hospital bill.

JH fax

The human costs too are high: one out of every five obstetricians in Michigan has stopped delivering babies, thanks to lawsuit madness.

John Howard packet

These trends are simply unsustainable. Already 13 cents of every dollar of national income goes to health care; some mid-

Hans

Total health care expenditures are today about 13% of GDP. Some mid-range estimates put that figure at 30% by the year 2030 -- that's 30¢ of every dollar of national income spent on health care.





HANS  
ABC  
speech

range estimates say that by 2030, that figure will be 30 cents of every dollar. Right now, American corporations spend more on health care each year than they earn in after tax profits.

Clearly the system must change. My proposed health care reform will build on our system's assets -- especially in preserving the quality of care, which for all its faults is still the world's finest. We will strengthen the private insurance market, and increase consumer choice. Through transferable credits we will bring coverage to the uninsured, and control costs through market incentives. And we will avoid the pitfalls of nationalized care, with the rationing and indifferent quality that come with it. Health care reform must hew to this principle: The government has no business intruding between the patient and his doctor.

I have targeted a third area for attention -- like the others, absolutely critical for our success in the coming decades. If America is to succeed economically at home, we must succeed economically abroad. <sup>Over the past 40 years,</sup> ~~In the post-war period,~~ trade-related jobs have grown at a pace three times that of overall job creation.

USFR  
fact sheet  
#1

Continuing these trends requires vigilance in opening foreign markets to American goods and services. Over the past three years, exports have accounted for 70 percent of our economy's growth. The free trade agreement with Canada is a proven success; it ~~is now~~ <sup>is now</sup> the world's largest bilateral trading <sup>area.</sup> ~~relationship, supporting 1.5 million American jobs.~~ We have the

USFR  
fact sheet #1

~~The US-Canada Free Trade Agreement~~

In 1990, alone,  
total US exports to  
Canada supported 1.5 million  
American jobs.

①

Since I took office

our exports to Jap  
have gr. more than  
10x faster than our  
imports from Japan.

~~enormous opportunities to  
sell Am. goods & in  
the long run create  
new American jobs.~~

is scheduled in the House Subcommittee on Human Resources, Committee on Education and Labor. This includes Title II the Older American Programs of the Domestic Volunteer Service Act.

AGENCY/BUREAU NEWS

- May 22

ACTION Headquarters staff completes move of offices from 806 Connecticut Avenue, N.W., to 1100 Vermont Avenue, N.W.

*ACTION's mission: To stimulate voluntary citizen participation in addressing the needs of American communities, particularly those of the poor, the disadvantaged and the elderly.*

---

*VISTA (Volunteers In Service To America) • Student Community Service • Citizen Participation Program • ACTION Drug Alliance  
Retired Senior Volunteer Program • Foster Grandparent Program • Senior Companion Program*

chance to lock in those gains by combining Mexico into a North American Free Trade Agreement, creating a \$6 trillion market from the Yukon to the Yucatan.

We're also concentrating on expanding access to the world's second largest market economy: Japan. ~~Our exports to Japan are growing ten times faster than our imports from Japan,~~ and our manufactured products are leading this expansion. The boom has already created an additional 200,000 ~~jobs~~ <sup>good related</sup> jobs here at home.

It was in this context that I traveled to Japan earlier this year, to build on our successes. I heard some criticism of that trip, but let's get the facts straight. Of special interest to your region, for example, was the ~~agreement~~ <sup>pledge</sup> by the Japanese to increase the purchase of U.S.-made auto parts <sup>from \$9 bl.</sup> to \$19 billion annually by 1994.

And there was much more. As a result of our trip, we've opened up Japan's \$4 billion glass market, its \$9 billion <sup>public sector</sup> computer ~~hardware~~ <sup>services</sup> market, and its \$27 billion paper market -- offering American business enormous opportunities to sell American goods, <sup>and create</sup> which means, in the long run, xx new American jobs.

We must take advantage of these new arrangements, and we will do so only if we have a world-class workforce. Yet the grim fact is undeniable: our current educational system is unable to produce the workers the highly competitive world market demands.

Consider this: English is now the language of international business; yet only 20 percent of 17-year-olds can write a simple

ABC Speech

USTR #2

Bob Book x1200

Bob Book x16100

Bob Book

ABC Speech

Y  
A  
T  
H  
Y  
C  
D  
D  
Y  
C  
U  
S  
T  
R  
M  
M  
M

ABC speech  
 ABC speech

two-paragraph letter applying for a job. The situation in geography, math and science is equally dire. Too many businesses are forced to pay twice for the education of prospective employees -- once through taxes that support our schools, and again through job training to remedy the failures of those schools in education our young.

[Job Training insert]

The only solution left to us is radical change; we must literally reinvent American education. Our America 2000 initiative challenges communities to create break-the-mold schools. We need to set world-class standards for students and establish a system of voluntary national tests to measure their progress. We must redouble our efforts to rid our schools of drugs and violence -- to cleanse America of this scourge that wastes so many young lives. And we must make schools more accountable, by forcing them to compete. That means giving parents the opportunity to choose their children's schools -- public, private, or religious.

The reforms I've outlined here today -- restoring sanity to our legal system, ensuring quality health care for all, expanding world trade, and reinventing American education -- are essential to this country's future productivity.

But each faces powerful opposition from special interests who profit from the status quo. So I have targeted a final reform, no less important than the others. If America is to change, American government must change.



I have presented seven specific proposals to cure the paralysis that grips the Congress. My proposals range from an elimination of PACs, diminishing the special-interest influence, to a line-item veto, which will allow us to get a handle on federal spending. And I think it's high time we limited the terms that members of both houses of Congress may serve.

The aim of these seven proposals is simple: to create a flexible government, responsive to the common good. I have tried over the past three years to make invest my administration with this sort of flexibility. Let me give you a few examples of special concern to the Detroit region.

A reformed government knows its limits, refusing to impose undue burdens on business and consumers alike. For that reason, I've made it clear to Congress: I will not sign <sup>CAFE</sup> legislation that ~~will destroy the auto industry and cost American jobs. increases CAFE standards and costs American jobs and even lives.~~

3/18 speech

A reformed government encourages innovation. Last October, for example, the Department of Energy joined with the Big Three automobile companies to develop a new generation of batteries. Our goal: to make electric cars competitive by the year 2000.

10/25/91 speech

FILE

A reformed government finds flexible means to reach its goals. Our approach to the 1990 Clean Air Act, which requires deep reductions in air pollution, is a good example. To help communities and industries meet those objectives, we've initiated a "Cash for Clunkers" program, allowing states and companies to buy high-polluting old cars, get them off the road, and use the

3/18 release

+ California Edison & Electric Power Research Institute

} together, these + the auto cos. made up the Advanced Battery Consortium

3/18 release

resulting reduction in pollution to satisfy our clean air standards.

The principle underlying all these approaches was expressed well by Jefferson: "The pillars of our prosperity, are the most thriving" he wrote, "when left most free to individual enterprise." In practice, that means government must trust the wisdom of markets more than the whims of bureaucrats. The freely made decisions of businessmen and women must take precedence over the engineering schemes of government. And all of our institutions -- from the U.S. congress to the local school board -- must be accountable to those they serve.

Over the last decade, America has changed the world. Today we are blessed with the opportunity to change America. With Jefferson's principle as our guide, we will meet the challenges, and exploit the opportunities, of the world that is now being born.

Thank you and God bless the United States.

# # # #

by the end of this decade. And need I say what one of those negative trends is? And that is Government regulation.

Overregulation here in the United States can give foreign corporations an advantage over American firms. It also can drive U.S. businesses to move factories and jobs overseas. Recently, because of heavy regulation, the number of approvals of new medical devices has dropped dramatically.

Let me assure you: I am determined to roll back the tide of overregulation. After the 90-day freeze, I'm going to introduce what legislation it takes to change this, reform legislation to correct unreasonable rules we can't change simply through Executive action. And I will have to go to that Congress and challenge them to undo some of this regulatory knot that they've tied across the American economy. And I'll fight those liberals in the Congress who try to impose new and unreasonable burdens on America's livelihood. You know, if Congress sends me any more legislation with excessive regulation in it, I am going to have to veto it, and I will veto it as soon as it hits my desk. We need to free up businesses like this, not tie their hands anymore.

As long as I'm the President, I'm going to work to cut needless redtape. We've got to get the lifesaving drugs and devices to those who need them. Regulation of the healing arts and health technologies have got to respond to patients' needs and must be based on sound science, not on ideological politics or scare tactics.

And we need to heal something else, a legal system that is emptying our wallets and tearing our society apart. That's why I'd love to have your support for proposals to reform the liability system and the civil justice system. You know how the epidemic of lawsuits has become: neighbor suing neighbor, guys coaching Little League afraid to coach because of a lawsuit being filed at them. "You don't put the kid at first base, I'm going to sue you." I mean, it's not right; it's not fair. And we've overdone it, saying nothing of doctors who are pulling back because of malpractice suits filed against them. I want to be the President of a country where people spend more time helping each other than they do suing each other.

And the very last point: Our economy is going to be strong as long as it's free. That's the lesson that I've taken away from this, that I'll be taking away from this plant here at Stryker. You have learned that in the markets at home and around the world. It's a principle that we've got to redouble the efforts in fighting for. In my go-rounds with Congress and as Chief Executive of the Departments and Agencies that regulate American business, I'm going to try to do just that.

Let me say in conclusion, it's a joy to be here, not just simply a joy to be outside of what we call the beltway, Washington, DC. It really is. And when I come to a place like this and I see what you all are doing, I have a reaffirmation in my heart that this country is still the freest, the greatest, the fairest country on the face of the Earth.

We are the leader of the free world. We are the leader. Your kids and my grandkids don't go to bed today worrying as much as they used to about nuclear weapons. They have a feeling that we've done something big, and we've done it by leading, standing up to aggression and leading the world. And now let's take that same talent, bring it to bear on this economy, get it moving again, and reestablish our economy as the number one in the world.

Thank you all very, very much. Thank you.

*Note: The President spoke at 10:24 a.m. in the medical division of Stryker Corp. In his remarks, he referred to the following corporation officers: John W. Brown, chairman, president, and chief executive officer; David J. Simpson, vice president and chief financial officer; Stephen (Si) Johnson, executive vice president; and Harry E. Carmitchel, president of the medical division. A tape was not available for verification of the content of these remarks.*

**Remarks to the Economic Club of Detroit in Detroit, Michigan  
March 13, 1992**

*The President.* Please be seated, and thank you for that warm Michigan welcome. Governor Engler, my friend, thank you, sir,

for that kind introduction, and my congratulations to you for trying to bring fiscal sanity to this wonderful State. And it's a great pleasure to be met by your Texas wife, Michelle, who's with us today. And also it's a great pleasure to see another old friend, a great leader of the State of Michigan, Lieutenant Governor Connie Binsfeld, who was out there at the airport, too. Thank you for being there. Mike Guido, the mayor, is with us. I salute him. And one last thank-you to Jerry Warren, a former banker and now the miracle worker that can produce such a fantastic crowd on such short notice. Now, Jerry, if you want to go into the banking business again—[laughter]—there may be an opening in Washington, DC, on Capitol Hill. I think this guy could do it.

It's a pleasure to be back before this outstanding group. And 4 short days from now, Michigan faces a choice, and you'll make a decision that will really shape the way this country copes with the big issues, the issues that shape the world and the values close to home. And I am talking about jobs. I'm talking about family. And I'm talking about world peace for ourselves and also for our children.

Right now, the most important issue facing Michigan and this country is clearly the economy. It's my number one priority, jobs. Manufacturing—you know it perhaps better than most—has been the greatest generator of good jobs in American history. Take a look at the auto industry. I'm speaking not simply about the jobs created in the industry itself but the thousands upon thousands of jobs in supplier and spinoff businesses. Manufacturing is and always will be a basic strength of this country's economy. No nation will ever lead the world without a strong manufacturing base.

Fifty years ago, this great State of Michigan earned the proud title of Arsenal of Democracy. Industries centered here had no peers and practically no competitors anywhere on the planet. And yes, today things are different. Michigan's manufacturers are not just competing with a few outgunned adversaries. They are up against tough, hard-nosed competitors in practically every developed country. Today, the new reality is simply this: If we want to succeed economically

at home, we have got to compete economically abroad.

All we seem to hear on the news is gloom and doom. But let's not overlook some of the fundamentals that prove that we are poised, not there yet, but poised for a national recovery. Interest rates are lower now than at any point in the past 10 years. The prime rate is now 6.5 percent. Inflation, most would agree, is under control. Monthly retail sales are up 1.3 percent in February, on top of a 2.1-percent rise in January. And then you know the story on housing starts; they're up 5.5 percent since December.

And for all our troubles, America is still the world's dominant economy, the one market other countries want to crack, the economy producing goods in demand in every country, every corner of the world.

Right now, nationwide, we're in the midst of a record export boom, one that's driven the trade deficit down 35 percent in the past year alone. And American exports have doubled, doubled since 1985. Not only do we export more than any other country, but we've been gaining ground, not losing it, to our competitors.

And I fully realize this has not always been true for our auto industry, but these are fundamentals that we can build on, the raw material, if you will, to manufacture the solid, strong recovery that I am confident we will see.

It looks different here in Detroit. Michigan's been through some extraordinarily tough times. And there's no sense pretending that things are better than they are. But there's also no sense underestimating our strengths and exaggerating our weaknesses. The simple fact is, we face a future with both challenges and opportunities.

In the past years, the United States has helped bring about change that has reshaped our world for the better. We're the country that won the cold war, that drew a line on the sand and drove a dictator out of Kuwait. And we are the country that made sacrifices for freedom in four corners of the world. And because we did, right here at home, our children are less fearful of the threat of nuclear war, and they sleep much more safely.

And yes, American leadership has changed the world, and now what I want to do is use

that same leadership to change America. I don't think there's anyone in this room who doesn't believe that the key to America's economic future is our ability to lead, to succeed in the world economically as we have politically. And that's what my economic plan is all about.

Back in January, 45 days ago today, I sent Congress a specific short-term action plan to stimulate this economy, to spark a recovery as early as this spring, a recovery that would increase auto sales and create jobs. And when I sent that plan to Capitol Hill, I set a deadline: one short week from now, March 20th, almost 2 months from the day I challenged the Congress.

And you know the story. Congress barely gave my plan a glance before they got busy on their own agenda: 90 billion dollar tax increase that will threaten our recovery and cost us jobs. Any economist worth his salt will tell you the last thing this economy needs is a massive tax increase. And you can count on this: If the Democrats send me that plan, they can get ready for a veto the minute it hits my desk. I am not going to accept it.

I believe that my plan—I'm convinced of it, and I've talked to lots of business people and lots of economists—I am convinced my plan will make America more competitive. It includes seven things that we've got to accomplish to ensure a strong market for America and for the automotive industry.

We've got to reduce Government spending and draw the line against new taxes. Deficit spending dries up sources of savings the private sector must have to invest, to grow, and to create new jobs. And there's only one protection the taxpayer has against uncontrolled, what we call discretionary spending in Washington: those spending caps that we got enacted a year and a half ago. That's the only protection the taxpayer has.

And guess what? You're right. The Congress wants to get rid of those spending caps now and go back to the days of unchecked spending. And I am not going to let that happen. We've got enough votes to sustain a veto to see that that does not happen to the American taxpayer.

We've got to put an end to excessive Government regulation. Our companies can't compete if the Government chokes them off

in redtape. And we've got to stop counter-productive regulations that cripple your freedom of action and cost this country jobs. So I've ordered a 90-day review of all new regulations with this aim in mind; whatever contributes to economic growth goes forward, and whatever stifles growth gets scrapped.

We're at midpoint in that review. But even now, you can see results. The sheer volume of new rules and regulations is down to 25 a week, from 6 times that amount just a year ago. That's progress. Already we've announced regulatory relief to benefit sectors of our economy from biotech to energy. And we're looking now for creative, new ways to use regulations to clean up our environment, using market forces where possible.

Times have changed since the day nearly two decades ago when CAFE standards came into existence. And we now know that CAFE can cost a lot of jobs and even lives on the highway. And right now, through my Department of Transportation, I've been working with the auto industry and the UAW to fight irresponsible legislation. And I will not sign CAFE legislation that will destroy the auto industry and cost American jobs.

We will take several regulatory steps affecting the auto industry in the near future. There is one that I want to announce today. For some time, the EPA has been considering a requirement to order that all new cars be equipped with these on board canisters to catch and contain fumes coming from the gas pump. As a result of our regulatory review, we have decided against such a rule. The Department of Transportation determined that on board canisters pose a real risk to safety, a risk we simply cannot impose on American drivers.

If we want to make America more competitive, we've got to move forward on civil justice reform as well. Too many businesses can't start up or keep going because too many lawyers and too many lawsuits get in the way, 18 million lawsuits every year alone. Right here in Detroit, there are business men and women ready to expand, ready to hire new workers, stopped cold by the fear of litigation. All told, when you add in indirect expenses, lawsuits cost this economy \$300 billion a year. And it's time for reform, time

to replace the explosion of mindless litigation with a little common sense.

I have called on the Congress to pass reform in this area. It's a crime when you have people that don't dare coach Little League baseball because they're afraid they're going to get sued or doctors unwilling to deliver babies because they're afraid they're going to get some malicious malpractice suit filed against them.

I know the business people here would agree with this one, but we've got to keep our Nation on the cutting edge of new technologies. That's why I've proposed record Federal funding for R&D, research and development. It's why we back initiatives like one I signed at the White House last October to create a battery consortium to pioneer a new generation of electric cars. And in the global competition, it's going to come down to this: The best way to master new markets is to make them.

And if we want to be more competitive, we have got to encourage investment. That's why I've called on Congress to pass my investment tax allowance, speed up the front-end depreciation so people can buy capital equipment and write it off faster. And additionally, Congress ought to cut the tax on capital gains so we can compete with foreign interest. But political demagogues call that a tax break for the rich. Let me tell you something, you know what it is in Japan and Germany? Zero percent and one percent. And we're up there in the stratosphere somewhere.

We have got to provide our children, in addition, with a 21st-century education, today. And we won't have a first-class economy with second-rate schools. To have the best economy, you have to have the best educated work force. And that's the idea behind our wonderful program known as America 2000, America 2000 strategy, our plan to revolutionize, to literally reinvent America's schools.

And finally, we've got to work to open markets around the world to American goods. Earlier this year, some of the people here today went with me to Japan. And we all took a little grief, a little flak in the press for that trip. But the fact is, that trip laid down a marker. The business community is begin-

ning to understand this. It signaled to our trade partners that I am very serious about free and fair trade. Level the playing field, and American workers and American business can compete with anyone. And we'll keep pushing to open markets that for too long have been closed to quality American goods.

We've already seen a payoff: new markets for America in Japan's computer, glass, and paper market, all as a direct result of that trip. And American access to the Japanese Government mainframe computer market alone could mean an additional \$5.5 billion in computer sales.

And we've seen positive steps in the automotive industry as well; not everything we want, but we've seen positive steps. Japan's auto industry intends to purchase an additional \$10 billion worth of U.S. auto parts by 1994. And the benefits won't simply flow to the Big Three. Detroit Center Tool reports that its sales in Japan will jump 500 percent this year alone to \$30 million.

And that trip was the beginning of an important process that we are going to continue, opening markets around the world. And that also means, in my view, a successful conclusion to the Uruguay round, GATT round. It's absolutely essential that we open markets, reduce these barriers.

So far today, I've talked about my plan, my plan to get the economy growing again and to get this country ready for the challenges of a new century. So let me repeat, here's what I'll do, and give it to you straight: I will veto mandates that pass the buck to business and hurt competitiveness. I will veto job-destroying tax increases and fight for job-creating incentives. And I will fight to open markets around the world to American products. And I will fight against the forces of isolationism who want us to turn our back and run away from the future.

That's some of what I can do. And here's what you in the business community must do. But if we're going to work together to make America more competitive, you've got to continue your commitment to train and retrain your workers, give them the skills they'll need to cope with a changing workplace. And to help workers adjust to new economic conditions, Government can help, too.

For example, last week a Department of Labor task force was here with the representatives of the UAW and GM on just that issue. Also, you've got to continue to build on recent progress that has labor and management working as allies, not adversaries. No company can compete when it is a war within itself. And you've got to fight for foreign markets, make the commitment for the long haul.

I, a long time ago—and I hate to bring it up in a room of successful business people, like the one that's here today—but was in a business, started the small business. And I think I know what it's like. I do know what it's like to sweat to make a payroll, to run risks, to succeed, and to overcome setbacks, too. And we all know how to measure performance. Performance is measured by performance improved: people back at work, assembly lines up and running, putting out a superior product, and bringing in a profit.

I want to close today, before taking a couple of questions here, by saying, I know when I decided to come here I was going to a great city—been here many times; I've been privileged to be your guest at the Economic Club several times—going to a State that's experienced hard times. But I came here for that very reason: to look you in the eye, and to tell you what we are going to do to turn this economy around. And I have too much respect for the people in this room, too much respect for the men and women who work the assembly lines, to expect you to settle for anything short of the truth.

And yes, we're in an election year. We're in a highly partisan, shrill, not overly pleasant election year. And when the rhetoric heats up, it gets tough separating the fact from the fiction. Well, I can tell you this: All the quick-fix schemes in the world will not get us where we want to go. Some of them have wonderful political appeal, but they're not going to get us where we want to go. And the plan that I've laid out today will help America take on the toughest competition and win.

And so, let's not wring our hands, try to run away from a challenge. We've never done that. Let's do what America always does when challenge comes our way: Let's change America for the better. If we can install ourselves through action and principle as the un-

disputed leader of the free world, a leader with newfound credibility around the world, we can do the same thing here at home.

So I ask you to join me in this challenge. Join me in supporting these objectives I have spelled out, and we can and will change America and help the lives of every single American worker and business person in this country.

Thank you very much. And may God bless our wonderful country. Thank you.

**Governor Engler.** Thank you very much, Mr. President, for that wonderful address and that economic plan for our country. And now we have some specific questions that have been submitted by members of the Detroit Economic Club and some special guests. The first one actually—I'm sure that Chris McAllister from J.R. King Elementary School, who says "grade six" at the bottom of the card is not a member, but may be a guest here today. And he asks a question that's on the minds of a lot of people: President Bush, why did you choose a Texas plant over Willow Run?

**The President.** Let me take that question very seriously because—and I am reluctant to make it this definitive. I was told today, I hadn't seen it because I don't read too much of what Senator Riegle says, but—[laughter]—I was told today—I'm very serious about this because this a challenge to my integrity as President of the United States, and when it gets on that basis I take it seriously. And I was told by the Governor and I was told by a Congressman that I was accused by that Senator of intervening in the GM process, the private sector process. And I'm standing here to tell you with everything I can muster that I made no such intervention. And I take it as a direct attack on my character to have a United States Senator say that. It is a bald-faced lie. And Bob Stempel is right when he said it is.

That sixth grader is on to something. [Laughter]

**Governor Engler.** The UAW, AFL-CIO is actively working against your reelection. With times as tough as they are right now, what chance do you see of winning the rank-and-file worker in a State like Michigan?

**The President.** Well, I saw the UAW seems to be supporting Jerry Brown. That

may not be accurate; I don't know. Look, ~~one, there's time for politics; two, there's time for trying to lead this country.~~ These are good people. Their families are hurting. Some have a job today, not sure they'll have it tomorrow. And so my answer to them is, I want to change this economy.

