Case Number: 2009-0528-F

FOIA MARKER

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Folder Title:
Korea, Auto Agreement, 1997 [10]

Staff Office-Individual:
National Economic Council-Lee, Malcolm

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Withdrawal/Redaction Sheet
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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001a. list	Illustrative List of Measures that could Contribute to a Resolution on Slots. (1 page)	11/18/1997	P1/b(1)
001b. paper	Non-Paper on Slots. (3 pages)	11/18/1997	P1/b(1)
002a. list	Duplicate of 001a. (1 page)	11/18/1997	P1/b(1)
002b. paper	Duplicate of 001b. (3 pages)	11/18/1997	P1/b(1)
003. email	To Jeffery Bader, James Gagnon, Sandra Kristoff et al from SitRoom at 8:53 pm. Subject: Japan-US/CivAir. (4 pages)	11/19/1997	P1/b(1)
004. memo	For Gene Sperling from Malcolm Lee. Subject: Meeting with Ambassador Saito. (1 page)	11/17/1997	P1/b(1)
005. talking points	Points to be Made with Hashimoto. (2 pages)	11/1997	P1/b(1)
006. memo	For the President from Samuel Berger and Daniel Tarullo. Subject: Meeting with Japanese Prime Minister Ryutaro Hashimoto. (4 pages)	11/1997	P1/b(1)
007. email	To Asian Affairs from Charles Pritchard at 10:03 am. Subject: Hashimoto Bilat. (1 page)	11/17/1997	P1/b(1)
008. note	To Dan Tarullo from Malcolm Lee. Subject: Japan Update for POTUS APEC Pre-Brief. (1 page)	11/19/1997	P1/b(1)

COLLECTION:

Clinton Presidential Records
National Economic Council
Malcolm Lee
OA/Box Number: CF 1184

FOLDER TITLE:

Korea, Auto Agreement, 1997 [10]

2009-0528-F
vz1411

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P1 National Security Classified Information [(a)(1) of the PRA]
P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P3 Release would violate a Federal statute [(a)(3) of the PRA]
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C. Closed in accordance with restrictions contained in donor's deed of gift.
PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).
RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

b(1) National security classified information [(b)(1) of the FOIA]
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11/17

Malcom

Neither of these two papers were given to the Japanese or the U.S industry — Larson talked from them in small group session with Japanese & U.S. carriers were not present.

Ed Oppler

OPTIONAL FORM 99 (7-90)

FAX TRANSMITTAL # of pages ▶ 5

To Malcom Lee	From Ed Oppler
Dept./Agency MEC	Phone # 366-2358
Fax # 456-9290	Fax # 366-3698

NSN 7540-01-317-7368 5099-101 GENERAL SERVICES ADMINISTRATION

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001a. list	Illustrative List of Measures that could Contribute to a Resolution on Slots. (1 page)	11/18/1997	P1/b(1)

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001b. paper	Non-Paper on Slots. (3 pages)	11/18/1997	P1/b(1)

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National Economic Council
Malcolm Lee
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FOLDER TITLE:
Korea, Auto Agreement, 1997 [10]

2009-0528-F
vz1411

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FAX TRANSMITTAL # of pages ▶

To Malcome Lee	From Ed Oppler
Dept./Agency MEC	Phone # 366-2358
Fax # 456-9280	Fax # 366-369X

NSN 7540-01-317-7368 5099-101 GENERAL SERVICES ADMINISTRATION

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Points for Use by Administration Officials with Public/Press
Sept. 26, 1997

U.S.-Japan Economic Relations

General Points

- We are concerned that Japan's progress in opening its markets seems to have slowed recently.

- **It is important that Japan take seriously its responsibility to further open its market and generate growth from domestic sources.**

  - That is why we are pressing Japan to open its ports and its civil aviation, telecommunications, auto and auto parts markets.

  - That is why we are seeking greater market access in such important areas such as pharmaceuticals, housing, financial services, competition policy and distribution through government talks on deregulation that were agreed to at the by President Clinton and Prime Minister Hashimoto in June.

  - Genuine deregulation and market opening will benefit the consumers, producers and workers of both countries, and we are determined to move this process forward.

- It is important that Japan foster a strong recovery led by domestic demand.

  - Strong Japanese domestic demand fuels not only balanced Japanese growth, but also purchases of U.S. goods and services.

- This is not a shift in U.S. policy. These have been consistent objectives of this Administration, from our negotiation of the 1993 Framework Agreement with Japan right up to today.

- We have made considerable progress in our economic relations with Japan over the past four and a half years. We have worked hard open the Japanese market to American goods and services.

  - U.S. exports to Japan have expanded by 41% from 1993 to 1996.

  - This Administration concluded 30 market opening trade agreements with Japan.

  - America once again world's largest exporter, overtaking Japan as number one on semiconductors and number one on automobiles.

  - This is part of larger picture in which trade has accounted for one-third of our overall strong growth.

Current Account Surplus (If asked)

- Japan's current account surplus declined from 1993 until spring 1996 but is now