And I tried to spell out here today, and I hope some of them heard it, a program, a seven-point incentive program plus a broader program that will, indeed, get this economy moving now and stimulate it, and then we'll also be sure that we are competitive into the future.

So I would like to address myself—I know that the unions early on decided they were going to support somebody else for President. But for me, this transcends a political endorsement or political opposition. We have got to get the economy moving. There's a lot of families that are hurting out there, and I think what I've proposed here today is the answer.

**Governor Engler.** As a businessman running a 60-employee family company, I must run a tight ship in order to survive in a difficult economy. What can be done to see that our Federal Government begins now to reduce America's \$2 trillion debt so we can enjoy a prosperous economy in the coming years? That's from David Keller, and related to that is another card that has a question: What is the status of the line-item veto?

**The President.** The debt is an enormous worry. And for those who live and die by polls, really for the first time, the deficit and debt is about number one, I believe it is number one in the polls. I'll give you an example of what we're trying to do with it. One, I'm going to try to keep the caps on discretionary domestic spending. Government is too big, and it spends too much.

And right now I'm in a big fight in the Congress. The 1990 budget agreement did place caps on all discretionary spending. It did not touch the part of the budget that's growing the fastest, the entitlements, but it did put a cap on domestic spending. And now the Democrats in Congress, not all of them, thank heavens—are trying to remove the caps. They're saying this: "We can take defense cuts now," and I've proposed \$50 billion, and some of them are saying, "Oh, we

can do more. We'll take \$150 billion." And that would cut right into the muscle of our defense and make us unable to respond to any eventuality around the world. But they're trying now to say, we're going to take that defense spending and spend it, defense money and spending it.

And I'm saying, no, we're going to keep up what they call the firewalls, the different—the caps between, on defense and the caps on other domestic spending. And when we cut defense by the \$50 billion I recommend, we will use that to reduce the Federal deficit.

And I'm in a whale of a fight in the Congress to do just that. And that is small compared to the overall size of the deficit, but it is a beginning. And again, I need your help because we are outnumbered in a fight like this. It is too easy in an election year to promise some new Government spending program. And I have got to fight it. I have got to keep the caps on and I've got to apply the reductions in defense spending to this deficit to show the American people that we are concerned and we don't want to continue mortgaging the future of our young people.

**Governor Engler.** We have time for about three more questions according to the watch I was given. So, President Bush—this is sort of like the old "Ask George Bush" program that I remember from the Vice President's days—President Bush, do you have any plans for changing antitrust laws to enable a closer relationship between Government, business, and labor?

**The President.** There's a review going on, and I don't know how it's going to come out. We have tried to lighten up on this concept that was overly restrictive on antitrust, where businesses couldn't even talk to each other for fear of antitrust attacks on them when they were trying to improve things generally in the community, for example.

I can't give you a definitive answer as to how that comes out. I do think we've got a ways to go before we can certify that the antitrust laws are not excessively burdensome; they are excessively burdensome. And I think by still protecting against monopoly and against conspiracies so prices go up, there's a way that we can go to lighten up

s. This is the  
dline for the  
e Congress  
n of its own,  
line. Instead,  
on, the Con-  
e to tax the  
ld hike taxes  
in my view,  
s, the incen-  
obs. The last  
ow is a mas-  
st worth his  
is not new.  
ke action to  
ists on these

iment is too  
ryone knows  
lse everyone  
s spends the  
xpayer, the  
ctively, with-  
without com-  
o call on the  
March 20 for  
the good of  
ealize this all  
on year blast  
e opposition  
need a new

o bring back  
y to a system  
elf. They are  
inciples: Rely  
ssible, decen-  
e competition  
ore power to  
r lives. Make  
nderstand the  
bal position,  
npetitive. We  
ailed policies  
ent, isolation,  
o that. That  
w people out-  
ing involved,  
ver on inter-  
portant ways  
ry.  
d that "Lead-  
Hidden agen-

on antitrust and to be sure that these laws do not set us back from competition abroad.

You know and I know that many people in foreign competition target industries. They get together. They have what you call financial centralized planning. We don't do that in this country, but I think we've leaned too far the other way when it comes to the tightness of antitrust. So we're taking a hard look on it, and I hope we can still protect against monopolistic practice and still lighten up so that we can be much more competitive around the world.

**Governor Engler.** Fearing the loss of jobs, big labor opposes the proposed free trade agreement with Mexico. Why do you feel the agreement will be beneficial to the United States?

**The President.** In the first place, I am absolutely convinced, absolutely convinced that in passing the NAFTA, the free trade agreement with Mexico, we call it the North American free trade agreement, it will create more jobs. I'm convinced that it's good for the environment. I believe a more prosperous Mexico, and there's going to be prosperity on both sides if we can get the proper kind of agreement, will be able to address itself to these environmental problems. I believe a more prosperous Mexico will be an even better market for U.S. goods.

And so, I do not accept the wisdom of some that says that a free trade agreement is going to result simply in an export of jobs. It is not going to do that. And I believe that we ought to keep pressing for it. I don't care what the politics of it are; I think it is best.

And I want to do exactly the same thing this NAFTA, this North American free trade agreement—I want to do exactly the same thing with the successful conclusion of the Uruguay round. And Michigan has a lot of agriculture. And I believe that if we are successful, we will be opening up all kinds of markets abroad for agriculture. I think we can do better in property rights.

And so we have two major initiatives in international trade. One is the NAFTA, which is mainly with Mexico and Canada, of course, and then I want to follow it with opening trade south of there. And secondly is the Uruguay round.

And the other point I want to make on this hemisphere is this. We look at the changes that have taken place in the former Soviet Union. And we look at the changes that are taking place in Africa, for example, South Africa and Zambia. But sometimes we don't look into our own front yard, the exciting markets of Latin America. And there, take a look at what's happened: Military dictatorships have given away to democracies. Communist regimes, a la Nicaragua, have given away to democracies. And there's only one holdout against democracy in this hemisphere really, except for the problems in Haiti. It's Cuba. It is Cuba. And democracy is on the move.

And what I want to do is help find ways to strengthen those economies so they can be not only perfecting their democracies but be better markets for American goods and services. And it is an exciting message down there. We are doing a first-class job on working with these Latin American, South American countries. And we ought not to neglect it.

And while saying neglect, let me add this point—too long an answer to a very simple question—but it has been suggested that I turn my attention away from national security matters and foreign affairs. I don't think a President should do that. I think it's important to find the right balance between doing something for the domestic economy but recognizing that it's only the United States of America that can lead this free world. And I am not going to neglect my responsibilities overseas, but I darn sure am going to pay as much attention as it requires to get this economy moving.

**Governor Engler.** This is another question from a youngster, Calvin Paines, I believe the name is, from J.R. King School in Detroit: Will there be jobs for black children in the future?

**The President.** I hope there will, and I think there will. And one of the reasons I'm so excited about America 2000, in which many of the business people I see sitting in this room are already assisting, is that our education program will result in just that kind of opportunity.

I met with some people from the National League of Cities, and one of the things that

concerned this—this is a little addition to this guy's question—they told me, the mayors from big cities, small cities, Democrats, Republicans, liberal, conservative, "The thing that concerns us the most about the urban problems is the decline in the American family."

We have appointed a Commission led by Governor Ashcroft and former Mayor Strauss of Dallas to figure out what we can do, what legislation is diminishing the family. And underlying it all is the need for more education. And so I would say to this sixth grader, I think you've got a whale of an opportunity.

And let me say this also: I have been disturbed by kind of an ugliness out there. When things get tough, one person loses his job to another, people are uncertain about the future. They've lost confidence in the country, maybe in the President, certainly in the Congress, I think, too. But nevertheless, when that happens somehow an ugliness crops up. And let me say this: Let's leave this politics aside. Bigotry and discrimination and anti-Semitism have absolutely no place in America. And I'm going to continue to stand up for that principle.

**Governor Engler.** I have in my hands the last question. I was going to ask this one first, but it's unsigned. It starts out, Governor John Engler has done a heroic job—[laughter]—and it goes on. It could stop there but, no, Governor John Engler's done a heroic job working to stimulate growth in Michigan's economy by sponsoring the cut-in-cap plan for property tax relief. What can be done at the Federal level that would have similar impact to Michigan's cut-in-cap? And that will be the last question, Mr. President.

**The President.** Well, give me another one because I think I answered it. I hope I answered it in my remarks. And so it's not fair to take you over that turf again, so I'll take one more.

I believe the best thing we can do is to incentivize this economy. Control the Government spending as best one can; that means sometimes vetoing legislation; lighten up on the regulatory front; and then, in a longer vein, more, better education. And I think that's the answer to this economy.

But give me one more because that's not fair. Maybe it's not.

**Governor Engler.** I just like the question a lot. [Laughter] We'll get to one more here.

**The President.** What about the one that says Engler's screwing it up, we're not going to—[laughter].

**Governor Engler.** Passed over that one right away. [Laughter]

We'll end on a political question here. Assuming you will be nominated, overall, do you think Pat Buchanan's campaign efforts will hurt the Republican Party chances in November?

**The President.** My answer to that question is, no. I am going to continue to try to run what I hope has been a high-level campaign. And I'm going to try to keep focusing on the issues. I'll say this, because it's not easy to find a balance in a competitive election year between how much time you devote to the campaign trail, how much time you spend in the Oval Office trying to help people and trying to solve the problems of this country.

Last week on Super Tuesday, we had eight States. And I felt I should at least make an appearance in each of the eight States so it didn't look like I was taking something for granted, turning my back on the people whose votes were very, very important in those States. And so I went to one, and I think some drew the conclusion from that, that was a little frenetic.

Super Tuesday was very, very good to me. And we will now have our primary here and in Illinois on Tuesday. I think that we've found the right balance. I think in terms of a primary challenge, the thing I must do is not get after the opponent. Let him chart his course, make up his decision on what to do. And let me now spend much more time—Super Tuesday out the way; Michigan and Illinois by Tuesday—in trying to get these things done that I have outlined here.

And then we're going to be interacting overseas. Of course, Yeltsin's coming here; Helmut Kohl, I think, will be here next week-end. And there's a lot of things of this nature that I must attend to.

And so I can't fault somebody for challenging me. I feel very, very confident about winning this primary. But I think now I've got the proper balance as to how much—and it wouldn't help a bit to try to assess for you

the opposition. That's what the elections are about.

But I know these are nonpolitical gatherings, but if you're a Republican, please vote for me on Tuesday.

Thank you very much.

*Note: The President spoke at 12:50 p.m. in the Grand Manor Ballroom at Fairlane Manor. In his remarks, he referred to Jerry Warren, president of the Economic Club of Detroit, and Robert C. Stempel, president and chief operating officer of General Motors Corp.*

### Points of Light Recognition Program

*The President named the following individuals and institutions as exemplars of his commitment to making community service central to the life and work of every American.*

March 7

*Volunteers of Sojourners' Place, Inc., of Wilmington, DE*

March 9

*Barbara Tschetter, of Huron, SD*

March 10

*Volunteers of Parents Anonymous, of Buffalo and Erie County, NY*

March 11

*Penny and Chuck Hauer, of Conner, MT*

March 12

*Volunteers of the Desert Chapter of the Brandeis University National Women's Committee, of Palm Springs, CA*

March 13

*Jenny Richardson, of Portland, OR*

### Digest of Other White House Announcements

*The following list includes the President's public schedule and other items of general interest announced by the Office of the Press Secretary and not included elsewhere in this issue.*

March 7

In the morning, the President and Mrs. Bush traveled to Montgomery, AL, where they attended a bass fishing tournament.

In the afternoon, they returned to Andrews Air Force Base, MD, and then went to Camp David, MD.

March 9

In the morning, the President and Mrs. Bush returned to the White House from Camp David, MD.

The President met at the White House with:

- the Vice President; Samuel K. Skinner, Chief of Staff to the President; Brent Scowcroft, Assistant to the President for National Security Affairs; and members of the CIA briefing staff;
- Samuel K. Skinner.

Later, the President had a domestic briefing in the Oval Office. Following the briefing, he met with:

- leaders of Veterans of Foreign Wars, Disabled American Veterans, and the American Legion;
- Secretary of the Treasury Nicholas F. Brady.

In the afternoon, the President had a telephone conversation with Gov. Bob Miller of Nevada to kick off Nevada 2000.

In the afternoon, the President met in the Roosevelt Room with members of the National Republican Senatorial and Congressional Committees to discuss the President's Dinner, a joint fundraising event.

The President announced his intention to designate the following individuals to the Arkansas-Oklahoma Arkansas River Compact Commission:

*United States Commissioner:*

*Ronald N. Fuller, of Arkansas. He would succeed J.J. Vigneault III. He will serve as Chairman.*



9TH STORY of Level 1 printed in FULL format.

Copyright 1991 National Journal Inc.  
National Journal

November 23, 1991

SECTION: LEGAL AFFAIRS; Vol. 16, No. 47; Pg. 2844

LENGTH: 3904 words

HEADLINE: Knocking the System

BYLINE: W. JOHN MOORE

DATELINE: CHICAGO

HIGHLIGHT:

Dan Quayle found the right rhetoric with his broadsides against the legal system. But his proposed solutions face a fight from consumer groups and lawyers.

BODY:

In the International Ballroom at the Fairmont Hotel, the tension mounts. The 600 litigators in the room have dined on good food, swapped trial stories, saluted each others' accomplishments. All of them are battle-scarred veterans of courtroom combat. Many have become wealthy because of their legal skills.

In the midst of the luncheon hubbub, Theodore R. Tetzlaff, chairman of the Litigation Section of the American Bar Association (ABA), strides to the microphone. The talk stops, the chatter ends. Tetzlaff is to introduce the next speaker, Vice President Dan Quayle, who two months ago, at the ABA's annual convention in Atlanta, harshly criticized the American legal system. Quayle's Atlanta speech provoked a vigorous rebuttal from the ABA president. It also instantly made the Vice President look like a populist challenging the entrenched interests of powerful lawyers perceived as protecting their livelihoods.

Now a less confrontational Quayle has come to Chicago to make peace. The ABA scheduled meetings to discuss the details of Quayle's 50-point plan for legal reforms. "This is not a lion's den," Tetzlaff began his remarks welcoming Quayle, prodding nervous titters from his audience. "Nor is it a petting zoo."

To the relief of the assembled lawyers, the Vice President this time avoided a direct attack on their profession and his. But Quayle did not retreat from a 50-point plan that would, among its highlights, restrict punitive damages, limit pretrial demands for information and force the loser in a lawsuit to pay the winning side's legal fees. (See box, p. 2845.) Nor did Quayle abandon a popular theme. Americans, Quayle told the lawyers, "believe the current system favors the rich, big business and the lawyers."

Lawyers have much more than Dan Quayle to worry about. Many of Quayle's recommendations provoked them to harsh criticism. But concern is growing about a legal system that amply rewards attorneys without necessarily providing justice. "The chord Quayle touched was the discontent with a legal system that is expensive, complex, unresponsive and unaccountable," said Leonard Steinhorn, executive director of HALT—An Organization of Americans for Legal Reform.

**LEXIS<sup>®</sup> NEXIS<sup>®</sup> LEXIS<sup>®</sup> NEXIS<sup>®</sup>**



1991 National Journal Inc., National Journal, November 23, 1991

"When you talk to foreign businessmen and government officials, you hear that our legal system is the subject of ridicule around the world," added Richard K. Willard, an attorney with the Washington law firm of Steptoe & Johnson and a former assistant attorney general in charge of the Justice Department's Civil Division.

Quayle's proposals came as both medical malpractice and product liability legislation are pending on Capitol Hill. The pro-business Washington Legal Foundation (WLF) has launched attacks on excessive contingency fees in California and New York. "Every unscrupulous trial attorney who rips off his client with excessive contingency fees is on notice that WLF will carry its program from coast to coast," WLF general counsel Daniel J. Popeo said.

In a flood of books and articles, conservatives have attacked the torrent of litigation they say burdens the court system, damages American competitiveness and rewards lawyers with huge fees while the victims are forced to play in a lottery system that provides riches to some but leaves others penniless.

Walter K. Olson, author of *The Litigation Explosion: What Happened When America Unleashed the Lawsuit* (E.P. Dutton, 1991), in an interview blamed the surge in lawsuits and rising litigation costs on a breakdown in the professionalism of the bar over the past two decades. In his book, Olson, a fellow at the conservative Manhattan Institute in New York City, concluded that "the unleashing of litigation . . . torments the provably innocent and rewards the palpably irresponsible."

#### CATALOG OF HORRIBLES

Horror stories and statistical nightmares abound. Repeated endlessly by critics, the most famous is about the Philadelphia woman who, after undergoing a scanning procedure, filed suit against her doctor. She alleged that the dye used in the test had interfered with psychic powers that enable her to communicate with the 17-century English poet John Milton. A jury awarded her \$ 986,000. The case was ultimately reversed.

There is the famous case of a woman who sued a state lottery after a ball with her number on it dropped in and then popped out of the hole. Had it stayed in, she would have won the grand prize of \$ 3 million. A jury awarded her the jackpot, plus \$ 400,000 for emotional trauma.

The driving force for these suits is legal entrepreneurs. "If you can make this stuff fly, there is a tremendous profit motive here," Peter W. Huber, a senior fellow with the Manhattan Institute, said.

Worse than these anecdotes, litigation critics say, is the plague of lawsuits based on faulty scientific data or so-called junk science. Despite thousands of lawsuits, and the occasional victory by plaintiffs' lawyers, most courts have rejected claims that the anti-nausea drug Bendectin causes birth defects. But those decisions came only after plaintiffs' lawyers rejected a \$ 120 million settlement offer from a pharmaceutical company as too low.

And then there was the spate of suits over the whooping cough vaccine in the mid-1980s that produced millions for trial lawyers. There is no proof that the vaccine caused brain damage. The great fear of the chemical dioxin led the U.S. government to evacuate the entire town of Times Beach, Mo., in 1982 and spend

**LEXIS® NEXIS® LEXIS® NEXIS®**



1991 National Journal Inc., National Journal, November 23, 1991

\$ 200 million on environmental cleanup costs. The health official whose research on dioxin led to the evacuation conceded that he was wrong in a May speech.

But those tales may not reflect the reality of the legal system, some experts noted. A recent study of personal injury lawsuits by the RAND Corp.'s Institute for Civil Justice in Santa Monica, Calif., found that 10 per cent of people injured in any type of accident filed lawsuits to recover damages. In fact, only a small percentage of those seriously injured even contemplate a lawsuit; and only a tiny fraction of them decide to file suits, the study said. "Americans' behavior does not accord with the more extreme pictures of litigiousness that have been put forward by some," the study concluded.

"What is offered rhetorically as the rationale for the [Quayle] proposals is not supported by the empirical data," RAND researcher Deborah R. Hensler said.

In fact, there is evidence that the product liability caseload has eased a bit over the past few years. Product liability suits filed in federal courts dropped 36 per cent from 1985-91, according to the Administrative Office of the U.S. Courts.

Other legal experts complained that Quayle has exploited growing resentment of lawyers and court costs without understanding the realities of the legal system. "What Quayle is doing is mouthing the platitudes of a conservative group of business interests that he believes reflect the best interest of the Republican Party," argued Andrew F. Popper, deputy dean of the American University's Washington College of Law. "His rhetoric is shopworn, old school, anti-consumer nonsense."

Nor is it likely to produce a winner. Like other efforts to reform the legal system, the Quayle proposals face tremendous oppositions from a powerful alliance of consumer groups and trial lawyers. No legislation to change product liability or medical malpractice laws has ever moved far in Congress. Even an effort to put railroad employees under a state workers' compensation system covering all other employees instead of the tort system has never advanced in Congress.

#### COMPETITIVENESS ISSUE?

Corporate laments about the legal system and the litigation explosion are nothing new. Many of today's outrageous anecdotes sound familiar to people acquainted with the liability crisis of the mid-1980s. Then, the issue was the unavailability of insurance that forced the closing of city swimming pools and the locking of the doors of neighborhood gyms. Efforts to deal with those problems came to naught when insurance companies refused to promise that rates would drop if various liability reforms were adopted.

Now the buzzword is competitiveness. Almost half of all U.S. manufacturers have withdrawn products from world markets, according to recent survey by the Conference Board, a business-supported group. A quarter of U.S. companies have discontinued some forms of product research. Approximately 15 per cent of companies have dismissed workers because of stringent product liability laws, the Conference Board added.



1991 National Journal Inc., National Journal, November 23, 1991

In some industries, the United States is no longer a world leader, the pro-business argument goes. Twenty years ago, 13 U.S.-based pharmaceutical companies conducted research on contraception and fertility. Now there is only one, according to a 1988 American Medicaid Association report.

Meanwhile, the U.S. legal industry has flourished, with the number of lawyers up 382 per cent between 1977 and 1989, according to the Commerce Department. The United States has 20 times the number of lawyers as Japan per 100,000 population, reported Great Britain's Cambridge Law Journal.

Although critics dispute their contentions, officials in the light aircraft industry say that product liability costs destroyed U.S. manufacturers. "We have not built a single-engine airplane for five years, and that is the reason," Jerry J. Pullen, corporate director-Washington for Cessna Aircraft Co., said. In the four years of the Carter Administration, the industry built 34,000 airplanes, he said. During the eight years of the Reagan Administration, the number was 10,000. Employment nosedived from 22,800 workers to 6,000 workers, Pullen said.

Virtually all of the recent lawsuits involving the aircraft industry have claimed that faulty design or manufacturing defects caused a crash that resulted in an injury or a fatality. But a Beech Aircraft Corp. study of 203 accidents involving its products from 1983-86 that were investigated by the federal government -- and in which the cause of the crash could be determined -- concluded that defects caused none of the crashes. Pilot error alone was responsible for 70 per cent of the crashes, the study ordered by Congress asserted. The average cost to the aircraft company to fight each lawsuit was \$ 530,000, the study said.

Neither the aircraft industry's laments nor the competitiveness arguments hold water, according to some legal experts. According to the American University's Popper, the U.S. aircraft industry made dangerous airplanes. Moreover, during a recession, American manufacturers are not going to sell many expensive aircraft, especially in the face of the cheaper labor costs foreign competitors enjoy.

The scare stories, the competitiveness arguments and the growing dislike of lawyers have encouraged a spate of old and new proposals in Congress. In the face of rising medical costs, there is a renewed effort to change the medical malpractice laws.

The Quayle package, which emerged from the White House Council on Competitiveness, which he heads, is perhaps the most ambitious so far. Bush, in late October, announced that federal lawyers would unilaterally adopt at least some of these provisions by including the payment of legal fees in some cases when the Justice Department or other federal agencies lose a case.

Quayle's proposal has met with a great deal of resistance. At a press conference after the Vice President addressed the Litigation Section here, ABA president Talbot D'Alemberte questioned Quayle's entire approach. "It would not be my starting point if you are going to use the word justice and couple it with the word reform," D'Alemberte said.

Even those experts who could be considered friendlier to the proposal questioned whether it can be turned into legislation. "They must know if they

**LEXIS® NEXIS® LEXIS® NEXIS®**



1991 National Journal Inc., National Journal, November 23, 1991

live in the real world that a lot of these provisions won't get adopted," Robert E. Litan of the Brookings Institution and the editor of *The Liability Maze* (Brookings, 1991) said. According to Litan, Quayle's proposals may be more about scoring political points than winning legislative victories.

On Capitol Hill, a long-standing effort to produce a uniform federal product liability statute seems to be gaining some momentum. But its prospects for enactment any time in the near future appear unlikely, at best. Despite rosy predictions from the business community about the prospects for product liability reform, Pamela Gilbert, the legislative director of Congress Watch, a pro-consumer group, flatly predicted that legislation won't pass Congress this session. "I think they have lost momentum over the last year, not gained it," she said.

Opposition from consumer organizations is a key reason why product liability reform may again be stuck in congressional quicksand. Although the Senate Commerce, Science and Transportation Committee has approved a bill, it is unlikely to reach the Senate floor until next year. Opponents include Judiciary Committee chairman Joseph R. Biden Jr., D-Del., and Majority Leader George J. Mitchell, D-Maine. On the House side, Judiciary Committee chairman Jack Brooks, D-Texas, remains a formidable foe.

#### FIGHTING THE LAWYERS

But the real obstacle is not just Capitol Hill barons such as Biden, Brooks and Mitchell; it's the Association of Trial Lawyers of America (ATLA). Their alliance to raise campaign money -- mostly for Democrats -- has made the trial attorneys a powerful force for years. (See NJ, 12/8/90, p. 2962.)

At least one Senate Republican who has advocated various changes in the tort liability system, Mitch McConnell of Kentucky, has a more limited goal at the moment. Frustrated with ATLA's success in thwarting any legislation, McConnell has devised a tactic to divide the trial lawyers and the consumer groups. During the recent debate on the 1991 Civil Rights Act, McConnell, himself a lawyer, offered an amendment that would have capped the amount lawyers could collect from their clients at 20 per cent of the judgment awarded. Currently, it's standard practice for lawyers to collect a third of the damages awarded, but often, higher percentages are charged.

"If the consumer groups are so interested in the victim, then why aren't they interested in capping fees?" McConnell said in an interview. "The plaintiffs' lawyers are interested in victims only insofar as that gives them a lawsuit. They are not interested in victims when it comes to distributing the proceeds from the lawsuit."

McConnell's amendment was handily defeated on the Senate floor. Consumer advocates contend that any limits on legal fees should inflict equal pain on defense lawyers as well as plaintiffs' lawyers. But McConnell intends to return with this proposal.

"It would be important to show that the trial lawyers can lose," said McConnell, who was strongly supported in his reelection bid by business and doctors and opposed by Kentucky's trial lawyers. "It would give people some stomach. Any time any aspect of tort law reform comes up, people are hiding under their desk."

**LEXIS® NEXIS® LEXIS® NEXIS®**



1991 National Journal Inc., National Journal, November 23, 1991

McConnell has no illusions about his chances. "The perception is that AIPAC [American Israel Public Affairs Committee] is the strongest lobby in town. Wrong. The strongest lobby in Washington by far is ATLA," he said.

Just ask the railroad industry. For years, the industry has wanted to overturn the Federal Employers' Liability Act (FELA), a 1908 statute that gives railroad workers the right to sue when injured. It was enacted before most states passed workers' compensation statutes. In Congress, legislation has been introduced sporadically to repeal FELA, but only one hearing has ever been held on the issue. (See NJ, 11/25/89, p. 2895.)

Railroad executives have long squabbled with the unions over the issue, calling FELA an anachronism in an era of workers' compensation plans that cover employees in virtually every other industry. Railroad workers, by contrast, are free to file multimillion-dollar damage claims that, if won, can be far more lucrative than compensation plan awards. If workers lose, however, they get nothing.

Figures provided by the railroad industry indicate that FELA has been expensive for its member companies. Despite a drop in employees and fewer injuries, claims have increased and damage awards have skyrocketed. In 1981, according to the Association of American Railroads, railroads had 459,711 employees who reported 47,838 injuries. Payouts to workers totalled \$ 398.5 million. In 1990, the number of workers had dropped by almost half, to 254,661. Injuries fell to 20,970. But payouts more than doubled, to \$ 877.4 million.

The FELA battle has been a classic business-labor confrontation. But the railroads' position has received intellectual support from a surprising quarter, the Council for Court Excellence, a federally supported organization involved in civil justice issues. In a report released in September, the council called for FELA's repeal, concluding that the existing system is "irrational." The FELA compensation system is too expensive and contributes to the logjam in the federal courts, the report said.

The council reported that FELA cases account for 5-8 per cent of all civil trials in federal court. FELA lawyers were also criticized. Litigation costs accounted for 43 per cent of the compensation received by victims, the study said. It concluded that "the highest transaction cost in FELA cases is the expense of attorneys' fees."

Samuel F. Harahan, the council's executive director, asserted in an interview that "the forces that benefit from this system are keeping this anachronism alive."

#### THE QUAYLE PLAN

The Bush Administration's 50-point plan sends much the same message about the costs and processes of the American legal system. The Vice President's message boosting the plan is a relatively simple one: too much discovery, too much litigating and, by extension, too many lawyers.

The public might like the sound of Quayle's proposal. But all of its key provisions have been attacked. The proposed cap on punitive damages, for example, is not even supported by friendly Republicans such as McConnell, who said that the seriously injured deserved huge monetary judgments in some

**LEXIS® NEXIS® LEXIS® NEXIS®**



1991 National Journal Inc., National Journal, November 23, 1991

instances.

"Any study of punitive damages will demonstrate that the actual amount of dollars spent is so small that it can not be said to have an impact on any single industry, much less our national competitiveness posture," the American University's Popper said.

According to several recent studies, the actual number of huge punitive damage awards, of the sort listed as horrors by tort reform advocates, is actually quite small. Punitive damages were awarded in 9 per cent of the product liability cases won by plaintiffs from 1985-88, according to a comprehensive study by Stephen Daniels and Joanne Martin of the American Bar Foundation in a Minnesota Law Review article published last year.

The case studies also demonstrate that punitive damages are typically awarded only in the most egregious cases of deliberate corporate wrongdoing, contended Linda A. Lipsen, legislative counsel for Consumers Union of United States Inc. "We're talking about cases where there is a smoking gun in the company's file," she said.

#### SHOULD LOSERS PAY?

Quayle's idea that the loser should pay litigation costs also has numerous detractors. The so-called English rule, which Quayle calls the fairness rule, is used virtually everywhere except in the United States. Its goal is to eliminate nuisance suits and reduce the over-all amount of litigation. Supporters of the Quayle proposal, such as McConnell, say the rule would curb litigiousness by making those with grievances think twice about seeking redress in court.

But critics believe the loser-pays rule would discourage the average citizen from filing even a justifiable case, because an adverse verdict could result in huge legal fees. "It is a total nonstarter," the Brookings Institution's Litan predicted.

The Consumers Union's Lipsen added that "it creates a court system for the aristocracy."

Quayle is aware that this provision has been called unfair. In his Chicago speech, the Vice President added to his prepared text new language emphasizing that the proposal would not deny anyone access to the courts.

In an interview, Quayle said that a similar proposal enacted on a trial basis in Florida showed that the provision actually encouraged suits by those seeking smaller amounts of money because they were confident that the cost of the litigation would be paid by their opponent. The Florida plan, Quayle added, "had the opposite effect. It opened up access, it opened up doors and it allowed grievances to be aired in court."

The Bush Administration is so enamored of the fee-shifting proposal that the President issued an executive order on Oct. 23 mandating that the government experiment with the loser-pays provision in its civil lawsuits. Victor E. Schwartz, a leader in the tort reform effort and a partner in the Washington law firm of Crowell & Moring, saluted the federal government for first applying the change to itself.

**LEXIS® NEXIS® LEXIS® NEXIS®**



1991 National Journal Inc., National Journal, November 23, 1991

But consumer advocates argue that the executive order could backfire if the Justice Department finds itself paying huge legal fees to Wall Street lawyers who win cases for savings and loan industry clients or alleged environmental polluters like Exxon Corp. Fear of losing a high-profile case could have chilling effect on government lawyers, Congress Watch's Gilbert said. "Either the government is going to [have to risk] paying millions of dollars in attorneys' fees, or the government is not going to bring good cases," Gilbert added. "Nobody has thought through the ramifications of this proposal."

Some legal experts think the best way to try the fee-shifting proposal is in corporate legal fights. Disputes between businesses are a major contributor to the federal court backlog, they point out.

The fee-shifting arrangement would also be fairer in corporate legal battles, the experts argue, because such contests are usually between two roughly equal parties on a level playing field.

"The litigation explosion exists in one main area: where businesses are suing each other," Lipsen said. "Why aren't businessmen saying . . . 'We can't control ourselves?'"

Despite their criticisms of the Administrations' proposals and their track record on Capitol Hill in rebuffing changes in the tort system, defenders of the status quo conceded that Quayle's anti-lawyer attack has given some oomph to the cause of tort reform. "We're very concerned that an effort like this could have and impact," Lipsen said. "They gin up people's distrust of lawyers and the process."

Of course, none of this is really new. In his Commentaries on the Laws of England written more than 200 years ago, the British jurist Sir William Blackstone called lawyers the "pests of civil society, perpetually endeavoring to disturb the repose of their neighbors and officiously interfering in other men's quarrels."

But those types of attacks have, over the years, had little impact. According to the Newtown ( Pa. )-based Law School Admissions Service, 94,200 people applied to law school this year, for the fourth year in a row a record number.

GRAPHIC: Picture 1, Manhattan Institute fellow Walter K. Olson, a leading critic of the law profession The legal system "torments the . . . innocent and rewards the palpably irresponsible." Richard A. Bloom; Picture 2, American University deputy law dean Andrew F. Popper He says that Quayle's tort reform "rhetoric is shopworn, old school, anti-consumer nonsense." John Eisele; Picture 3, Republican Sen. Mitch McConnell of Kentucky He wants to show that the trial lawyers can be beaten. John Eisele; Picture 4, Consumers Union's legislative counsel Linda A. Lipsen Businesses suing businesses caused the litigation explosion. Richard A. Bloom

To: Andy Ferguson  
 FR: Bob Bink                      x6120

TESTIMONY OF  
 AMBASSADOR CARLA A. HILLS  
 UNITED STATES TRADE REPRESENTATIVE  
 BEFORE THE  
 COMMITTEE ON FINANCE  
 UNITED STATES SENATE  
 JANUARY 23, 1992  
 [As Prepared for Delivery]

FAX: X 6218

Introduction

Mr. Chairman and members of the Committee, it is a pleasure to appear before you to review the current state of U.S.-Japan trade relations.

I would like to talk about:

- o The Administration's trade policy with respect to Japan and the achievements of that trade policy to date;
- o The accomplishments of the President's recent trip to Japan in the context of our broader trade objectives with Japan; and
- o The future directions for our trade negotiations with the Government of Japan.

U.S.-Japan Trade Policy

The central objective of President Bush's trade policy has been to open markets, creating new export opportunities abroad and stimulating growth, jobs, and prosperity at home.

Since President Bush took office 36 months ago, a top goal of that policy has been to expand access to the world's second largest market economy: Japan. We seek to create an open and competitive climate in Japan where the decision to buy or sell is based on quality, price, and service, not on "keiretsu," collusion, or protective industrial policies.

If we are to have harmony between our two great nations, our entrepreneurs must be permitted to trade and invest in Japan as freely as Japanese entrepreneurs are able to trade and invest here in the United States. This was the message that the President delivered forcefully to Prime Minister Kaifu in their Palm Springs meeting and to Prime Minister Miyazawa in Tokyo earlier this month.

To create this parity of opportunity with Japan, the Administration has steadfastly pursued a comprehensive three-part plan of action, which includes:

- o Eliminating barriers in specific sectors using all the leverage at our disposal, including our trade laws;
- o Lowering economy-wide barriers through our Structural Impediments Initiative, or our SII talks; and

Our NAFTA-  
 \$6 trillion  
 looking in  
 gains of  
 Canada  
 & multiply  
 up the in  
 We also  
 concentrated  
 in our recent  
 largest  
 ✓

- o Working hard in the Uruguay Round to negotiate strong and enforceable multilateral rules, lower tariffs, and increased access for U.S. goods and services.

### U.S.-Japan Trade Trends

Our policy is paying off. The results are showing up on the profit statements and payrolls of America's competitive companies.

During the Bush Administration, U.S. exports to Japan have grown 10 times faster than U.S. imports from Japan. Exports to Japan have risen by 30 percent in the last three years, while U.S. imports from Japan have increased by just 3 percent. As a result, our trade deficit with Japan has declined by 18 percent since 1988.

*Our prices here too has been improved*

Japan is currently our largest single buyer of agricultural products. Last year its purchases exceeded \$8 billion.

In the critical manufacturing sector, U.S. exports to Japan have been doing particularly well, growing 50 percent faster than overall U.S. exports to Japan. Over the past three years, U.S. exports of manufactured products to Japan have risen by 45 percent and exceed 30 billion. This compares to a 34 percent increase in U.S. manufactured exports to the world.

In 1990, American exports to Japan, which is our second largest export market after Canada, were greater than our exports to Germany, France and Italy combined. In fact, our exports to Japan are about 25 percent greater on a per capita basis than our exports to all of Europe.

This remarkable expansion of exports to Japan in a relatively short period of time has created an additional 200,000 export-related jobs. Globally, our exports have also done well; since 1988, export expansion overall has created 1.8 million U.S. export-related jobs. Without our strong export growth, the current downturn would be twice as deep.

We are encouraged by the fact our exports to Japan are growing. But there is still much work to be done. Japan's imports of manufactured goods are still roughly 4 percent of its GDP, whereas in the United States it is 7 percent, and in many European countries it is even higher.

The issue still remains: we must have better access to the Japanese market for U.S. exports of all kinds.

### The President's Mission to Japan

It was in this context that the President embarked upon his mission to Japan earlier this month. It was a bold initiative in the Administration's continuing effort to address the disparity in access between our markets.

The President accomplished much during his visit, achieving increased access in:

- o The \$9 billion public sector market for computer hardware and services. The U.S. computer industry projects the value of this market-opening agreement at between \$3.5 billion and \$5.5 billion annually by 1995.
- o The \$65 billion paper market in Japan.
- o The \$4 billion glass market, which our entrepreneurs describe as a highly concentrated and anticompetitive market.
- o And, the new car market, which has been encumbered with standards and certification impediments, restrictions on the creation of dual dealerships, and excessive distribution and dealer markups.

The President was also able to:

- o Obtain a pledge that Japanese car makers will increase the purchase of U.S.-made auto parts from \$9 billion to \$19 billion by 1994;
- o Reach an agreement with the Japanese government on 49 standards and certification issues that have curtailed our exports of cosmetics, processed foods, pharmaceuticals, chemicals and industrial machinery -- markets in Japan collectively valued at more than \$23 billion annually; and
- o Reach agreement with the Japanese Government to reinvigorate the Structural Impediments Initiative by undertaking new commitments.

No single visit to, and no single agreement with, Japan is alone going to open the Japanese market as much as we seek. But, as noted by a number of companies and trade associations, the President's recent initiative was a real success, because as the President said upon his return at Andrews Air Force Base: "We accelerated the opening of more Japanese markets to our exports."

Because of the President's effort in Tokyo, American firms and American workers today can expect billions of dollars of increased exports to Japan. And, as we know, for each \$1 billion in additional exports, roughly 20,000 new jobs are created.

Still, some urge us to enter market-share agreements with Japan or to limit its sales here. But such actions seek to manage our trade or impose protections which will only decrease our export opportunities and, hence, our jobs.

Neither will solve our difficulties. Managed trade merely sets ceilings on what U.S. companies can achieve, not floors from which they can grow. And, it invites similar action against us from our partners with whom we maintain a trade surplus.

As for protectionism, it is, as Milton Friedman has said, "A really good label for a bad cause." Protectionism only hurts those it is supposed to help. It stifles innovation by insulating producers from the competitive global marketplace, at the same time it taxes consumers, disproportionately lower income consumers, by raising prices and reducing choices.

#### President's Mission Part of Continuing Effort

The only sure way to open Japan's markets is with steady, persistent pressure -- the precise strategy the President has employed for three years. The President's mission was another step in that ongoing effort.

We sometimes forget how much concrete progress has been made. Some of the agreements since the President took office include:

- o Under a June 1990 agreement, Japan opened its government procurement of satellites resulting in a \$600 million contract for a U.S. firm.
- o Japanese government purchases of supercomputers were opened to U.S. firms as the result of a June 1990 agreement guaranteeing fair competition based on price and performance. U.S. makers have won three out of eight new contracts since the agreement compared to two out of 43 in the previous four years.
- o In June 1990, the United States reached an agreement that opened Japan's market for wood products. It is expected to result in increased U.S. exports to Japan of \$1 billion or more annually.
- o Access to the Japanese telecommunications market was expanded under a 1989 cellular telephone agreement, two 1990 services and equipment agreements, and a 1991 services agreement. Since 1988, U.S. telecommunications exports to Japan have increased 180 percent to about \$735 million in 1991.
- o The United States and Japan implemented a new semiconductor arrangement in August 1991; U.S. semiconductor sales in Japan now total nearly \$2.4 billion annually compared with just \$920 million in 1986.
- o The 1991 Major Projects Arrangement on Construction contains a list of 17 major construction projects valued at \$6.4 billion to be covered by special measures that facilitate

foreign access, with the potential addition of six more worth \$20 billion to be added in 1992. Since 1988, U.S. firms have won \$375 million in contracts, versus almost none previously.

- o And, through the SII process, Japan has made specific commitments to increase investments in public sector infrastructure, more vigorously enforce its antimonopoly laws, liberalize the retail sector, and increase shareholder rights, among others. All of these changes in Japan are making it easier for U.S. firms to operate and sell in Japan. For example, the SII process resulted in the end of onerous Japanese restrictions on the establishment of large retail stores, and enabled Toys R Us to open last December to record sales.

#### The Future of U.S.-Japan Trade Relations

I have focused the majority of my testimony on our bilateral relationship with Japan. But another important avenue for increasing access to the Japanese market is to bring the Uruguay Round of global trade talks to a successful conclusion. Our bilateral agenda with Japan should be facilitated by agreements concluded in the Round covering the broad range of U.S. interests - agriculture, market access, services, investment, intellectual property and strengthening of the rules, including those related to unfair trade practices.

President Bush used the opportunity of his visit to Japan to engage Prime Minister Miyazawa on developments in the Uruguay Round, and the need for Japan to exercise its leadership in concluding these important negotiations. This is clearly reflected in the Tokyo Declaration that resulted from the trip, as is the fact that we have much work ahead of us to complete the Round.

#### Conclusion

The importance of the Round to our bilateral relationship underscores the fact that the U.S.-Japan relationship has profound implications for global prosperity in this decade and the 21st century. We are at a pivotal moment in history that requires that the United States and Japan go beyond interdependence and achieve real partnership.

The permanence of the amazing political and economic reform we are witnessing around the world depends in significant part on cooperative action by the United States and Japan. As the world's two biggest economies, we play a critical role by keeping our markets open.

We must find ways to dispel antagonism on both sides of the Pacific and to work constructively to build a truly free and open global trading system. A true economic and political partnership between the United States and Japan, each with open markets, can be a unifying force for the world and an engine of growth for our

global economy, as well as our own.

###

Milton - 17<sup>th</sup> or 16<sup>th</sup> century

1608-1674

~~see~~

~~Gene Scalia~~

~~memo re: speech~~

\$800<sup>00</sup> to sticker

GM: Jim Johnston

775-5090

(Scott Collins)

put in  
Rolodex

or,  
M. Ball

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release

January 22, 1992

FACT SHEET

U.S. JAPAN COMPUTER AGREEMENT

Today, United States Trade Representative Carla A. Hills and Japanese Ambassador to the United States Ryohei Murata exchanged letters committing the Japanese government to base its procurements on the principles of non-discrimination, transparency of computer products and services, and fair and open competition. This should create significant new sales opportunities for U.S. manufacturers of mainframe and smaller computers and workstations, U.S. software producers, and U.S. service providers and system integrators.

Ambassador Murata's letter conveyed a set of detailed Measures Related to Japanese Public Sector Procurements of Computer Products and Services for government and quasi-governmental entities to follow when procuring computer products and services. The "Measures" explicitly state that they have the "aim of expanding procurements of competitive foreign computer products and services" by Japanese public sector entities.

Major provisions of the Measures include:

- Assurances by the Government of Japan that foreign and domestic suppliers will be accorded equal access to pre-bid information.
- Coverage of both computer products (effective April 1, 1992) and services (effective October 1, 1992 for governmental entities covered by the GATT Agreement on Government Procurement; effective April 1, 1993 for other covered entities.)
- Commitment to formulate technical specifications in a neutral, non-discriminatory manner and to ensure that foreign computer manufacturers are provided with equal opportunities to participate in the specification-formulating study groups.
- Commitment that procurement entities will reduce their use of single tendering (sole sourcing).

- Improved transparency of the factors to be used in evaluating competing bids and to award contracts based on both price and performance.
- Establishment of an impartial bid protest system to provide equitable, timely, transparent, and effective bid challenge procedures.
- Establishment of mechanisms to facilitate procedures for the enforcement of the Antimonopoly Act in the public sector.
- Commitment to promote a multi-vendor open systems environment.

The Government of Japan also confirmed that it would take actions to eliminate or prevent anticompetitive behavior relating to the distribution of computer goods and services in the private sector.

The United States and Japan agreed to hold periodic consultations to assess progress in implementing the Measures based on relevant information as defined in the exchange of letters.

#### Key Statistics

- o The Japanese public sector market for computer products and services is estimated to have been \$9 billion in 1990.
  - Computer products, including computer hardware, peripherals, and packaged software, account for two-thirds of that total, or \$6 billion.
  - The Japanese public sector market for computer services, including systems integration and software development, is estimated to have been valued at \$3 billion in 1990.
- o The government sector computer market represents about 15% of the total computer market in Japan. The overall (public and private sector) Japanese market for computer products and services is estimated to have been \$60 billion in 1990.
- o The Japanese market for computer products and services is projected to grow 11.7 percent annually from 1990-1995.
  - The Japanese government market for computer products and services is projected to reach \$15.8 billion in 1995.
  - The combined private and public sector Japanese market for computer products and services is projected to grow to \$105 billion in 1995.

- o Foreign computer companies currently have only a six-percent share of the Japanese public sector mainframe computer market, considerably below the 41-percent share they hold of the private sector market for mainframe computers in Japan.
- o At the national government level, foreign computer companies have only 0.4% of the Japanese government market for mainframe computers.
- o Data on the foreign share of the total market for computer products and services are not available. Data on the U.S. share of the Japanese market are also unavailable.
- o Private sector analysts estimate that the incremental increase in foreign computer products and services sold to the Japanese government should increase by \$3.5 -5.5 billion by 1995.

Source: The Computer Systems Policy Project

Statement by  
President Bush and Prime Minister Miyazawa  
on A Strategy for World Growth

President Bush and Prime Minister Miyazawa today announced A Strategy for World Growth designed to strengthen the world economy.

The President and Prime Minister expressed concern that growth of the world economy in 1991 slowed to the lowest level in nearly a decade. They recognized that the outlook for growth of the world economy this year is weaker than previously expected. This situation could adversely affect the prospects for income and jobs, undermine the efforts of newly emerging democracies and the developing countries to implement sound market-oriented economic reforms, and raises the spectre of renewed protectionism.

The United States and Japan are the two largest countries in the world economy, together accounting for nearly 40 percent of total global production and more than 20 percent of world trade. The President and Prime Minister, aware of a special responsibility placed on their countries by their position, recognize that each country needs to pursue responsible economic policies that strengthen the international economy and global trading system. They have decided to undertake domestic policies to improve growth prospects, as a part of a cooperative effort which contributes to the attainment of sustainable growth with price stability and the promotion of global economic recovery.

Prime Minister Miyazawa, with these considerations in mind, stated that the Government of Japan will submit to the Diet the fiscal 1992 budget and the Fiscal Investment and Loan Program aimed at strengthening domestic demand by increased public investment through the central government and local governments, and contributing to the world through its official development assistance (ODA) and other measures, despite tight fiscal conditions. Prime Minister Miyazawa stated that the Government of Japan will monitor the progress of the above measures so as to assure that the expected effects are realized. The recent decision by the Bank of Japan to reduce interest rates is also intended to maintain sustainable growth with price stability.

Toward the same end, President Bush also stated that he would be submitting to the Congress a comprehensive program to strengthen U.S. growth and competitiveness. The details of the program will be contained in the President's State of the Union message and his budget proposals for fiscal 1993 to be announced later this month. The President noted that the recent reduction in interest rates reflected the determination by the Federal Reserve to facilitate U.S. economic recovery and growth. The President also reaffirmed his commitment to achieve a substantial reduction of the U.S. budget deficit over the medium term.

The President and Prime Minister reviewed developments in financial markets and agreed that recent exchange rate movements were consistent with current economic developments. They expressed confidence that the above measures and developments will contribute to correction of external imbalances.

President Bush and Prime Minister Miyazawa expressed their continued support for ongoing economic policy coordination among G-7 countries as essential for achieving their common objectives as expressed in this statement. They stressed the importance of continued cooperative efforts and called on other industrial countries to join with them.

*Not given out at press conf.*

16:3  
16:30

**THE TOKYO DECLARATION**  
**ON THE U.S.-JAPAN GLOBAL PARTNERSHIP**

The President of the United States of America and the Prime Minister of Japan declare:

**PREAMBLE**

From tragic conflict fifty years ago, Japan and the United States have developed a highly productive and mutually beneficial relationship of close political, security, economic, scientific, and cultural cooperation. The two countries are now highly interdependent at all levels of their societies. They base their cooperation on shared principles of political and economic freedom, democracy, the rule of law, and respect for human rights.

The two countries recognize that this cooperation made an important contribution to weathering the chill of the Cold War era and in promoting four decades of global stability and prosperity.

The two governments recognize that today, in the post-Cold War era, new political and economic challenges confront the U.S.-Japan relationship. Economic issues have assumed new prominence. To ensure that the U.S. and Japan fully exploit opportunities for cooperation, both countries place the highest priority on taking effective measures to address factors underlying economic friction, with a focus on issues in their trading and investment relations.

Japan and the United States recognize the benefits to their societies of the close cooperation they have enjoyed in the post-war period and are committed to building on this foundation to create an even closer partnership. Both acknowledge that a closer relationship must be constructed on enhanced mutual understanding and shared interests. As the two largest market oriented economies and democracies in the world, Japan and the United States accept a special responsibility for shaping the new era.

The two governments therefore resolve to join in a Global Partnership based on these enduring values to help build a just, peaceful and prosperous world and to meet the challenges of the twenty-first century.

### Cooperation to Promote World Peace and Prosperity

The U.S.-Japan alliance provides the foundation for our Global Partnership. Together, both nations pledge to: work together to maintain world peace and security; promote development of the world economy; support the world-wide trend toward democratization and market-oriented economies; and meet new transnational challenges. To achieve these goals, the two countries will cooperate to strengthen the GATT multilateral trading system; reinvigorate the U.N. organization; advance arms control and the non-proliferation of weapons of mass destruction; assist the developing world to promote growth and stability; and protect and improve the global environment. The United States and Japan recommit their resources and the talents of their peoples to the purposes of the United Nations Charter.

As nations of the Asia-Pacific region, the United States and Japan are committed to promoting prosperity, reducing tensions, and enhancing political cooperation in the region and to take steps to strengthen the bonds of the Asia-Pacific community while respecting its diversity. To this end, Japan and the United States recognize the Asia-Pacific Economic Cooperation (APEC) framework as the forum for enhanced regional efforts to promote open markets, sustain dynamic economic growth, and build political cooperation.

Japan and the United States will also broaden the scope of their cooperation in the rest of the world, including the Middle East, Central and South America, Africa, and Europe, with particular attention to supporting countries that are in transition to democracy and market economies. The two nations will strengthen cooperation in their respective economic assistance programs in the developing world to promote growth and stability, help reduce the developmental gap between industrialized and developing countries, enhance respect for democratic values and human rights, and ameliorate global problems, including environmental degradation, refugees, illicit narcotics, disease, and aging.

### Political and Security Relations

The U.S. and Japan reaffirm their commitments to the 1960 Treaty of Mutual Cooperation and Security which is central to the U.S.-Japan Alliance. This

alliance provides the political foundation on which the two countries cooperate in assuming their respective roles and responsibilities for securing world peace and stability in their Global Partnership. The two governments pledge to maintain and enhance the effective operation and credibility of the Treaty and its related arrangements.

As countries with vital interests in the Asia-Pacific region, Japan and the United States recognize the continuing importance of the defense relationship to the peace and stability of this vast and diverse region. The two governments will work closely with others to reduce tensions and instability in East Asia and build regional political cooperation in the post-Cold War environment.

Aware of the need for continuing vigilance as we enter a new era now marked by instability and uncertainty, the United States will maintain the forward deployed forces necessary to preserve peace and stability in the region. Japan, for its part, will continue to make available to the United States, in accordance with the Security Treaty, the use of facilities and areas in Japan and, under the new Host Nation Support Agreement, will bear an increasing share of the costs of stationing these forces in Japan. Both countries will take steps to increase cooperation between their defense forces and enhance the two-way flow of defense technologies. The two countries agree to utilize fully the renewed Security Consultative Committee mechanism to oversee their security relationship.

### Economic and Trade Relations

Aware of the high degree of interdependence of their economies and mindful of the need to encourage closer cooperation to promote conditions of sustainable real growth with price stability and employment, the two governments are resolved to enhance openness and oppose protectionism in their commercial, financial, and investment markets. To this end, Japan and the United States will strengthen policy initiatives to reduce structural impediments.

Japan and the United States further pledge to make their economies the most open, productive, and competitive in the world, thereby building a sustainable trade and investment relationship. They will encourage private-sector initiatives to strengthen further exchanges and cooperation between

### Science and Technology

Mindful of their positions as world leaders in scientific research and technical development, the two governments undertake to expand scientific and technical cooperation, including basic research, based on reciprocal access, for the benefit of both societies and the human community. They pledge to increase research on global environmental issues and will take a leadership role in fostering an international consensus on measures to meet this challenge.

### Enhancement of Mutual Understanding and Exchanges

Acknowledging that communication and understanding between peoples of both countries are essential to an enduring partnership, the United States and Japan pledge to undertake and support programs which will advance the rich and diverse intellectual, cultural, and public interaction between their two peoples. The two governments will place particular emphasis on language training, intellectual and educational exchanges, and community-level programs designed to increase mutual understanding.

The President and the Prime Minister pledge the full support of their governments to the purposes of this declaration to build the Global Partnership. The two governments will develop new areas of cooperation in support of common geopolitical, economic, and humanitarian objectives in a manner that provides for an equitable sharing of responsibilities and benefits.

For Immediate Release

January 8, 1992

FACT SHEET: A STRATEGY FOR WORLD GROWTH

Concept: The Strategy

The strategy is an important declaration of the respective commitments of Japan and the United States to economic growth. The strategy recognizes that economic growth is the number one issue facing the world economy, and therefore is intended as a cooperative policy response to strengthen world economic growth. The effectiveness of the strategy would be enhanced by expanding it to include other countries, and we have initiated discussions with other G-7 members to obtain their views on how it could be broadened.

Economic Outlook

Growth in the G-7 countries slowed to 1.1% in 1991 from 2.6% in 1990. It is projected to recover to 2.0% in 1992.

Inflation in the G-7 declined to 4.4% last year from 4.8% in 1990. It is projected to fall to 3.7% in 1992.

The Government of Japan officially forecasts Japan's rate of economic growth at 3.5% in FY 1992 (starting April 1). This is based on a 3.6% increase in domestic demand and a 0.1% decline in net foreign demand. Inflation is forecast to decline to 2.3% in FY 1992 from 2.9%.

Major Elements of the Strategy

- o The strategy recognizes the special responsibilities of both Japan and the United States to pursue policies that strengthen the international economy and global trading system.
- o The strategy expresses a joint commitment to economic growth and to undertake cooperative domestic policies to improve growth.
- o The strategy could be broadened to include other countries prepared to support measures to increase growth.
- o The strategy sets forth specific fiscal and monetary measures to support growth.
- o Japan will submit to the Diet a budget to increase domestic demand as a means of achieving 3.5% growth and a decline in the external surplus in FY 1992. The Japanese Government will monitor progress of these measures so as to assure that the expected effects are realized.
- o The Federal Reserve has progressively lowered interest rates over the course of 1991. The recent decline in the Fed's discount rate by a full percentage point reduced that key lending rate to 3.5%, the lowest level in 25 years.
- o On December 30, the Bank of Japan reduced its official discount rate by 0.5% to 4.5%.

[Note: Japanese FY 1992 runs from April 1, 1992 through March 31, 1993. U.S. FY 1993 runs from October 1, 1992 through September 30, 1993.]

THE WHITE HOUSE

**Office of the Press Secretary  
(Tokyo, Japan)****FOR IMMEDIATE RELEASE****January 9, 1992****FACT SHEET: COMPUTER PROCUREMENT**

On January 9, 1992, the U.S. Government and Japanese Government reached an agreement on Japanese public sector computer procurement. The Government of Japan will initiate measures with the goal of expanding Japanese public sector computer procurements of competitive foreign computer products and services. Given the competitiveness of U.S. computer manufacturers, the measures should lead to substantially increased sales in the Japanese public sector market. The agreement also contains significant procedural improvements, including an impartial bid protest system, increased transparency and reduction of single tendering by Japanese Government entities. Further, the Government of Japan will commit to promote a multi-vendor open systems environment.

According to the U.S. computer industry, foreign companies currently have 24.1 percent share of the \$16.1 billion Japanese private sector mainframe market, but only 8 percent of the \$3 billion Japanese public sector mainframe market. (The U.S. industry estimates the overall public sector market for computer hardware, including mainframes, at \$6 billion.)

This agreement also covers government procurement of computer services which is the fastest growing sector of the market.

\* \* \*

**THE WHITE HOUSE****Office of the Press Secretary  
(Tokyo, Japan)****FOR IMMEDIATE RELEASE****January 9, 1992****FACT SHEET: TELECOMMUNICATIONS**

- o U.S. firms are making significant progress in exporting telecommunications products to Japan. In 1990 U.S. exports were \$379.3 million, up from \$323.1 million in 1989 and \$263.3 million in 1988.
- o The U.S. telecommunications products trade deficit with Japan was \$1.3 billion in 1990, \$2.1 billion in 1989. We expect the deficit will show slight decrease when final 1991 figures are available.
- o U.S.-Japan telecommunications relations for the past three years have been largely influenced by Section 1377 of the 1988 Trade Act, which requires an annual review of other countries' compliance with telecommunications trade agreements with the U.S.
- o The 1989 review resulted in an agreement which provides foreign firms increased access to Japan's mobile communications markets. Following the 1990 review, agreements were reached improving foreign access to Japan's international value-added network (IVAN) and digital equipment markets. Further agreements on IVANs were reached following 1991 review.
- o The U.S. also conducts an annual review of the Nippon Telegraph and Telephone (NTT) Agreement, which commits NTT (Japan's major domestic telecommunications carrier) to follow competitive procurement procedures. NTT procurement from U.S. firms has risen steadily since the agreement went into effect in 1981, reaching \$31 million in 1990. But foreign firms account for only about 4-5 percent of total NTT purchases.
- o NTT recently announced a decision to purchase two U.S. communications satellites (valued at about \$600 million) which will be delivered in 1995. The procurement was conducted under the terms of the 1990 U.S.-Japan Satellite Agreement.
- o Japan is setting up nationwide digital cellular telephone service, expected to begin in 1994. The Ministry of Posts and Telecommunications is overseeing the process and has approved two new consortia to provide this service in addition to existing service providers. U.S. firms are members of both consortia.

THE WHITE HOUSE  
Office of the Press Secretary  
(Tokyo, Japan)

---

FOR IMMEDIATE RELEASE

January 9, 1992

FACT SHEET: PAPER

Recent Developments.

- By the end of March 1992, the U.S. and Japanese Governments will agree on measures to substantially increase market access for foreign firms exporting paper products to Japan.
- Further, the Japan Fair Trade Commission (JFTC) has decided to initiate a survey on conditions in the paper sector from the competition policy prospective, before the end of March 1992.
- And, under MITI's Business Initiative for Global Partnership, the National Paper Merchants Association of Japan announced, on January 6, a voluntary plan in which 37 paper distribution companies indicated their desire to develop business relations with foreign paper producers.

Background

- Japan is the second largest producer of paper and paperboard after the United States. U.S. producers are globally competitive.
- Despite this, U.S. penetration in the Japanese Market for all paper and paperboard products is only 2.2% of total consumption, and penetration from all foreign producers is only 3.7%.
- In the U.S. market, despite raw materials and highly competitive domestic manufacturers, import penetration for paper and paperboard is nearly 15% of the U.S. markets.

# # #

THE WHITE HOUSE  
Office of the Press Secretary  
(Tokyo, Japan)

FOR IMMEDIATE RELEASE

January 9, 1992

FACT SHEET: GLASS

Recent Developments:

The Government of Japan will take steps to substantially increase market access for competitive foreign firms making efforts to export flat glass to Japan, including the following:

--MITI will facilitate the efforts of foreign firms to increase sales in the Japanese market;

--MITI will encourage Japanese companies to increase imports of flat glass;

--MITI and the Japan Fair Trade Commission (JFTC) will encourage all Japanese glass manufacturers to put anti-monopoly compliance programs into effect by February 1992. One purpose of these programs is to ensure that the distribution system is open to competitive foreign glass manufacturers.

--The JFTC will survey conditions in the glass market from a competition policy perspective. That survey will start before the end of March 1992;

--The Construction Ministry will facilitate efforts of foreign firms to meet Japanese building codes;

--and the Government of Japan and the U.S. Government have agreed to meet in the future to exchange information on glass issues.

Background:

- o The Japanese market for flat glass is approximately USD 4 billion per year.
- o The construction market accounts for approximately 60% of flat glass consumption and automobiles 30%.
- o Japan's domestic glass industry is highly concentrated.
- o Japan's imports of U.S. flat glass have increased 5.7 times from USD 6.1 million in 1985 to USD 34.7 million in 1990.

Office of the Press Secretary  
(Tokyo, Japan)

FOR IMMEDIATE RELEASE

January 9, 1992

FACT SHEET: STANDARDS, CERTIFICATION AND TESTING

In addition to the automotive standards issues, the Government of Japan has resolved or has established a process to resolve 49 standards, certification, testing and import procedures issues raised by American companies. These steps will improve market access for U.S. exporters of industrial machinery, chemicals, transportation equipment, processed food, cosmetics and pharmaceuticals among others. The Government of Japan has also promised to actively address market access issues raised by foreign businesses through the Office of the Trade and Investment (OTO) Ombudsman.

Examples of the resolved complaints are:

- 1) -- Amend the Measurement Law to eliminate the requirement that each imported measuring instrument be tested.
- 2) -- Accept foreign factory test data in lieu of certain tests on imported pharmaceuticals.
- 3) -- Adopt performance standards for boat engines.
- 4) -- Accept foreign test data on aerosol can safety.
- 5) -- streamline and make transparent import procedures for imported storage batteries.
- 6) -- extension of the operating hours of the food and plant inspection office at Narita airport.
- 7) -- Reduction of required paperwork to obtain approval for new suppliers of cosmetics ingredients.
- 8) -- Make standards for slot machines transparent.

In twelve cases, the Government of Japan has agreed to a process for handling the U.S. concerns. Examples include:

- 1) The Japan Badminton association will meet in January to discuss reduction of processing time for quality marks on badminton equipment.
- 2) An experts committee is reviewing meat pasteurization standards and will issue recommendations within the calendar year.
- 3) The Government will review implementation of the High Pressure Gas Law by October 1992, with a view toward streamlining and increasing transparency.

THE WHITE HOUSE

Office of the Press Secretary  
(Tokyo, Japan)

FOR IMMEDIATE RELEASE

January 9, 1992

FACT SHEET: MAJOR PROJECTS AGREEMENT

- o On June 1, 1991, the U.S. and Japan concluded the Two Year Review of the 1988 Major Projects Arrangements, after nine meetings. As a result of the review, a formal exchange of letters constituting a new agreement was signed on July 31, 1991.
- o The new agreement provides procedural improvements including a simplified ranking system, new procedures for design/build procurements, and a comprehensive complaints mechanism featuring an independent procurement review board.
- o The agreement expands coverage to 23 new projects, bringing the total number of projects covered to 40. Seventeen of the 23 new projects, worth an estimated \$6.4 billion, have been approved for construction. An additional six projects, worth an estimated \$20.3 billion, are in the planning stage.
- o The new agreement will be reviewed after one year to expand the scope of coverage and adjust the procedures as necessary.
- o The total value of contract awarded to U.S. firms under the MPA since 1988 is approximately \$375 million. A precise figure cannot be determined because the U.S. share of certain contracts has not been disclosed.

# # #

GLOBAL PARTNERSHIP PLAN OF ACTION (Part II)  
(Economic and Trade Relations)

- I. Successful Conclusion of the Uruguay Round
- II. Reinvigorating SII
- III. Enhancement of Business Cooperation, Trade and Investment
  
- IV. Computer Procurement
- V. Paper Products
- VI. Flat Glass
- VII. Semiconductor
  
- VIII. Standards and Certification
- IX. Government Procurement
- X. Financial Market
- XI. Legal Services
- XII. Policy Dialogue
  
- XIII. Auto and Auto Parts (Separate Document)

As stipulated in the Tokyo Declaration issued on the occasion of discussions between Prime Minister Miyazawa and President Bush in Japan in January 1992, the Government of Japan and the Government of the United States of America, based upon the recognition that it is essential to identify and solve economic and trade issues for a smooth and sound management of Japan-U.S. economic relations, which are vital not only for the two countries but for the world economy as a whole, are resolved to take a wide range of necessary actions concerning major economic and trade issues between the two countries, as listed below.

I. Successful Conclusion of the Uruguay Round

The two Governments undertake individual and joint decisions necessary for the conclusion of a successful, broad-based Uruguay Round. Both the United States and Japan believe that Director-General Dunkel's proposed text is an important step that helps establish momentum to bring the Uruguay Round to a successful conclusion. Of course, the Dunkel proposal is not a final text. Both Governments are still continuing to analyze and assess the document. The further important step is to negotiate improved market access for goods and services.

II. Reinvigorating SII

The two Governments intend to reinvigorate the SII through strengthening policy initiatives including new commitments to address the aspects of the business environment of both countries that might impede structural reform including market access, foreign investments and competitiveness, while fulfilling the commitments in the Joint Report of June 1990.

III. Enhancement of Business Cooperation, Trade and Investment

1. The two Governments express their support for the efforts made by Japanese companies through the "Business Initiatives for Global Partnership" and welcome the announcement that 23 Japanese companies in electronics, auto, and machine industries are planning to increase their level of imports from the world by 10 billion dollars in JFY 1993 as compared to JFY 1990.

2. "Business Initiatives for Global Partnership" will promote:
  - imports to Japan,
  - local procurement by Japanese affiliated companies operating abroad, and
  - cooperation between Japanese and foreign firms.
3. The two Governments also welcome that
  - 88 companies and 22 industrial associations, which account for approximately 50% of Japanese trade, have expressed their support, and most of those companies have made voluntary plans to promote imports, local procurement and cooperation, and
  - international corporate cooperation in such areas as production, sales, and joint development of products has been progressing.
4. The Government of Japan will provide, for the convenience of foreign companies, a list of contact points of the companies making voluntary action plans, and will follow up on developments under the voluntary plans.
5. The Government of Japan intends, subject to the completion of the domestic legal procedures as necessary, to take the following supportive measures in the next fiscal year in order to complement the above initiatives by the private sector.
  - a. Measures to promote imports
    - For the purpose of accelerated improvement of import infrastructure, "foreign access zones" will be established to concentrate facilities and operations related to imports within and near international airports and seaports around the country, and to further facilitate the flow of imported goods.
    - The Government of Japan intends to intensify the work of the Japan Import Board.

- In order to support the efforts by private companies to further expand imports under such initiatives as "Business Initiatives for Global Partnership" and to facilitate raising necessary funds for imports, a debt-guarantee system and import-promoting credit line system will be established. (The implementation of the import-promoting credit line is planned for as early as before the end of this fiscal year.)
- b. Measures to promote direct investment into Japan
  - The Government of Japan intends to take tax measures which would alleviate the burden of initial cost of foreign-affiliated companies (extension of the carry-over period for losses from five to seven years and acceleration of depreciation by 20% for five years).
  - A government-financed corporation is to assist in securing man-power and giving training.
  - Low-interest loans for promoting investment into Japan will be expanded.
  - JETRO's service of providing investment-related information will be reinforced.
- 6. The Government of the United States of America encourages American companies to make the best use of these opportunities.
- 7. The two Governments welcome the progress of cooperation between U.S. Eximbank and EID/MITI for the expansion of U.S. exports and the economic development of developing countries, and welcome MITI's expressing its intention to allocate, for further expansion of this program, 5 billion dollars of trade insurance resources in several years, which together with U.S. Eximbank resources, could generate more than 10 billion dollars worth of projects.
- 8. The two Governments welcome and support the initiatives to strengthen and further promote exchanges and cooperation between businesspeople and the business communities of the two countries through

the activities of such institutions as the Japan-U.S. Businessmen's Conference, the Japan-Western U.S. Association, the Japan-Midwest U.S. Association, the Japan-Southeast U.S. Association, the Japan-Southern U.S. Association, and the Japan-Hawaii Economic Council.

9. The two Governments give support to the Business Summer Camp/Intern Project for the purpose of fostering business training on Japan for Americans and encouraging more extensive dialogue between the business communities of the two countries.

#### IV. Computer Procurement

The Government of the United States welcomes the decision of the Government of Japan to initiate the "Measures Related to Japanese Public Sector Procurements of Computer Products and Services" ("Measures"). The Government of Japan initiates the Measures with the aim of expanding Japanese public sector procurements of competitive foreign computer products and services, based on the principles of non-discrimination, transparency, and fair and open competition.

The two Governments expect that the implementation of these Measures, along with continued sales efforts by foreign firms, will contribute to increased Japanese public sector procurements of competitive foreign computer products and services.

#### V. Paper Products

By the end of March 1992, through cooperative and intensive consultations, the Government of Japan and the Government of the United States of America will agree on measures to substantially increase market access for foreign firms exporting paper products to Japan.

Japan Fair Trade Commission (JFTC) has decided to initiate a survey on conditions in the paper sector from the competition policy perspective, before the end of March, 1992.

#### VI. Flat Glass

The Government of Japan will take steps to substantially increase market access for competitive foreign firms making efforts to export flat glass to Japan, including the following:

- The Ministry of International Trade and Industry (MITI) will facilitate the efforts of foreign firms to increase sales in the Japanese market.
- MITI will encourage Japanese companies to make efforts to increase imports of flat glass under its Import Expansion Program.
- MITI and JFTC will encourage all Japanese glass manufacturers to put anti-monopoly compliance programs into effect by February 1992. One purpose of these programs is to ensure that the distribution system is open to competitive foreign glass manufacturers.
- The Government of Japan and the Government of the United States of America will meet as either side may deem appropriate to exchange information relevant to the aforementioned steps

JFTC has decided to initiate a survey on conditions in the glass market from the competition policy perspective, before the end of March, 1992.

Ministry of Construction (MOC) will facilitate the efforts of foreign firms to meet Japanese building standards for flat glass and other glass building materials by holding briefing sessions for foreign firms and making available English language versions of all standards, consisting of the Building Standard Law as well as relevant Cabinet Orders, Enforcement Regulations and Notifications. The Director for International Codes and Standards of the MOC will serve, in this regard, as a contact point for foreign firms.

#### VII. Semiconductor

The two Governments, in recognition of the importance of the 1991 U.S.-Japan Semiconductor Arrangement, reaffirm their commitment to make further efforts for increased market access and for development of long-term cooperative relationships between Japanese and U.S. companies through measures specified in the Arrangement.

#### VIII. Standards and Certification

49 non-auto standards and certification complaints have been resolved or will be resolved through the Office of the Trade and Investment

Ombudsman's (OTO) intensified efforts over the past month. These steps will improve market access in sectors such as industrial machinery, chemicals, transportation equipment, processed food, cosmetics, and pharmaceuticals. The Government of Japan will continue to actively address market access issues raised by foreign companies and others through the OTO.

IX. Government Procurement

Last November, the Government of Japan decided to take steps to increase government procurement opportunities. These steps should increase the procurement opportunities roughly from 400 to 800 billion yen (approximately three to six billion dollars). The Government of Japan intends to implement from April 1, 1992, such measures as increasing transparency in tendering procedures (procurement notices written in English, extension of the period for receipt of tenders), lowering the threshold value (from 130,000 to 100,000 SDRs), and widening the coverage (addition of 28 entities).

X. Financial Market

The two Governments intend to intensify the efforts of the U.S.-Japan Working Group on Financial Markets in order to achieve further progress in liberalizing financial markets in both countries and increasing transparency, access and competition.

XI. Legal Services

Taking into account the important role lawyers play in international transactions, the Government of Japan will redouble its efforts to resolve issues related to foreign lawyers (gaikokuho-jimu-bengoshi).

XII. Policy Dialogue

The two Governments intend to intensify bilateral policy dialogue at all levels with a view to enhancing early warning function on sectoral economic and trade issues, particularly in such fora as the U.S.-Japan Sub-Cabinet Economic Consultations, the U.S.-Japan Trade Committee, the MOSS talks, and other working-level consultations on the sectoral issues.

XIII. Auto and Auto Parts (See Separate Document)

01. 09. 92 11:20 AM

POB -  
P.8

Auto and Auto Parts

[ XIII of GLOBAL PARTNERSHIP PLAN OF ACTIONS (Part II) ]

Action by the Japanese Side

1. Automobile Parts

- Japanese automobile manufacturers as the attached :

-- made announcements on US automobile parts purchases goals.

These announcements were made voluntarily by Japanese automobile manufacturers; based on the premise that U.S. parts suppliers will make their best efforts corresponding to those of Japanese automobile manufacturers and that automobile production of Japanese affiliates in the United States would increase by 50% from FY 1990 to FY 1994. The aggregated figures of the announcements are as follows:

a) ~~Automobile parts procurement by US manufacturing firms of Japanese affiliates from US suppliers is expected to more than double from about 7 billion dollars in FY 1990 to about 15 billion dollars (in real terms) in FY 1994.~~

b) ~~Soon in terms of percentage of local procurement in the total purchase of parts, the percentage is expected to increase from about 50% in FY 1990 to about 70% in FY 1994. By contrast, the percentage of imports from Japan is expected to decrease from about 50% to about 30%.~~

c) In making these procurements, special consideration will be given to the US parts industry, which is currently under a difficult situation.

d) As for Japanese import of parts from the United States, it is expected to double from 2 billion dollars in FY 1990 to 4 billion dollars (in real terms) in FY 1994.

e) In sum, the total of local procurement in the United States and export to Japan (import by Japan), i.e. total purchase of US parts, will increase by about 10 billion dollars — from about 9 billion dollars in FY 1990 to about 19 billion dollars in FY 1994.

(Above figures are calculated using the data collected by Japanese Automobile Manufacturers Association pursuant to the MOSS agreement.)

-- will further strengthen such efforts as:

a) promoting design-in (332 ongoing cases and 271 successfully completed cases as of January 1991);

b) expanding R&D centers in the US (7 centers of 6 firms with 1,400 employees, expected to increase to 2,200 employees in the near future); and

c) assisting US parts suppliers to develop long-term business relationships.

-- The Japanese government announced:

-- assistance for design-in training in Japan for engineers of US parts manufacturers, sales missions to Japan and other measures to assist the US parts manufacturing industry (FY 1992 budget: 1.5 million dollars); and

-- further improvements in tax and financial incentives to promote imports to and investments in Japan (e.g. tax incentives for busi-

ness establishments of foreign firms (extension or loss carryover periods, accelerated depreciation of buildings, etc.), low interest rate loans, debt guarantee facilities, etc.) in order to promote the Initiatives for Business Global Partnership.

- Japan Fair Trade Commission has decided to initiate a survey on conditions in the automobile parts sector from the competition policy perspective before the end of March, 1992.

## 2. Automobiles

- Japanese automobile dealers' associations publicly reconfirmed their willingness to undertake dual dealerships to sell US automobiles:
- Japanese automobile manufacturers as the attached:
  - have eliminated prior consultation requirement clauses in dealership contracts, and made it clear that dealers may of their own free will sell automobiles of multiple manufacturers in parallel;
  - have expressed, including some of those who have not handled US automobiles so far, their willingness to help expand the sales of US automobiles. They made it clear that, in addition to US-brand automobiles, the import of US-manufactured Japanese-brand automobiles is estimated to rise substantially; and
  - expressed their willingness to cooperate in expanding the sales opportunity for US automobiles in Japan, and have announced measures such as providing space to display US automobiles at seven showrooms for the time being in the Metropolitan Tokyo area.
- The Japanese government:

- has announced that it will actively increase opportunities for the sale of foreign automobiles, through such measures as budgetary allocations (6.3 million dollars in FY 1992) for e.g. holding foreign automobile shows in Japan (sites under consideration include Tokyo, Osaka and Nagoya) by or with assistance from JETRO ; and
- has announced that it will expand and strengthen tax and financial incentives to promote imports and foreign investments in the Japanese market with a view to promoting the Initiatives for Business Global Partnership.
- With regard to standards and certification issues, under the Office of Trade and Investment Commission (OTIC) procedure, six of the fourteen outstanding issues had been resolved at the technical level as of January 1, 1992. Of the remaining eight issues, six are in resolution and two are imminently to be resolved.
- Japan Fair Trade Commission has decided to initiate a survey on conditions in the automobile sector from the competition policy perspective before the end of March 1992.

Action by the U.S. Side

- The U.S. Government is committed to an economically viable U.S. automotive industry and to increasing exports of U.S. vehicles and auto parts to Japan.  
The U.S. Government will work to enhance its efforts in the MOSS process.
- Recognizing the benefits of cooperative efforts to promote trade of automobiles and auto parts in an effort to address trade imbalances, the U.S. Government will draw upon and expand existing programs, including the U.S. Department of Commerce's Export Promotion Program, and the USDOC-MITI Joint Trade Expansion Program. As required, these programs will be tailored to meet the needs of U.S. automotive industry.
- In addition, the U.S. Government will take the following immediate steps:
  - As Chairman of the Cabinet-level Trade Promotion Coordinating Committee, the Secretary of Commerce will give special focus to measures promoting automotive exports and enhancement of overseas presence by U.S. companies.
  - Encourage U.S. industry to take full advantage of Japanese Government import promotion programs, including the tax and financial incentives (low interest loan, and debt guarantee facilities announced in the Initiatives for Business Global Partnership). The U.S. Government will encourage U.S. industry to utilize the seven showrooms recently made available by Japanese automobile manufacturers.

Joint Action

- The U.S. and Japanese Governments
  - recognize efforts made to date on the automotive trade issue and remain committed to open markets.

Both sides are committed to working cooperatively in the MOSS framework on this issue.
- Renewed efforts will be made in accelerating implementation of programs to increase sales opportunities of U.S. vehicles and auto parts in the Japanese markets. Special emphasis will be placed on implementation of the MOCP Work Plan, agreed to by the Governments of Japan and the United States, September, 1991.

This includes, but is not limited to:

- implementing the study on the sourcing of automotive parts by U.S. and Japanese vehicle manufacturers,
- expanding R&D contacts in the U.S. by Japanese manufacturers,
- increasing participation by U.S. companies in design-in by Japanese manufacturers,
- encouraging participation in trade shows, including the Tokyo Motor Show
- utilizing the OTO,

Encourage the improvement of technological infrastructure and distribution facilities of US parts suppliers to take full advantage of opportunities in the Japanese market

- The two governments:
  - have initiated a Japan-US joint study regarding the trade opportuni-

ties for automobiles with a view to completing it by July, and mutually seek ways to enhance trade opportunities for automobiles based on this study.

# News from Mazda

Mazda Motor Corporation International Public Relations Corporate Communications Div.

Hiroshima: P.O.Box. 18 Hiroshima 730-01 Japan  
Tel.(082)225-1040 Fax.(082)207-8225

Tokyo: P.O.Box. 74 Tokyo 101-81 Japan  
Tel.(03)3506-5055 Fax.(03)3506-5004

Ted Nagase  
Bob Inamoto

January 8, 1992

## MAZDA ANNOUNCES NEW TARGET FOR BUSINESS COOPERATION WITH U.S. AUTOMOTIVE INDUSTRY

Mazda Motor Corporation today announced a new target in its efforts to promote further business cooperation with the U.S. automotive industry.

The new target outlines Mazda's policies for further promoting increased purchasing of U.S.-made parts and materials as well as of U.S.-made vehicles to be marketed in Japan. Mazda will focus its efforts in these two main areas, as follows:

### 1. Increased purchasing of U.S.-made parts and materials:

To contribute to a closer and smoother economic relationship between the U.S. and Japan, Mazda is going to further enhance purchasing of U.S.-made parts and materials throughout the company.

Having set a new target for purchasing of U.S.-made parts and materials for fiscal 1994 (April 1, 1994 to March 31, 1995), Mazda will continue to enhance its ongoing effort in this area. Mazda will work to achieve the new target level with the indispensable support and efforts of U.S. parts suppliers in various areas, including quality and pricing.

Specifically, the new target sets two goals, as follows

- a. Mazda will increase the amount of its purchasing of locally-produced parts and materials for use at Mazda Motor Manufacturing (USA) Corporation (MMUC), Mazda's U.S. plant located in Flat Rock, Michigan, from \$958 million for fiscal 1990 (April 1, 1990 to March 31, 1991) to more than \$1.9 billion for fiscal 1994.
- b. Mazda will increase the amount of its purchasing of U.S.-made parts and materials for use in Japan, from \$210 million for fiscal 1990 to approximately \$400 million for fiscal 1994.



With this new target, Mazda hopes that business opportunities for U.C. parts suppliers will further expand. Over the course of its efforts to achieve the new target, Mazda is going to pay thorough consideration to increasing purchasing especially from those U.S. parts suppliers currently facing difficult circumstances.

2. Increased purchasing of U.S.-made vehicles to be marketed in Japan:

a. Mazda is already marketing a variety of imported vehicles through its domestic sales network: Ford vehicles through AUTORAMA; Citroën vehicles through EUNOS; and Lancia vehicles through AUTOZAM. Mazda is making efforts to further promote the marketing of imported vehicles in Japan through enhanced business cooperation with foreign automotive manufacturers.

b. As for imports from the U.S., Mazda is going to make ATTEMPTS to achieve a new target of importing 4,500 Ford vehicles in fiscal 1992 (MORE THAN DOUBLE THE amount for fiscal 1990, April 1, 1990 to March 31, 1991). Models include the Ford Probe, Taurus, Thunderbird and Lincoln-Continental, marketed through AUTORAMA, Mazda's joint-venture with Ford.

For fiscal 1994, Mazda will make efforts to further increase the importing of those vehicles.

Mazda will vigorously cooperate with Ford, by offering its know-how and experience in the Japanese market with respect to service, quality, pricing and parts supply, which are prerequisites for increased marketing of imported vehicles.

c. In addition to its 342 sales outlets throughout Japan which deal in Ford vehicles, Mazda is exhibiting and promoting Ford models in high-profile, central Tokyo display areas as well.

As an international company, Mazda hopes through these efforts to promote positive international business cooperation and contribute to the overall world economy.

January 8, 1992

Mitsubishi Motors Corporation

### HITSUBISHI MOTORS INCREASES IMPORTS & LOCAL PROCUREMENT OF AMERICAN-MADE PARTS

In the spirit of international cooperation, Mitsubishi Motors announced its "Strategies to expand purchases of U.S. Goods" (a voluntary proposal) and its "Business Global Partnership Program" in November and December respectively last year. In view of the importance of business relationships between Japan and the United States, Mitsubishi Motors has decided to revise certain targets set out in those documents, as well as to adopt a new approach to increase procurements.

#### 1) Local Procurement at Diamond-Star Motors (DSM)

Mitsubishi Motors has upwardly revised the 1994 fiscal year target for parts purchases to \$1.2 billion which includes the purchase of Chrysler-made engines and transmissions. This represents a 2.3-fold increase of the \$520 million amount actually purchased in FY 1990.

#### 2) Increased Imports of American-made Parts

Mitsubishi Motors has upwardly revised the 1994 fiscal year target for parts imports to \$400 million in FY 1994. This represents a 2.6 times increase over the 1990 fiscal year figure of \$155 million.

3) In endeavoring to achieve these targets, Mitsubishi Motors will give maximum consideration to increasing imports from the American parts and components industry which is currently experiencing difficult times.

4) Mitsubishi Motors will diligently continue its efforts to achieve these targets. Meanwhile, so that it may achieve these targets, Mitsubishi Motors earnestly requests American suppliers and affiliates to make the necessary efforts to meet its requirements in terms of product quality, performance and price.

January 8, 1992  
Mitsubishi Motors Corporation  
Contact: 03-5232-7165

### MITSUBISHI MOTORS APPROACHES TO INCREASE U.S. IMPORTS

1. On December 24, 1991, Mitsubishi Motors announced in its "Business Global Partnership Program" that it will increase the number of American-made vehicles to be sold in the Japanese market to 4,000 units worth 10 billion yen for the 1995 fiscal year; up from the 1990 fiscal year figure of 2,543 units worth 5.4 billion yen. In addition, in order to actively promote American-made passenger car imports, Mitsubishi Motors has revised the above document to increase to 6,000 units in the 1995 fiscal year, a further increase of 2,000 units.

The above target is planned to include Chrysler-brand models produced by Diamond-Star Motors and future Chrysler cars produced by Chrysler Corporation. This will require discussions with Chrysler regarding such matters as existing commercial rights, model selection, adaptation to Japanese specifications and pricing. Mitsubishi Motors, however, will diligently make an effort to resolve the above matters and to achieve this target.

2. Mitsubishi Motors has repeatedly stated that there is nothing exclusive about the sales activities of its dealers. To avoid any misunderstanding by foreign auto-makers, Mitsubishi Motors has recently amended its dealer agreements to enable its dealers to sell foreign-made cars on their own decision. In addition, the Japanese market sales plan mentioned above for American-made vehicles clearly demonstrates Mitsubishi Motors' firm commitment to helping to sell foreign-made cars in Japan. To symbolize this in concrete form, Mitsubishi Motors will offer space for the display of imports at its headquarter showroom in Tokyo.



# PRESS INFORMATION

January 8, 1992  
Ref. #92001

## HONDA SETS TARGET OF \$4.94 BILLION IN PURCHASES OF U.S. MADE PARTS AND MATERIALS IN FISCAL YEAR 1994

Tokyo, January 8, 1992 -- Honda Motor Co., Ltd. announced today target of \$4.94 billion in purchases of U.S. made automotive parts and materials in fiscal year of 1994. This goal further strengthens the continuing expansion of business with suppliers at the company's operations in North America and increased imports of parts and materials from the United States.

For fiscal 1994 (ending March 31, 1993), the goal calls for \$4 billion in purchases for Honda's U.S. operations and \$500 million in exports to Japan. This amount is 1.8 times the purchases by Honda's operations in fiscal 1990, and two times that which was exported in fiscal 1990. To reach this goal, Honda will give maximum consideration to increasing business with U.S. parts industries.

The local production of Honda products and expansion of local procurement have been important ongoing efforts at Honda since 1982, when it became the first Japanese automaker to produce in the United States at Honda of America Mfg., Inc. (HAM) in Maumee, Ohio. In 1985, HAM began producing engine in Anna, Ohio. Honda has continually increased the purchase of U.S. made automotive parts and materials, expanded programs to involve U.S. suppliers from the early stage of the product development process, and increased its R&D capabilities at the Honda R&D Center in America, Inc..

Honda has expanded its relationship with U.S. automotive suppliers by introducing design-in and guest engineer programs. In 1980, HAM established the Support and Development Group to facilitate the transfer of technology to help suppliers become more productive and competitive. HAM also established the Importing and Export Group to increase exports of U.S. made parts to Japan.

As a result of Honda's efforts in this area, in fiscal year 1991 its purchase of U.S.-made automotive parts and materials was \$2.49 billion, and \$280 million in exports to Japan.

Honda will maintain its effort to increase local procurement in the United States. However, U.S. parts suppliers face many challenges in being competitive in areas such as quality, cost, timing specifications, delivery and technology. To reach the goal of \$4.94 billion in purchases in fiscal year 1994 will require continued effort and cooperation between Honda and U.S. suppliers.


 HONDA

# PRESS INFORMATION

January 9, 1992  
Ref. #92002

## HONDA TO BOLSTER CHRYSLER JEEP SALES AND INCREASE ACCORD IMPORTS

Honda Motor Co., Ltd. has announced its intention to triple sales of Chrysler-produced Jeep Cherokee and Wrangler models well as doubling imports of its U.S.-made Accord models. target date of 1994 has been set for both objectives.

Honda has been selling U.S.-made Jeep models through its Fr dealer network since September 1990, under a sales agreement w Chrysler Japan Sales, Ltd. By next month, the present total about 100 Frmo dealers selling Jeeps will be increased to 3 This total will include not only Frmo dealers, but will exp distribution to Honda's Clie and Vorno dealers. This is const ent with Honda's traditional policy, in which our dealers al has been free to sell any models they wish.

In 1991, the first full year of the Chrysler sales tie-up, Jeep models were sold, representing about 30 percent of Chrysler sales in Japan. By 1994, Honda's goal is to triple total to about 1,200 units.

In April, 1988, Honda became the first Japanese automobile m facturer to begin importing its U.S.-made vehicles, and year, it began importing the Accord wagon, a model developed the U.S. A total of 14,000 units were sold in 1991. By 1 Honda intends to increase that total to 27,000 units.

To achieve its Jeep sales target, Honda is tripling the number dealerships offering Jeep models, and is training staff to cialize in Jeep sales and service. Special Jeep service per nel are now on hand at all 11 Honda Technical Service Centers. Every Jeep unit is inspected prior to delivery to ensure qua. Both Honda and Chrysler Japan are promoting personnel exch to further improve service techniques and know-how.

Cherokee and Wrangler models are on display in dealer showr and a free test drive program for potential Jeep customer being organized.

Jeep models also will be displayed in the showroom at Ho Aoyama headquarters office building.

Honda's Import Vehicle Division, established in November 199 in charge of the new sales program, which includes expanding dealerships to the Clie and Vorno networks, thus improving sales and after-sales spare parts supply and repair services.

To further strengthen sales growth, Honda and Chrysler will regular discussions to assure that Jeep models meet Ja:

( Attachment )

For immediate release  
January 8, 1992

TOYOTA ANNOUNCES MEASURES FOR PROMOTING BUSINESS  
WITH U.S. SUPPLIERS AND AUTOMAKERS

Toyota City -- Toyota Motor Corporation today announced additional measures in its steadily expanding framework for purchasing automotive parts and materials from American suppliers. The company also announced a package of measures for assisting U.S. automakers in the Japanese market.

U.S. suppliers account for a fast-growing share of Toyota's global purchasing, and Toyota has taken extensive and systematic measures in recent years to broaden its business ties with American manufacturers of automotive parts and materials. Those measures have included dispatching engineers to suppliers' plants to assist suppliers in raising quality and productivity, as well as convening quality seminars and conducting other related activities.

Today, Toyota announced that it will upgrade and strengthen its U.S. organization for extending technical support to American manufacturers of auto parts by opening a "supplier support center" in the United States in mid-1992. Personnel at the new supplier support center will work with parts makers to help them improve and streamline their production processes. The center will be the newest facility in Toyota's large and growing local interface with suppliers in the United States, which includes technical centers in Michigan and California and a design subsidiary in California.

Toyota is also making itself more accessible to U.S. suppliers by promoting so-called design-in activities, which provide joint work with parts makers, starting in the early stages of product development. Toyota presently conducts substantial volumes of business with 303 suppliers in the United States.

and 119 of those suppliers have developed parts for Toyota vehicles through design-in projects. Some 187 companies now are working with Toyota in design-in projects on additional components.

The dollar volume of Toyota's U.S. purchasing has surged in step with the company's broadening relationships with American suppliers. Toyota spent \$2.6 billion on American-made parts and materials in the fiscal year beginning April 1990, and it has announced that its purchasing of those items will reach \$4.6 billion in the year beginning April 1994. That figure comprises \$3.6 billion in local purchasing by Toyota operations in the United States and \$1 billion in imports by the company's operations in Japan. The huge volume of local purchasing at Toyota's U.S. plants is evident in their high levels of local content, which compare favorably with the levels at the Big Three U.S. automakers.

Toyota's purchasing of auto parts and materials in the United States is part of a systematic, global-purchasing framework. That framework will include total imports of some \$400 billion (about \$2.9 billion) by Toyota operations in Japan in the year beginning April 1994, as well as local purchasing by Toyota operations around the world. Imports from the United States will account for \$1.5 billion of that total.

Besides importing automotive parts and materials, this year Toyota will begin shipping cars to Japan from its Kentucky plant, with total imports expected to reach 20,000 units in fiscal 1994. The company also will soon start marketing Volkswagen and Audi vehicles in Japan. In addition, Toyota announced today that it is prepared to negotiate with General Motors about the possibility of retailing GM vehicles in Japan, subject to agreement with GM's Japanese franchisee. Such an arrangement might reasonably be expected to yield sales of 5,000 vehicles a year. GM and Toyota are partners in a successful joint venture in California that produces Corollas and pickup trucks for Toyota and Geo. Arrangements for G

The prospective marketing tie-up with GM reflects Toyota's  
desire to ensure genuine access for U.S. automakers to  
the Japanese market. Toyota reported that 11 of its 17  
dealerships in Japan -- nearly all of which are  
independent businesses -- that they are free to handle foreign  
vehicles and that no prior consultation with Toyota is needed.  
The company also indicated a readiness to make its corporate  
showroom, Toyota Auto Salon AMZUX Tokyo, available to foreign  
automakers for occasional promotional fairs and other events.

Toyota's continuing efforts to expand business with American  
suppliers and automakers evoke an acute awareness of the  
severity of conditions in the U.S. auto industry. Management  
at Toyota recognizes that a real turnaround for the U.S.  
industry will hinge on efforts by the American automakers to  
reassert an international competitiveness. They are  
determined, however, for Toyota to do everything possible to  
contribute to maintaining a strong and vigorous auto industry  
in the United States.

Today's announcement included suggestions that Toyota's  
purchasing of parts and materials from U.S. suppliers could  
actually exceed the \$4.6 billion figure that the company has  
projected for the year beginning April 1994. Toyota  
management believes that the total could be as high as \$5.2  
billion -- \$3.82 billion in local purchasing and \$1.46 billion  
in imports -- depending on market trends and on the progress  
of U.S. suppliers in achieving further gains in quality and  
productivity.

# NISSAN NEWS



NISSAN MOTOR CO., LTD.

International Corporate Communications Dept.  
17-1, Ginza 4-Chome, Chuo-ku, Tokyo 104-2  
TEL: (03)5565-2146 FAX: (03)556-2689

Embargoed until 00:01 January 8, 1992.

January 7, 1992

## Nissan Announces Plan For Further Expansion of U.S. Auto Parts Procurement and Cooperation with Sales of U.S. Vehicles in Japan

Tokyo -- Nissan Motor Co., Ltd. today announced that it will target a new purchasing goal of \$3.7 billion for its procurement of U.S. auto parts and materials in the company's 1995 fiscal year ending March 31, 1995 and that it will cooperate in sales and showroom display activities for American vehicles in Japan.

Last November, Nissan announced a plan to increase its purchases of U.S. auto parts and materials in a move toward international cooperation on such issues. The plan, which outlined a purchasing goal of \$3.5 billion in fiscal 1995 ending March 31, 1995, including local procurement in overseas markets and imports into Japan, was 2.5 times the \$1.3 billion worth of U.S. parts Nissan purchased in its 1991 fiscal year ended March 1991.

Nissan's announcement today further strengthens its cooperation with the U.S. industry, as Nissan will endeavor to attain an even higher purchasing goal for fiscal 1995 of \$3.7 billion, which is nearly triple the fiscal 1991 level. This upwardly revised goal, based on a set of assumptions

(more)



NISSAN MOTOR CO., LTD.

International Corporate Communications  
 17-1, Ginza 6-Chome, Chuo-ku, Tokyo  
 TEL: (03)5365-2146 FAX: (03)546-2861

U.S. Auto Parts, 1/7/1992

-2-

sales and market conditions, includes \$2.9 billion for local procurement Nissan's U.S. operations and \$800 million in imports, and Nissan will do utmost to increase purchases of products from U.S. suppliers facing a difficult situation.

In order to achieve this goal, Nissan plans to step up the various act it has undertaken to date, aimed at fostering a mutually beneficial relationship between Japan and the U.S. in automobiles and auto parts. An initial step toward expanding purchases of U.S. auto parts and materials, Nissan has invited approximately 50 U.S. parts manufacturers to a parts suppliers meeting at its Tokyo Headquarters and Nissan Technical Center (Kanagawa prefecture) in February. According to Nissan President Y. Kumo, an important condition for the attainment of this new purchase goal, in addition to the actions taken by Nissan, will be further efforts to assist U.S. parts suppliers in the areas of quantity, price, delivery lead time, and product development capabilities.

Nissan also expressed a willingness to cooperate in sales activities of American vehicles in Japan, based on the assumption that the Japanese government will adopt special measures with regard to foreign automobiles. For instance, Nissan would be willing to cooperate with Ford Motor Company in selling a new minivan, which is a joint project between Nissan and Ford, at Nissan dealers in Japan.

It is Nissan's view that a successful sales program for this minivan in Japan would necessarily require the introduction of vehicles with specifications, including a right-hand steering wheel and movement of the sliding door to the left side of the vehicle. Future sales expansion will depend largely on Ford's modifications of the minivan to Japanese specifications and the setting of competitive prices in the Japanese market.



U.S. Auto parts, 1/7/1991

-3-

Nissan is also willing to extend similar sales cooperation for other Ford passenger cars, such as the Taurus (including the wagon) and its successor model. For these vehicles, it would be necessary to resolve certain issues pertaining to existing commercial rights in Japan and also price them at competitive levels.

Assuming that the minivan and other Ford passenger cars are sold in Japan under the foregoing conditions, it is projected that annual sales volumes around 3,000 units could be achieved in total, although the ultimate decision would rest with Japanese consumers.

Besides this cooperation in the sales activities, Nissan will offer U.S. automakers the use of showroom space in metropolitan Tokyo, including its Headquarters showroom in the Ginza area of the capital, as a measure for supporting increased sales of American vehicles in Japan.

Nissan noted that Japan does not impose any tariffs on imported vehicles and that the Japanese vehicle market is open to car manufacturers of any country. The success achieved by European automakers in expanding their sales in Japan, is a clear sign that the market is free of non-tariff barriers and the sales results reflect marketing, design and engineering efforts. In fact, the company has sold the Volkswagen Santana and Passat models through its own dealer network.

While Nissan firmly believes that automobile dealer networks in Japan are open to other countries, it has partially revised its sales license agreements with its dealers recently. This, along with other measures, have made it clear that dealers are free to decide if they want to sell other manufacturers' vehicles alongside Nissan products.

Nissan believes that the steady implementation of these various efforts will work to improve the trade imbalance between the two countries and also contribute to further advancement of international cooperation.

# TRB

FROM WASHINGTON

## Unilateral disarmament

GI Joe comes back from the war feeling like a hero, only to find that some stay-at-home shirker has stolen his gal and his job. What the heck was he fighting for? When the Persian Gulf war is over, the whole country may sink into this kind of B-movie sulk when it looks around to discover that while we were liberating Kuwait, Japan was continuing its inexorable economic climb. That will surely generate renewed demands that we launch a few Patriots against incoming Japanese products.

Chrysler's Lee Iacocca, writing in *The New York Times* on February 10, says that although he actually stands for "the

commonsense approach of managing trade in the country's selfinterest," he no longer minds the dirty label of "protectionist." The inevitable fatuous comparison: we protect our interests in the Gulf—"what is so wrong with protecting our interests at home?" Anyway, "Demanding reciprocity from our trade partners, and retaliating if we don't get it, doesn't undermine free trade, it defends free trade."

Iacocca (or whoever wrote the piece for him) thus fudges, like most protectionists, whether what he really wants is mutual disarmament or rearmament on our side for its own sake. Does he think trade restrictions are a necessary threat, to be acted upon with regret, or a positive good? "If we copied Japan's example," he writes, "we would revitalize our auto industry . . . by shutting out all foreign cars." As it happens, we tried protectionism (import quotas) to revitalize our auto industry in the 1980s—at Iacocca's hectoring insistence. If the industry still needs to be revitalized, I guess it didn't work.

Free trade purists (I'm one) believe that open borders are the best route to national prosperity no matter what policy other countries pursue. Even "strategic trade" theorists—sophisticated protectionists who believe that nations can gain a competitive advantage in certain

industries by protecting their home markets—agree that mutual free trade would be best for all, if it could be worked out.

But even free trade purists recognize that the other guy's trade barriers are harmful to us. (The debate is whether they're also harmful to him.) And free traders, though generally cocksure, have no pat answer to the "crowbar" argument: the only way to get the other guy to lower his trade barriers is to threaten—or, if necessary, to implement—our own. Trade war, like real war, is mutually disadvantageous but sometimes necessary to establish a principle when threats fail to deter. That's the argument.

The trouble with the crowbar theory is that it's too convenient for phonies like Lee Iacocca who really want trade barriers for their own sake. The "playing field" will never be "level" enough to satisfy them, and meanwhile our own protectionism harms us.

For example, the Commerce Department is about to impose stiff duties on imports of Japanese display screens for portable computers because the Japanese supposedly are "dumping" these items in our market. Dumping is usually defined as selling something in a foreign market for less than at home. That isn't happening here. But Commerce claims that computer screen prices are artificially low in Japan as well. So it is trying to prove that screens are selling in both countries for less than they cost to produce. The explanation of why the wily Japanese should wish to do this is essentially a variation on the old huckster's joke about losing on every sale but making it up in volume. As for why selling Americans something for less than it costs should be considered a punishable offense . . . don't ask.

American computer makers say that American-made screens aren't even available, because the American screen industry was concentrating on military products while the Japanese were investing billions in the commercial market. True or not, the unavoidable result of an import duty on screens will be to make American computers more expensive compared with foreign ones. By helping the screen industry, we hurt the computer industry. Of course we could then help the computer industry with an import duty, thus hurting industries that buy computers. And so on.

What we need, I sometimes think, is a way to punish foreign trade restrictions that doesn't punish us as well. It is sometimes suggested that we ought to "link" (favorite geopol word these days) our defense of nations like Japan and Germany with better trade behavior. If "better behavior" means simply buying more from us whether or not their citizens want

*continued on page 41*

## To win the \$40 billion war against crime, listen to those on the front lines.

By the year 2000, corrections will be the largest single item in many state budgets. Can the system function better and more cost-effectively? Here's hard-hitting, practical advice based on ten years of interviews with those on the front lines: wardens, probation and parole agents, corrections commissioners and others.

### NO ESCAPE

THE FUTURE

OF AMERICAN

CORRECTIONS

John J. DiIulio, Jr.

**"Required reading for those who are concerned with crime and punishment."**

—THOMAS MANN, Brookings Institution

**"An indispensable and lucid guide to any discussion of penal policy."**

—CHARLES H. LOGAN, National Institute of Justice

\$22.95 at bookstores or toll-free with credit card 800-331-3761

**BasicBooks**

A Division of HarperCollins Publishers

glimpsed, but never resolved. Art is supposed to release us from the regime of the will, but what art depicts is supposed to be some feature of the world viewed for its own sake, and therefore, since ultimate reality is will, some crystallization (or "grade of objectification") of the will. Does art transcend the will, or does it give us some purified image of the will? There is no clear answer.

In part, the problem is that Schopenhauer operated with two different philosophical models. Sometimes he used a "Neoplatonic" model, in which ultimate reality—that is, will—takes on various forms in the world of experience. One of them is our intellect itself, in its urge to explain. At other times, however, he fell back on a "Manichaeic" model, in which there are two independent principles, and intellect is pitted against the will. Only knowledge, he wrote, can silence the will, so that in aesthetic contemplation (as in ascetic self-denial) the knowing subject becomes "will-less." But how, we must ask, can we become will-less, if will is the ultimate nature of everything? How can art both silence the will and give idealized expression to it? Schopenhauer found some vivid ways of putting the paradox: "The accident (the intellect), so to speak, subdues and eliminates the substance (the will)." But he came up with no way of dispatching it.

The paradox reflects, in fact, the ultimate incompatibility between the metaphysics he adopted and the ethics he held dear. It was a fatal error to turn what he wanted to transcend into the principle of everything. For where was the room, then, in which to stand back? The result was that Schopenhauer's fundamental philosophical passion became, in Safranski's apt words, "to escape from *being* into *seeing*." He had to become, quite literally, the view from nowhere.

Yet the paradox of Schopenhauer's aestheticism was not simply the fruit of his own philosophical confusion. It seems to beset aestheticism generally. If art is an escape from the boredom of reality, how can there be any object worthy of its inspiration and insight? Nietzsche proposed one influential way for the religion of art to elude this quandary: art transcends life, he urged, not in order to give us truth (as Schopenhauer believed), but to give us fiction: "We have art in order not to perish of truth." Much thinking about art, and much art, has moved along those lines ever since.

Still, there is good reason to reject Nietzsche's brand of aestheticism, and not only because it formed part of his overall attack on the reality principle. If

art really has nothing to teach us about the world, it seems little more than a frivolity. (And the appreciation of art seems little more than a useful tool for showing our superiority to others.) No, a different way out of Schopenhauer's quandary would be to question the sweeping pessimism that underlies it. Surely we need not feel smugly at home in the world in order to believe that there are some things in life to which we must hold fast, in love and in duty. If we acknowledge this, we can also make sense of another truth that we should have known all along: art moves us only when it calls upon what ties us to the world.

CHARLES LARMORE teaches philosophy at Columbia University.

### TRB *continued from page 4*

what we're selling, this is no better than blackmail, and it would be more dignified just to send a bill. But even if "better behavior" means lowering barriers to genuinely free trade, this kind of linkage makes little sense. Whether we should continue subsidizing the defense of Europe and Japan is an important question that ought to be decided on its own merits. Tying it to trade issues is just an excuse either to continue the subsidy or to continue our own self-damaging protectionism.

Whenever I climb aboard this mental merry-go-round, I get off again where I started: unilateral disarmament. End these tedious fights. Drop out of the GATT negotiations. Repeal the "Super-301" trade retaliation laws. Stop worrying about what is and isn't "dumping." Allow American citizens to buy foreign goods and services without hindrance whether or not foreign countries extend their own citizens the same freedom. Yes, we will give up a sometimes useful stick for beating down foreign trade barriers. But we will get some mighty advantages, too.

1. As consumers, we'll enjoy a higher standard of living as we enjoy the cheapest goods the world can offer. If the European Community wishes to pay its farmers to produce too much food and then "dump" the excess on us at bargain-basement prices, we'll chow down happily.

2. As producers, too, we'll buy our inputs—computer screens or whatever—where they're cheapest, making us more competitive.

3. We'll be the saviors of Africa, Eastern Europe, Latin America, developing economies everywhere. They, more than Japan, are victims of U.S. protectionist

rules. Free access to the American market would mean far more to them than any conceivable amount of aid or development loans.

4. It will put hundreds of expensive lobbyists and lawyers out of business. This includes lobbyists for American companies as well as for the Japanese. There will be nothing left for either side to lobby about. Now the huge cost of conducting trade disputes gets passed along to consumers of products both imported and domestic, no matter which side wins.

5. It will set a wonderful example for that "New World Order" we keep hearing about. Ronald Reagan said America was a shining city on a hill. George Bush says America has to do some things in this world because no one else will. The power of example may not be as great as the power of a threat, but it is not worthless. And when the threat involves something that will hurt you as well as the nation you're threatening, while the example is something you ought to do for your own good anyway, making an example of yourself ought to be especially convincing.

MICHAEL KINSLEY

### CORRESPONDENCE *continued from page 6*

capita income. All true.

In 1987, in *The Birth Dearth*, I wrote that American fertility had plummeted so low (down to 1.8 children per woman) and stayed so low for so long (about fifteen years) that it would be harmful to us for geopolitical, economic, and personal reasons. I called for more immigration and pro-natalist policies. Each happened. I also asked, as the item notes, that young adults reconsider the idea of childlessness and one-child families. Thanks to attentive readers, I can now modestly announce that fertility rates began to go up precisely nine months after the appearance of *The Birth Dearth*.

And now, in *The First Universal Nation*, I write that fertility and immigration have indeed turned upward, and I say that these happy developments tend to negate my earlier fears.

In short: when fertility was very high, I thought it was good that it was coming down toward the replacement level. When fertility sunk very low, I thought it would be good if it went up some toward the replacement level. It did, and I'm pleased. (I'd like to see a total fertility rate of 2.3 children per woman.) Not too high, not too low—it's the Mama Bear position. And remarkably consistent.

BEN J. WATTENBERG  
Washington, D.C.

#1

## OVERVIEW OF U.S. TRADE POLICY AND BENEFITS

The Bush Administration's trade policy is to seize every opportunity to open markets and expand trade.

Expanding export opportunities for U.S. entrepreneurs means greater profits for our businesses, new jobs for our workers, lower prices and greater choices for our consumers, and a better standard of living for all Americans.

Trade has been a crucial stimulant for U.S. economic growth for the past 40 years:

- o The U.S. economy nearly quadrupled between 1950 and 1990, but our exports exploded an extraordinary 700 percent.
- o Jobs related to trade grew three times faster than overall job growth during those four decades.

Today, trade continues to be the lifeblood of the U.S. economy:

- o From 1988 through 1991, U.S. merchandise exports increased from \$322.4 billion to an estimated \$421.9 billion (current), or 31 percent.
- o Preliminary figures for 1991 show that U.S. merchandise exports in real terms were nearly 8% percent higher than 1990.
- o Since the President took office, U.S. merchandise export growth has contributed 70 percent to the growth of our GDP.

- o These gains (in constant 1987 dollars) are not confined to a single sector over the past three years:
  - UP 55% Exports of consumer goods (e.g., pharmaceuticals, clothing, etc.)
  - UP 40% Exports of U.S. capital goods (e.g., medical equipment, oilfield equipment, telecommunications, computers).
  - UP 27% Exports of industrial supplies (e.g., lumber, industrial rubber products).
  - UP 17% Foods, feeds, and beverages.
  - UP 12% Autos and auto parts.
- o At the same time, the merchandise trade deficit (exports minus imports) has been cut nearly in half (-43%) since 1988 and now stands at its lowest level in nearly a decade.
- o When you add in the exports of service industries (banks, insurers, engineers, etc.), sectors in which we run a large trade surplus, the combined U.S. trade deficit has been slashed by more than two-thirds since 1988.
- o Indeed, U.S. exports of services have grown from \$102.4 billion in 1988 to an estimated \$144.8 billion in 1991 (current dollars), a increase of 41.4 percent. Our trade surplus in services has grown 242.7 percent since 1988, 33.7 percent from 1990 to 1991.

**Opening markets and expanding exports creates jobs:**

- o Every \$1 billion in exports generates about 20,000 jobs. Since 1988, an estimated 1.2 million new jobs related to merchandise exports have been created.
- o The growth of U.S. merchandise exports means that today approximately 8 million American jobs are related to exports.

- o Millions of other Americans owe their jobs to exports of U.S. services, the value of which now exceeds one-third of our merchandise exports.

**Protectionism is a regressive tax on consumers:**

- o Those who would close U.S. shores to foreign trade would increase prices to consumers. Trade barriers are equivalent to a 23 percent income surcharge on people earning less than \$10,000 a year.
- o U.S. consumers pay \$65 billion annually in higher prices from U.S. trade barriers.

**Trade not only yields economic benefits, but also contributes to international peace and stability:**

- o Opening markets and expanding trade also will enhance the economic growth, and hence the political stability, of poorer nations, including the emerging democracies of Eastern Europe and Latin America.
- o Without the impetus of a more open trading system, these nations will be drained by the massive costs of protections now imposed on them -- costs that now total two-and-a-half times the aid they receive from the United States and other developed nations.

# # #

OFFICE OF THE UNITED STATES  
TRADE REPRESENTATIVE  
EXECUTIVE OFFICE OF THE PRESIDENT  
WASHINGTON  
20506

FOR IMMEDIATE RELEASE  
SUNDAY, APRIL 5, 1992

92-20  
CONTACT: KATHY LYDON  
202/395-3230

**U.S.- JAPAN AGREEMENT ON  
MEASURES TO OPEN JAPANESE PAPER MARKET**

United States Trade Representative Carla A. Hills today announced that negotiators from the U.S. and Japan have reached agreement on measures to open to foreign suppliers Japan's ~~\$27 billion market for paper and paperboard products.~~

"For too long, the globally competitive U.S. paper industry has been thwarted in its efforts to make inroads into the Japanese market," said Ambassador Hills. "This agreement is good for our industry and workers, good for the Japanese consumer and good for our global trading system."

The paper accord comes as a result of commitments made during President Bush's January 1992 trip to Japan. As part of the "Global Partnership Plan of Action," President Bush and Prime Minister Miyazawa announced on January 9 that the two governments would ~~"agree on measures to substantially increase market access for foreign firms exporting paper products to Japan."~~

The agreement requires the Government of Japan to encourage Japanese paper distributors, converters, printers and major corporate users to:

- o increase imports of competitive foreign paper products;
- o develop long-term buyer-supplier relationships with foreign producers;
- o establish and implement open and non-discriminatory purchasing practices; and
- o prepare and adopt company-specific, written purchasing guidelines, applicable to both domestic and foreign suppliers.

(MORE)

In addition, the Government of Japan will encourage major Japanese producers, distributors, converters and printers to establish and implement Anti-Monopoly Act compliance programs. The Japanese Government affirmed its commitment to effectively enforce the Anti-Monopoly Act with respect to the paper market.

Of particular importance is that the agreement requires the Government of Japan to focus its efforts on major users of paper products, including companies that are members of the Ministry of International Trade and Industry's (MITI) Import Expansion Program and companies in the food, cosmetics, pharmaceutical, and publishing industries. More than 164 companies participate in the Import Expansion Program, including those in the automotive, electrical, electronics, machinery, airline, communications, iron and metal industries, chemicals, textiles, printing and other sectors.

As part of the agreement, the Japanese Government will conduct a number of surveys on conditions in the Japanese paper products market and on the specific efforts of various paper consumers to use competitive foreign paper products. The U.S. Government will have an opportunity to review the survey questions and discuss methodology with the Japanese Government.

An important feature of the five-year agreement is that the Government of Japan is committed to making ongoing efforts to implement its measures. Both governments will review jointly on a semiannual basis progress in implementing the measures in the agreement, taking into consideration: changes in the level of import penetration, trade data, efforts of both governments to implement the measures, and other factors.

For its part, the United States will continue to make existing export promotion programs available to U.S. exporters of paper products and will work closely with U.S. companies in their efforts to achieve greater access to the Japanese market.

The American Paper Institute (API) has estimated that the Japanese market for primary paper and paperboard products is \$27 billion (1990 data) and the value of the entire Japanese paper industry (including pulp, paper, and paper product manufactures), measured by total value of shipments, is \$65 billion (1989 data). API estimated that the total foreign share of the Japanese paper and paperboard products market was 3.7 percent in 1991, with the U.S. share of the Japanese market amounting to 1.7 percent. The U.S. share for printing and writing papers was 0.3 percent.

## BUSH ADMINISTRATION TRADE ACCOMPLISHMENTS

The Bush Administration has completed a great number of market-opening trade agreements throughout the world in its three years in office. All of these are designed to increase job-generating exports with key trading partners:

### Trade with Japan

Our negotiations with Japan are designed to open the world's second largest market economy to U.S. exports.

The Bush Administration is working to open the Japanese market by eliminating barriers to in specific sectors using our trade laws and other means, and by lowering structural barriers through the Structural Impediments Initiative (SII). The following agreements have generated, and continue to generate billions of dollars in increased sales to Japan:

- o **Telecommunications:** The Administration has negotiated four agreements with Japan since 1988 regarding cellular telephones, IVANS and NCTE. These agreements have generated 180% growth in telecom equipment exports since 1988, to about \$735 million in 1991. The 1989 agreement in **cellular telephones** has resulted in U.S. firms now having more than half of the Japanese market in third party radios. In addition, American partners in two consortia that have applied for licenses to provide cellular services to the Tokyo metropolitan area. Access to the Japanese **advanced telecommunications** market was expanded under two 1990 agreements. One agreement committed Japan to streamline process for foreign firms to enter Japanese market for such services as voice mail and electronic banking. It also eliminated a burdensome surcharge often placed on U.S. firms by Japan's telecommunications carriers. The second opened Japan's market for telecommunications devices that make computers compatible with a digital telecommunications network.
- o **Semiconductor Arrangement:** The United States and Japan renewed their 1986 semiconductor agreement in June 1991 which will result in a continuation of the increasing U.S. share of the Japanese semiconductor market. (Foreign market share now 14.3% (3rd quarter 1991), up from 9% in 1986. U.S. sales rose from \$920 million in 1986 to nearly \$2.4 billion in

1990. U.S. sales for 1991 not yet available.)

- o **Construction Major Projects Arrangement:** The 1991 Construction Major Projects Arrangement adds 17 major construction projects to the 1988 agreement to be covered by special measures that facilitate foreign access, with six more that may be added in 1992. The 17 projects are estimated to be valued at \$6.4 billion; the six additional ones are valued at more than \$20 billion. U.S. construction firms will have an opportunity to bid on these contracts. Since 1988, U.S. firms have won \$375 million in contracts; prior to the 1988 agreement, U.S. firms had won virtually none.
- o **Satellites:** Under a June 1990 agreement, Japan has opened government procurement of all satellites, except for genuine R&D satellites. There has been one procurement since the agreement, involving the purchase of two communications satellites. Loral, a U.S. firm won the \$600 million contract.
- o **Supercomputers:** Government purchases of supercomputers were opened to U.S. firms under a June 1990 agreement guaranteeing fair competition based on price and performance. The U.S. share of Japanese government procurements has increased substantially since then. U.S. firms have won 3 out of 8 contracts since agreement, vs. 2 out of 43 in the previous four years.
- o **Wood Products:** In June 1990, the United States reached agreement expanding U.S. exports of wood products to Japan. It streamlined standards and lowered tariffs. Expected to increase U.S. exports of plywood and other processed wood products by over \$1 billion annually.
- o **Amorphous Metals:** An agreement covering amorphous metal electrical transformers was signed in September 1990. Japanese utilities are now ahead of schedule in purchasing amorphous metal transformers. (Since agreement, Japanese utilities have committed to buy 32,000 amorphous metal transformers by 9/92 for testing. The dollar figure is proprietary.)

- o **Structural Impediments Initiative:** Through the SII process, Japan has made specific commitments to increase investments in public sector infrastructure, more vigorously enforce its antimonopoly laws, liberalize the retail sector, and increase shareholder rights, among others. All of these changes in Japan are making it easier for U.S. firms to operate and sell in Japan. For example, SII has resulted in an amendment to Japan's restrictive large retail store law. As a consequence, Toys R US opened its first store in December 1991.
  
- o **Government Procurement of Computers:** As a result of the President's trip to Japan in January 1992, the \$9 billion government market for computers and related services was opened to foreign bidders. U.S. industry projects the agreement may result in increased sales of \$3.5 billion to \$5.5 billion by 1995, when the government market is projected to approach \$16 billion.

## Trade with Asia and the Pacific

We are working intensively in Asia to ensure that its growing market is open to U.S. exports. Some of our accomplishments since taking office include:

- o **Korean Beef Agreement:** A 1990 agreement resulting in an immediate five-fold increase in U.S. exports of beef to Korea. During the first year of the agreement, U.S. exports reached \$120 million.
- o **Korean Telecommunications:** Three Memoranda of Understanding concluded since 1989 have radically opened the Korean telecomm market to U.S. exports. U.S. firms are now able to compete in the 12th largest telecomm market in the world valued at more than \$2 billion in 1991 and growing at a rate of almost 5 percent a year.
- o **Association of Southeast Asian Nations:** In December 1990, the United States signed a memorandum of understanding with the six ASEAN governments (Malaysia, Thailand, Indonesia, Philippines, Singapore, and Brunei) to expand trade and investment. U.S. exports to ASEAN grew nearly 50 percent over the past three years. Sectors benefitting include aircraft, electronic products, chemicals, pharmaceuticals, plastics, computers and office equipment, and telecommunications equipment.
- o **Singapore:** In October 1991, we signed the U.S.-Singapore Trade and Investment Framework Agreement. It establishes a new consultative mechanism and provides for negotiations on such issues as intellectual property protection and investment conditions.
- o **Thailand:** A bilateral agreement concluded in 1991 provides non-discriminatory access to the Thai cigarette market, valued at \$160 million annually.
- o **Taiwan:** Negotiated reductions in Taiwan tariffs covering over one-half of the total tariff schedule and bringing Taiwan's average tariff level to a rate of 10 percent annually to its current level of \$9 billion.

## Trade With Latin America and the Caribbean

In addition to launching the President's Enterprise for the Americas Initiative, the Bush Administration also has negotiated a number of agreements with countries in the region including:

### Argentina

- o Under a 1991 bilateral investment treaty (BIT), Argentina agreed to allow greater foreign investment. U.S. foreign direct investment in Argentina was nearly \$3 billion in 1990.
- o Discussions between the U.S. and Argentina led to the introduction of legislation in 1991 to comprehensively revise Argentina's patent law. The U.S. pharmaceutical industry alone estimated its losses at over \$10 million annually which will decrease when the law is passed and implemented.

### Brazil

- o A 1990 agreement with Brazil to revise its patent, trademark, industrial design, and utility model law in 1991. The U.S. pharmaceuticals industry alone estimated its losses in Brazil from inadequate patent protection at over \$30 million annually which will decrease when the law is passed and implemented.
- o An agreement with Brazil to introduce and pass legislation to reduce barriers to imports and investment no later than October 1992 regarding computers and digital electronics equipment. This new law will eliminate a number of barriers to U.S. exports, including a ban on certain computers and related products, and help open up a market of over \$5 billion.
- o A 1990 agreement with Brazil to eliminate certain restrictive elements of its import licensing regime, including a list of over 1,200 manufactured and agricultural products. The Brazilian import licensing regime now requires that such licenses be granted automatically within 5 days, thus substantially increasing U.S. export opportunities.
- o Through bilateral discussion, the Bush Administration has encouraged Brazil to open its market to motion pictures and videos. In addition, video piracy has been reduced from over 90 percent of the market to less than 50 percent of the market. Legislation has been passed by the Brazilian Congress in 1991 further reducing barriers in the motion picture industry. Brazil represents the largest market for U.S. motion picture exports in South America.

Chile

- o A 1991 agreement with Chile under which it significantly improved its protection of patent, trademark, utility model, and industrial design law. The U.S. pharmaceutical industry alone estimated its losses in Chile stemming from inadequate patent protection at \$7.5 million annually which will now decrease.

## Trade with North America

### Canada

Our negotiations with Canada build upon the U.S.-Canada Free-Trade Agreement (CFTA).

The CFTA entered into force on January 1, 1989 and established the world's largest and most comprehensive bilateral free trade area. The combined total of the value of goods and services which flow between the two countries is approximately \$200 billion. We have had significant success:

- o Bilateral trade in goods reached \$167 billion in 1989, an increase of approximately 9 percent over 1988. For 1990 trade equalled \$174 billion, an increase of 4.2 percent over 1989, despite a slowdown in both economies.
- o Duties on products with a \$3 billion trade value were eliminated immediately on January 1, 1989.
- o Virtually all tariffs between the U.S. and Canada will be eliminated by January 1, 1998.

The following agreements have generated, and continue to generate these billions of dollars in increased sales to Canada:

- o Accelerated tariff negotiations (May 1990, September 1991): In the first round of accelerated tariff negotiations, the tariffs on 400 products with a bilateral trade value of \$6 billion were eliminated. In the second round, the tariffs on over 250 products with a bilateral trade coverage of \$2 billion were eliminated. We are currently beginning the third round of this widely supported exercise.

### U.S.-CANADA BILATERAL TRADE RELATIONS

The U.S.-Canada Free-Trade Agreement (CFTA) established the world's largest and most comprehensive bilateral free trade area. The combined total of the value of goods and services which flow between the two countries is approximately \$200 billion. The CFTA entered into force on January 1, 1989, and its implementation has proceeded smoothly over the past three years. Traders and investors on both sides of the border have moved to take advantage of the many opportunities opened by the progressive reduction and elimination of trade and investment barriers. The many bilateral institutional mechanisms of the CFTA have proven useful in resolving a number of issues before they could become serious disputes. The outlook is for further

growth as the staged removal of impediments continues during the ten-year phase-in period.

One of the most acclaimed successes of the CFTA is the accelerated elimination of tariffs, accomplished at the initiative of the private sector and with the concurrence of the Congress. In May 1990 the first round of tariff acceleration was concluded, covering over 400 products valued at almost \$6 billion. In September 1991, the second round of negotiations produced accelerated elimination of the tariffs on over 250 products with a bilateral trade coverage of \$2 billion. The Administration initiated late in 1991 a third round of this trade liberalizing exercise widely supported on both sides of the border.

Other areas of achievement in 1990 include: the establishment by the Canadian Copyright Board of royalties to be paid to copyright holders of TV and radio programming produced in the United States; the removal of Ontario Provincial Government restrictions on the ability of U.S. manufactured super-trailers to use provincial highways; a negotiated agreement providing interim access for U.S. exports of hatching eggs and chicks; and a change in Canadian uranium processing policy permitting the export of Canadian unprocessed uranium to the United States for upgrading in U.S. plants.

In the area of inter-governmental dispute settlement under Chapter 18 of the CFTA, only two cases have been adjudicated by panels to date. These disputes involved Canadian restrictions affecting salmon and roe herring and U.S. minimum size requirements for lobsters. In both instances the CFTA panels ruled in favor of the U.S. position.

In 1991, as a result of provisions of the CFTA, the Canadian Wheat Board eliminated its import licensing for U.S. wheat and wheat products, as it had in 1989 for U.S. oat and oat products. As a result of USTR intervention, in September the Government of Ontario decided to abandon plans for a provincially-run monopoly for auto insurance which would have negatively impacted U.S. insurance interests. As the result of the Canadian termination of the Softwood Lumber MOU in October of 1991, the Administration took decisive steps to insure that domestic interests were not adversely impacted. In defense of U.S. trade rights under the GATT as well as U.S. exports interests in Canada, the United States brought a GATT dispute settlement case against Canadian provincial restrictions against U.S. beer exports. In September 1991, the GATT panel ruled in the U.S. favor and we are working with the Canadian Government on the implementation of the panel's findings.

## Mexico

Our negotiations with Mexico are designed to further open the our third largest trading partner to U.S. exports and investment.

The Bush Administration is working to open the Mexican market by negotiating a North American Free Trade Agreement (NAFTA) which will eliminate barriers to the flow of goods, services and investment, and strengthen protection of intellectual property rights.

- o Since Mexico joined the General Agreement on Tariffs and Trade (GATT) in 1986, U.S. exports have more than doubled, growing from \$12.4 billion to \$28.4 billion.
- o Consumer goods exports from the United States to Mexico have tripled since 1986, rising from \$1 billion to \$3 billion.
- o U.S. exports of capital goods have grown from \$5 billion in 1986 to about \$9.5 billion in 1990.

## Trade with the Former Soviet Union

President Bush and President Gorbachev signed the historic U.S.-Soviet commercial agreement on June 1, 1990. It provided for improved access to each countries markets; facilitated business by easing restrictions on commercial activities; and offered strong intellectual property protections.

With the break up of the Soviet Union into 11 independent republics, the United States has begun a process of negotiating new commercial agreements based on the U.S.-Soviet model.

## Trade with Eastern Europe

The Bush Administration has made a major effort to bring the emerging democracies of Eastern Europe into the international trading system. Not only will better trade relations with these countries help them secure their hard-won freedoms, but also they will increase U.S. exports of essential goods and services to the region.

- o **Bulgaria:** In October 1990, the United States negotiated a trade agreement with Bulgaria which extended most favored nation tariff treatment to products of Bulgaria and to U.S. exports there. The Administration also negotiated a bilateral investment treaty with Bulgaria.
- o **Czechoslovakia:** In November 1990, the Administration implemented the U.S.-Czechoslovakia Trade Agreement extending MFN treatment to Czechoslovakia in return for MFN treatment of U.S. goods entering Czechoslovakia. We also have concluded a bilateral investment treaty.
- o **Hungary:** The Administration
- o **Poland:** In March 1990, the United States signed a Business and Economic Relations Treaty which was ratified by the Senate in October 1990. In 1991, we ratified a bilateral investment treaty with Poland.
- o **Eastern and Central European Countries:** In 1991, the Bush Administration developed and began implementation of the Trade Enhancement Initiative for Eastern and Central European Countries.
- o Extended MFN to **Estonia, Latvia, and Lithuania** in 1991. GSP benefits were extended to the Baltics in February 1992.

## Eastern Europe and the Soviet Union

- o **Bilateral Investment Treaties (1991):** Signed bilateral investment treaty (BIT) with Czechoslovakia (not yet ratified); initialed BIT with Bulgaria; and ratified BIT with Poland. Signed, ratified and implemented a bilateral trade agreement with Bulgaria

which, among other things, provided for MFN treatment.

- o Negotiated Bilateral Economic and Business Treaties (1991): Obtained ratification and implementation of a bilateral economic and business treaty with Czechoslovakia. Treaty with Poland was also ratified (not yet implemented because we are not satisfied that Poland has complied with all IPR obligations).
  
- o Extended Trade Benefits to Eastern and Central European Countries (1991): Extended MFN and GSP (Generalized System of Preferences) treatment to Czechoslovakia. Extended MFN treatment to Estonia, Lithuania, and Latvia. Developed and initiated implementation of the Trade Enhancement Initiative (TEI) for Eastern and Central European Countries.

## Trade with Europe

Under the Single Market Program, the twelve members of the European Community (EC) are seeking by the end of 1992 to remove all barriers to the free flow of goods, services, capital and people throughout the Community.

The United States supports this effort, but is closely monitoring developments to ensure that American products are treated fairly. The United States has intervened to guarantee that our commercial interests are not harmed.

- o In 1990, U.S. exports to the EC totalled over \$98 billion, an increase of over \$20 billion since 1988.
- o The United States has transformed a \$9.2 billion trade deficit with the EC in 1988 into a \$6.1 billion trade surplus in 1990.
- o U.S. manufactures exports rose over 32 percent between 1988 and 1990, reaching \$81.3 billion.

In addition, the United States has negotiated away a number of EC trade barriers, including the following:

### Western Europe

- o Financial Services (1989): The U.S. strongly opposed a proposed EC requirement that would have discriminated against U.S. financial service companies. EC changes in its proposal lessened these concerns and better safeguard the rights of U.S. financial firms.
- o Canned Fruit (1989): In June 1989 the United States clarified an earlier agreement with the EC on canned fruit. As a result, the EC cut its subsidy for canned fruit exports.
- o Apples (1989 and 1990): Sweden and Finland, in response to U.S. pressure, eliminated their seasonal import bans on apples and pears in 1989 and 1990, respectively.
- o Enlargement (1990 and 1991): We succeeded both years in persuading the EC to provide a one-year extension of the agreement compensating the U.S. for trade impairments caused when Spain and Portugal joined the EC. The compensation under the agreement has a trade value of about \$420 million.

- o **Computer Software Copyright Protection** (1990): The U.S. mounted an extensive and ultimately successful campaign to persuade the EC to provide adequate copyright protection for computer software in a directive it recently adopted.
- o **Rules of Origin** (1990): We succeeded in dissuading the EC from adopting a rule of origin for printed circuit boards based on percentage of content. Such a rule would have proven costly to U.S. exporters and would have caused significant trade distortions.
- o **Airbus** (1991): Initiated GATT dispute settlement procedures against the EC for its Airbus subsidies. Received a favorable ruling regarding German Government exchange rate support for Deutsche Airbus, the German partner in the four nation European aircraft consortium Airbus Industrie.
- o **Greek Government Procurement** (1991): Obtained commitment from Greece to implement GATT Government Procurement Code.
- o **Corn Gluten Feed** (1991): Successfully resolved a customs classification issue with the the EC which was disrupting U.S. exports of corn gluten feed valued at about \$600 million a year.
- o **Wine** (1991): Obtained the temporary continuation of the EC's derogation for certain U.S. winemaking practices that otherwise would not have been permitted in the EC. U.S. wine exports to the EC totaled nearly \$40 million.

#### **Mediterranean Countries**

- o **Removed Import Barriers** (1991): Achieved major changes in Israeli tax and import licencing systems which had operated to discriminate against U.S. exports.
- o **Eliminated Machine Tool Circumvention** (1991): Negotiated agreement which eliminated circumvention by Israeli firms of our machine-tool VRA with Taiwan.

**FORGING A GLOBAL PARTNERSHIP FOR  
GROWTH AND OPPORTUNITY**

**REMARKS BY  
AMBASSADOR CARLA A. HILLS  
UNITED STATES TRADE REPRESENTATIVE  
BEFORE THE  
NIXON LIBRARY CONFERENCE  
WASHINGTON, D.C.  
THURSDAY, MARCH 12, 1992  
[as delivered]**

**INTRODUCTION**

For the first time in history, the overwhelming majority of the world's people share a common economic and political vision. From Budapest to Brasilia, that vision is of the extraordinary achievements possible when the imagination and industry of the individual are allowed to emerge from the shadow of government control into the light of liberty.

Peoples in the former Soviet Union, Central and Eastern Europe, and Latin America have chosen freedom and have torn down the political barriers that have separated them from us.

The same forces that led to the dismantling of political barriers are energizing international trade relations. Many countries are choosing to tear down confining economic barriers. They are seeking to supercharge their economies with new commercial freedom to create opportunities for growth and prosperity.

For our President, who fervently believes in the benefits that flow from open markets, this new spirit could not have blossomed at a better time. President Bush has a vision of a world without trade barriers.

Speaking at the United Nations last September, the President told the world how his trade policy contributed to the new world order. He said: "Growth does more than fill shelves. It permits every person to gain -- not at the expense of others, but to the benefit of others. [And] prosperity encourages people to live as neighbors, not as predators."

The challenge we face today is how to anchor these emerging democracies to the ideal of freedom, both politically and economically, over the long-run. We do not want them to return to command economies -- lured by the false promise of protectionism. We want them looking outward, eager to participate in a world of potential and possibility.

#### OVERVIEW OF U.S. TRADE POLICY

The President's trade policy -- key to our effort -- seeks to seize every opportunity to open markets and expand trade not only to create greater growth and prosperity here at home, but also to foster peace and stability throughout the world.

Since taking office, the Bush Administration has deployed a trade strategy that seeks:

- o to achieve a successful conclusion to the Uruguay Round of global trade talks; and
- o to enter market-opening agreements with key trading partners, individually and collectively.

#### URUGUAY ROUND

The Uruguay Round is by far the most important of these trade initiatives. The talks are taking place in Geneva under the auspices of the General Agreement on Tariffs and Trade, or the GATT. The 108 nations at the bargaining table represent over 90 percent of world trade.

In these negotiations we are seeking a set of rules, laws in effect, to modernize and strengthen our global trading system.

One agreed goal is to reduce global trade barriers by a third. By our economic calculations, a one-third reduction in tariff and quotas alone would increase world output by \$5 trillion over the next decade.

But the potential benefits of these talks go much further.

They could:

- o open new markets for rapidly growing service industries;
- o expand market opportunities for international investment;
- o provide rules to protect intellectual property; and
- o establish fairer competition in agriculture, which for many countries constitutes their only source of hard currency.

The United States is doing everything possible to push these negotiations to a successful conclusion. We are absolutely convinced that a good outcome in the Uruguay Round is the very best means to put all nations on the path to greater prosperity.

#### GEOPOLITICAL BENEFITS

Beyond the broad economic gains, a successful conclusion of the current round of global trade talks can promote and protect

our security interests. By mooring the countries of Central and Eastern Europe and Latin America securely to an open global trading system, the GATT can help prevent political drift and economic instability.

Future trade and economic opportunities for these emerging democracies depend directly upon results we achieve in this round of GATT talks.

To maximize their prosperity and security, Central and Eastern Europe must broaden and strengthen their economic ties worldwide. Integrating them into the global trading system will counterbalance temptations favoring an inwardly oriented greater-European economy.

Similarly, the countries of Latin America need to reverse the inward-looking, isolating statist policies which brought them such ruin in the "Lost Decade" of the 1980s.

We can calculate to the dollar the enormous economic benefits of a successful Round. A less quantifiable, but equally important outcome, would be the creation of a stable and effective framework for international collaboration.

A rejuvenated trading system will help prevent increased .protections, heightened friction, costly trade wars, and

political instability that would make it near to impossible to organize alliances against common threats like the one that stood firm against Iraqi expansionism.

Without an agreement, the recently emerging democracies in Eastern Europe and Latin America will be drained by the massive costs of protections now imposed on them -- costs that the World Bank calculates total two-and-a-half times all the aid they receive.

How tragic it would be if reform governments that have replaced command economies and tyrants with market-oriented systems and political freedom cannot deliver on their economic promises because of trade restrictions erected by the industrialized world, and thus are replaced by more strident and less sensible regimes.

All of these concerns could be considerably reduced by a positive outcome of the Uruguay Round of global trade talks.

#### BILATERAL AND REGIONAL TRADE INITIATIVES

As we work to achieve just that, we continue to press for open markets in every forum available to us.

A major opportunity close to home is our effort to negotiate a North American Free Trade Agreement. Linking the complementary economies of Canada, our largest trading partner, and Mexico, our third largest trading partner, with our own would create one of the biggest and richest markets in the world with 360 million producers and consumers, and \$6 trillion in annual output.

We see a North American Free Trade Agreement as not only creating new export opportunities for American businesses and new jobs for American workers, but also locking in the economic reforms put in place by the Salinas Administration.

A recent study by the Institute of International Economics found that a NAFTA would create more than 600,000 jobs in Mexico and 242,000 in the United States. Our own studies show an added benefit of this newly created wealth: the ability to cleanse and maintain the environment in the border region.

#### ENTERPRISE FOR THE AMERICAS INITIATIVE

Without question, a successful NAFTA has enormous potential for the economic growth of our nation and for the North American region. But we also see it as a first step in implementing the President's Enterprise for the Americas Initiative which he announced in 1990. The President's long-term vision is to create an hemispheric free trade area from Alaska to Argentina.

To that end, in the last 22 months, we have put in place framework agreements with 30 Latin American countries. These agreements set forth a set of sound trading principles, provide for regular consultations, and establish the first agenda for consultations. (I might note that we entered a framework agreement with Mexico in 1987 and look how far they and we have come since then!)

But our efforts to open markets are not limited to this hemisphere.

#### U.S.-JAPAN TRADE

Since President Bush took office, a top trade policy has been to expand access to the world's second largest market economy. We want Japan to be as open as the U.S. market. Decisions on whether to import or export, to buy or sell, must be based on market signals, not on collusion, Keiretsu, administrative guidance, or industrial targeting.

Our message to the Japanese is clear: until their markets are fully open, they will stir protectionist tendencies that are latent everywhere and risk crippling the trading system on which their prosperity depends.

Our efforts have achieved some success. During the 3 years President Bush has been in office, U.S. exports to Japan have jumped 30 percent -- ten times faster than our imports.

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

Yet so much needs to be done.

#### CONCLUSION

1992 will be a full and intense year for trade negotiations and a pivotal one for the world economy.

Our mission this year is to build a consensus in Congress, throughout the country, and in the world at large for what open trade means and why it must be nurtured.

Critical to building this consensus is to convince our domestic and international colleagues that we seek to open trade not for any narrow advantage that it may give to a single sector but for the prosperity it generates for all nations.

Together, the nations of the world have within their grasp the historic opportunity to build a global trading system that

could trigger an economic renaissance that could insure global peace and prosperity well into the 21st century.

And that is worth working for.

# # #

Tired of gloom and doom in the press and on the tube? Weary of politicians who say that unless you elect them the U.S. will go down the drain? Come visit with us the sunny uplands of the boom in U.S. exports.

# The world's most competitive economy

By Howard Banks

IF ONE WERE to judge the state of the economy purely by the rhetoric in the presidential primaries, the conclusion would have to be that the U.S. was an economic disaster. Factories closing. Consumers gloomy. Productivity lousy compared with Japan's. So elect me and I'll salvage the economy and save your jobs.

But why isn't anyone talking about what's happening to the trade deficit, the worry that so exercises politicians, TV newsmakers and newspaper headline writers? It must be that these newsmakers and news processors think the public doesn't like good news. Because the news from the trade front is very good indeed.

In overall trade, the U.S. had a record deficit of \$146 billion in 1987 (see chart). In 1990 the gap was down to \$70 billion. But by the close of 1991, the trade deficit was \$7 billion—a nothing number in a \$6 trillion economy.

It is also nothing like any trade number thrown around by politicians, who mostly concern themselves with merchandise trade. But even here U.S. exports have been growing an average of 9.5% a year since 1985, much faster than the growth in imports. This has cut the U.S. trade deficit in merchandise goods by almost \$95 billion since 1987.

In merchandise goods, including the cost of importing oil, the U.S. last

year still ran a fair-size deficit—\$66.8 billion. But this is 1992, not 1952. These days not all trade is in manufactured goods. The overall balance reflects two other major items in trade. Last year the U.S. had a \$49.5 billion surplus in services, from the sale of such things as custom software, movies, insurance, and travel and tourism. It also had a surplus in net investment income, of around \$10 billion.

What's that about the U.S. not being competitive?

Management seer Peter Drucker, who has a knack for seeing big trends before other people do, recently said: "What's already happened to U.S. trade performance, especially in manufacturing, is unprecedented."

It may profit the presidential hopefuls to peddle gloom so that they can promise to fix it, but listen to Martin N. Baily, professor of economics at the University of Maryland: "What else do you expect, with the U.S. now the world's low-cost producer?"

Low-cost? Three factors have combined to bring about this little-known fact.

One, since the 1985 Plaza Agreement by the Group of Seven major industrial countries, the value of the dollar has fallen by around a third in trade-weighted terms.

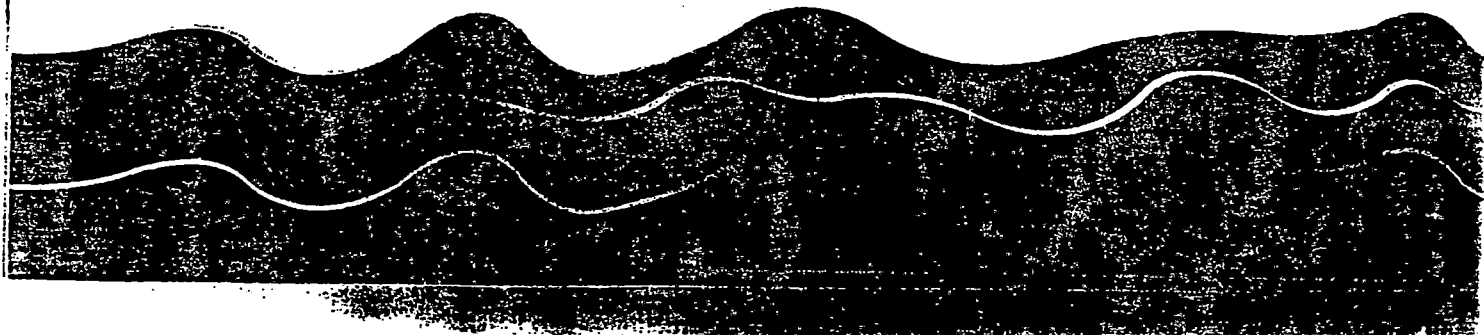
Two, U.S. productivity in manufacturing has been rising strongly since 1982.

Three, U.S. wages increased only 3% a year in current dollars between 1982 and 1990. By contrast, German wages rose 9.7% a year, Japanese 10.5% a year.

The result is that per unit of output, U.S. manufacturing labor costs have gone down in real, inflation-adjusted, terms by 7% since 1982, according to the Organisation for Economic Co-operation & Development in Paris. On the same basis, the OECD says that average unit labor costs for the eight other top industrial economies rose by over 45% in the same period.

You can turn that into gloom if you want: It means U.S. workers no longer have the same wide edge in standard of living they once had over workers in other advanced countries. But the other side of that is that consumers in the other countries can now afford to buy more imported goods—and the U.S. is getting its share of those dollars. If jobs are the issue—and they seem very much to be—a job making goods for export is at least as good as a job making goods for domestic consumption.

The U.S. economy is now so highly competitive with the rest of the world that in Europe there are already the first rumbles of complaint about the American export juggernaut. Last year the U.S. ran a \$16 billion merchandise trade surplus with Europe. In 1986 it was a \$23 billion deficit.



What accounts for such a swing? The devastating pain of the early 1980s, the shakeout of weak companies with bad management and poor products—and the unemployment that inevitably followed—has been like a blast of pure oxygen to the economy. Productivity in manufacturing has been increasing at 3.1% a year on average since 1983. That is faster than in all other industrialized countries, with the exception of Britain (coming back from depression levels). Japan, with a proportionally higher investment level, managed about the same improvement, but from a much lower base.

Is it possible that the recent improvement in the trade figures owes primarily to the recession—that once the economy recovers, imports will

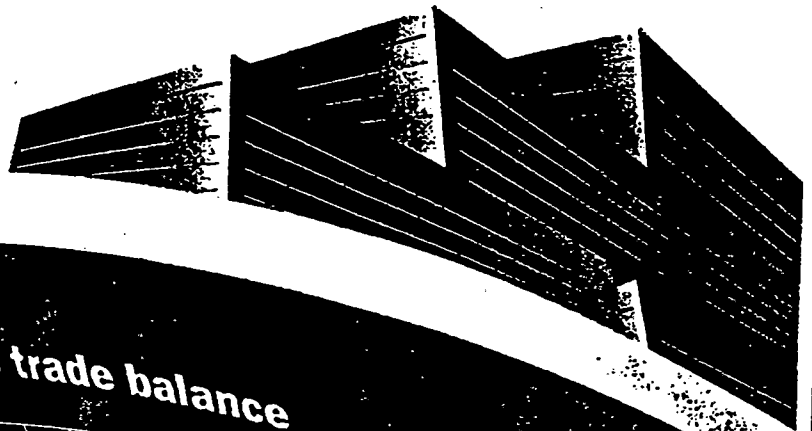
again jump and U.S. business people will slip back into the easier job of selling to fellow Americans? “No, no, no, no, no, no!” says General Electric Co.’s Jack Welch, and the present chairman of the Business Council. “We’re all globalists now, and we are staying that way.”

Other Forbes 500s executives echo his view. Says United Technologies Corp.’s chairman and chief executive, Robert F. Daniell: “We must export to grow. And companies that export heavily have learned that when one country or market is down, another will be up.” A.D. (Pete) Correll, president and chief operating officer of papermaker Georgia-Pacific Corp., chimes in: “Export markets have been [at least] as profitable as domestic markets” (see box, p. 88).

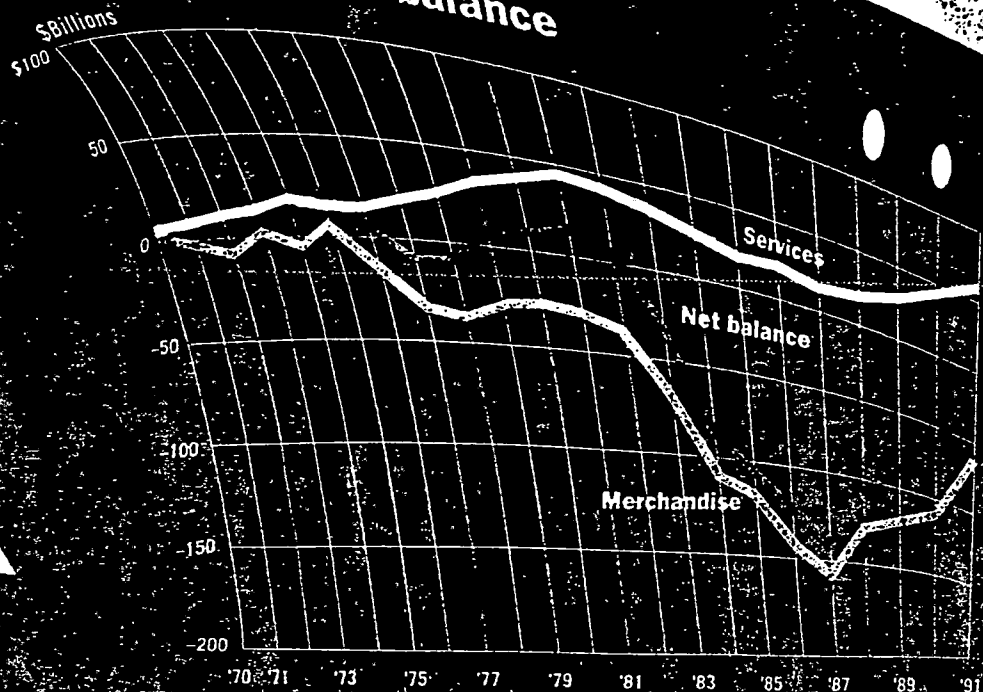
Welch and Daniell, with other corporate leaders such as Dexter F. Baker, chairman and chief executive of Air Products & Chemicals Inc. and current chairman of the National Association of Manufacturers, make another telling point: Concentrating on the home market today spells disaster, because companies that try doing so end up losing out to imports even at home. “It is the companies that export that are doing best here at home,” says Baker.

Low-cost imports squeeze margins here in the U.S. “That has been a wonderful prod to U.S. companies to improve their productivity,” says Gary C. Hufbauer of Georgetown University.

The likelihood now is that the U.S.



## Oh so close to trade balance



In 1991 the merchandise trade deficit, including oil, is offset by a surplus on services and net investment income, giving an overall trade deficit of \$7 billion.

Source: Department of Commerce, Bureau of Economic Analysis

will achieve a small trade surplus as soon as sometime later this year. After that? It is more than likely that for a while, the U.S. will slide back into a small overall deficit.

The gloom-mongers will have a field day with this. But it is simply the outcome of what economists call asynchronous growth—trading partners, that is, grow at different rates at different times. Because the U.S. went into recession earlier than other industrial countries, imports here slowed while exports continued on a fairly strong path. Now things have reversed. The U.S. seems headed for modest growth, while Europe and Japan are headed for the economic tank. So, temporarily, U.S. imports

will likely increase, and U.S. exports will be squeezed by slowdowns overseas. But when Europe and Japan recover, so will the U.S. trade position head back into surplus. The long-term trend is right and good.

None of this is, of course, foreordained. To be competitive internationally, it is not enough just for the U.S. to improve domestic productivity and efficiency—as it has done. The dollar must also be kept at a reasonable level vis-à-vis other currencies; a too-expensive dollar would price U.S. goods out of foreign markets.

If the U.S. goes back to policies that encourage a strong dollar, as happened in the early 1980s, then all bets are off. Says GE's Jack Welch:

"Each 10% increase in the relative value of the dollar requires a 10% increase in productivity to offset it."

Fortunately, the indications on the dollar look positive for trade. The key reason the dollar rose so much in the early 1980s was Congress' pushing up the budget deficit. The two accounts—federal budget and foreign trade—are closely interlinked. The budget deficit left the U.S. with insufficient national savings to pay for the capital investment boom that began in 1982. The gap had to be filled by borrowing from abroad; to achieve that required high real interest rates, which pumped up the value of the dollar.

But hold it. Isn't the U.S. budget

### Quick reaction

AS THE U.S. trade deficit hit new records in the mid-Eighties, sales at Nordson Corp. flattened in 1985 for the first time in the company's 31-year history. "We had lost our eyes and ears in international markets," recalls Nordson's president and chief

executive, William Madar. "We weren't listening as closely to our customers abroad."

Based in Westlake, Ohio, Nordson makes specialized machines that apply adhesives, sealants and coatings used in making things like cars and household appliances. Manufacturing robots don't move at a constant

speed—they slow down when making turns—and Nordson's computer-controlled system, called Pro-Flo, adjusts the flow of materials to the robot's speed so they are applied consistently.

Madar had long taken foreign markets seriously; by 1985 half of Nordson's sales were made overseas. So when the busi-

ness leveled, he reacted quickly. He created three new international divisions and gave them more power within the organization—allowing them, for example, greater freedom to tailor the company's machines to suit local market needs. The dollar, which began to fall late in 1985, also helped.

The moves soon put Nordson back on track. While U.S. sales have increased at an average annual rate of 11% since 1987, exports have grown faster and accounted for two-thirds of Nordson's total sales of \$388 million in fiscal 1991 (ended Nov. 3). Nordson's 29% average return on equity over the last five years is more than double that of the entire capital goods industry.

Madar, whose customers include Japanese auto-makers, has little patience with politicians who say the U.S. must get tough with our trading partners. "If you come up with new ways to help people be more competitive," he says, "you don't find many barriers in the way."

—GRAHAM BUTTON



William Madar, Nordson Corp. president  
Fast-growing exports now account for two-thirds of sales.

deficit now at record levels? Yes, it is, but we are no longer as dependent on foreign money to finance it as we were in the decade just past. Beginning in 1982, the budget deficit began to increase at the very time when Americans started to save less. Thus, to finance the deficit we had to borrow heavily abroad, and this required high interest rates to attract foreign money. It also strengthened the dollar, because in order to invest here foreigners had to buy dollars.

But we no longer require all this foreign money. A decade later, even though the budget deficit is rising sharply again, the same pattern will not be repeated. Personal savings are higher today, and—far more important—so are corporate savings in the form of retained earnings and depreciation. As a result, the Fed is no longer forced to keep interest rates crippling high, nor is there the same upward pressure on the dollar.

Consider these numbers: In 1987 the U.S. imported \$150 billion in foreign capital. In 1991, including allies' contributions toward the cost of Desert Storm, the U.S. barely borrowed a cent from abroad. This year the requirement will be no more than \$40 billion or so.

Again the caveat: These favorable trends could be reversed if a demagogic Congress goes on a spending spree or on a taxing spree that penalizes savings.

According to the Congressional Budget Office, always the gloomiest forecaster on the subject, the budget deficit by 1996 will be back down to around 2.4% of the total economy, versus nearly 6% by the end of this fiscal year. By mid-decade the worst costs of the s&t. bailout should be over and defense spending will have started to moderate.

The best news about the U.S.' strong export performance is that the improvement is broadly based across most world markets. The fastest-growing markets for U.S. exports have been Europe, the newly industrializing countries in Asia and some longstanding customers who were out of the market for most of the 1980s but who are now coming back with a vengeance: the Latin Americans. "Exports to Latin America grew at over 15% in 1991," says Adrian T.

## The pull-through effect

Emerson Electric's Stephen Cortinovis "I don't want our people passing through every six months. I want daily contact with the customer."

ANYONE who worries that foreign investment by U.S. manufacturers destroys U.S. jobs should look at St. Louis' \$7.4 billion (revenues) Emerson Electric Co. International sales accounted for 40% of Emerson's revenues last year. Most of that business was done between Emerson's foreign customers and the company's 110 overseas manufacturing sites. But recently overseas sales of goods made in Emerson's U.S. factories have emerged as the fastest-growing segment of the company's business. Direct exports of Emerson's electric motors, heating systems components and pressure measuring instruments are now running at \$500 million a year.

The direct exports are

the result of what Stephen Cortinovis, Emerson's vice president of international development, calls "a pull-through effect." By this he means that Emerson's foreign manufacturing has made overseas customers more aware of the company and the company more aware of foreign markets.

"We're experiencing an export boom today because we laid the seeds 15 years ago," he says. "You can't export without a local presence."

Noting that Emerson invested heavily to modernize its U.S. plants, Cortinovis says the company's U.S. operations employed 19,000 workers ten years ago. Today the figure is 44,000.

—CHRISTOPHER PALMERI



Donna DeVito/Gamma-Liaison

## Paper's tigers

BUT FOR EXPORTS, U.S. paper companies would have been in much deeper soup during the last couple of years. U.S. demand



for paper is down, but exports are surging, allowing producers to continue running their plants at 91% of capacity. In 1991 American exports of printing and writing paper were up 40% over 1990,

which was up 39% over 1989. Exports of kraft linerboard, the inner and outer layers of corrugated cardboard boxes, hit a record 3.4 million tons in 1991. Linerboard exports by Chicago-based Stone Container, the world's largest boxmaker, are now almost 22% of total output.

What accounts for this strength? Two things: the cheaper dollar and heavy investment. The industry, which has never asked for trade protection, reckons it has the highest ratio of capital spending to sales—around 10%—of all U.S. manufacturing industries. Since 1980, U.S. papermakers have spent \$100 billion modernizing and

building new plants.

Worker productivity has increased by 21% since 1985, but the industry payroll, at 242,000 last year, is down less than 2% from 1985, when the dollar began to fall. "The weaker the dollar, the better our [capital spending] strategy looks," says A.D. (Pete) Correll, president and chief operating officer of Georgia-Pacific Corp.

Exports beget exports. As they sell more abroad, companies like Georgia-Pacific and Stone are finding that it pays to open yet more sales offices overseas, particularly in Asia.

"More and more companies," says Correll, "are developing an export strategy." —GARY SLUTSKER



Georgia-Pacific's Correll (above) Linerboard Produce in the U.S., sell worldwide.

Dillon, vice president, planning, Easton Corp. "This market will become more important as their economies continue to improve and when we get a free-trade deal with Mexico."

The export boom, no flash in the pan, also spreads across a broad sweep of the economy.

The U.S. is, for instance, particularly strong in services, dominating in areas like software and insurance. On international air routes, weak Pan American and TWA have been replaced with three strong carriers, United, Delta and American; today 25% of total U.S. airline revenues come from international routes. Up to 1988, the U.S. mostly had a \$2 billion to \$3 billion deficit on its travel and tourism account. In 1991 there was a \$9.4 billion surplus.

There is great strength in high-tech exports, in computers, semiconductors (where 47% of U.S. output is now exported), in scientific instruments, airliners, pharmaceuticals and telecommunications equipment.

"Revolution" is an overworked word, but there's no better way to characterize what has happened in the capital goods sector. U.S. capital goods makers now export nearly half their total output. Even basic indus-

tries, like chemicals, paper and pulp, and relatively mundane equipment, such as electric motors (*see box, p. 87*), share in the boom.

What's striking, if common sense, is that companies that are competitive and are successfully exporting rarely complain much about foreign governments' blocking their efforts. They have put in the groundwork, which can sometimes take years to bear fruit (especially in Japan).

So how far can this boom go? The U.S. currently exports around 7% of gross domestic product. Japan exports 9.7%, and the European Community around 9% outside the community. Suppose that the U.S. can add the equivalent of another 3% of GDP to its exports, to match the export share of its major industrial rivals. Today that would equal \$170 billion in new trade, which would sustain at least 2.75 million jobs.

These extra exports would, incidentally, just about replace the output and jobs likely to be trimmed over the coming five or six years as a result of defense spending cutbacks. So we are not talking of a jobs bonanza, the more so since many successful exporters are still trimming unneeded jobs to cut costs and boost productivity

further. Nevertheless, such an increase in exports would greatly ease the inevitable pain of massive cuts in the defense budget.

It would be pleasant to conclude this article on a wholly optimistic note, but it would be unrealistic to overlook the very real dangers of politics intervening. Senator Donald W. Riegle Jr. (D-Mich.) has, for instance, introduced a bill that would reclassify Japanese minivans as trucks (thereby adding perhaps \$5,000 to their cost). Riegle's bill will probably go nowhere, but one never knows. History shows that free trade works, generating jobs and profit. And trade has played a significant part in helping squash inflation.

Trade, more now than at any time since the end of World War II, holds center stage when it comes to the nation's future economic well-being. Yes, there are many, many problems. We can all list them: inadequate education, crumbling infrastructure, crime, overspending politicians and the rest. But sustaining the trade boom will at least provide the means to deal with some of these problems. Should the boom wither, the prospects would be as dark again as they were in 1979. ■

January 22, 1992

## USTR FACT SHEET

### Measures Related to Japanese Public Sector Procurements of Computer Products and Services

On January 22, 1992, United States Trade Representative Carla A. Hills and Japanese Ambassador to the United States Ryohei Murata exchanged letters committing the Japanese government to base its procurements on the principles of non-discrimination, transparency, and fair and open competition.

Ambassador Murata's letter conveyed a set of detailed "Measures Related to Japanese Public Sector Procurements of Computer Products and Services" for government and quasi-governmental entities to follow when procuring computer products and services. The "Measures" explicitly state that they have the "aim of expanding procurements of competitive foreign computer products and services" by Japanese public sector entities.

Major provisions of the Measures include:

- Assurances by the Government of Japan that foreign and domestic suppliers will be accorded equal access to pre-bid information.
- Coverage of both computer products (effective April 1, 1992) and services (effective October 1, 1992 for governmental entities covered by the GATT Agreement on Government Procurement; effective April 1, 1993 for other covered entities.)
- Commitment to formulate technical specifications in a neutral, non-discriminatory manner and to ensure that foreign computer manufacturers are provided with equal opportunities to participate in the specification-formulating study groups.
- Commitment that procurement entities will reduce their use of single tendering (sole sourcing).
- Improved transparency of the factors to be used in evaluating competing bids and to award contracts based on both price and performance.
- Establishment of an impartial bid protest system to provide equitable, timely, transparent, and effective bid challenge procedures.
- Establishment of mechanisms to facilitate procedures for the enforcement of the Antimonopoly Act in the public sector.
- Commitment to promote a multi-vendor open systems environment.

The Government of Japan also confirmed that it would take actions to eliminate or prevent anticompetitive behavior relating to the distribution of computer goods and services in the private sector.

The United States and Japan agreed to hold periodic consultations to assess progress in implementing the Measures based on relevant information as defined in the exchange of letters.

#### Key Statistics

- o The Japanese public sector market for computer products and services is estimated to have been \$9 billion in 1990.
  - Computer products, including computer hardware, peripherals, and packaged software, account for two-thirds of that total, or \$6 billion.
  - The Japanese government market for computer services, including systems integration and software development, is estimated to have been valued at \$3 billion in 1990.
- o The government sector computer market represents about 15% of the total computer market in Japan. The overall (public and private sector) Japanese market for computer products and services is estimated to have been \$60 billion in 1990.
- o The Japanese market for computer products and services is projected to grow 11.7 percent annually from 1990-1995.
  - The Japanese government market for computer products and services is projected to reach \$15.8 billion in 1995.
  - The combined public and private sector Japanese market for computer products and services is projected to grow to \$105 billion in 1995.
- o Foreign computer companies currently have only a six-percent share of the Japanese public sector mainframe computer market, considerably below the 41-percent share they now hold of the private sector market for mainframe computers in Japan.
- o At the national government level, foreign computer companies have only 0.4% of the Japanese government market for mainframe computers.
- o Data on the foreign share of the total market for computer products and services are not available. Data on the U.S. share of the Japanese market also are unavailable.

Source: The Computer Systems Policy Project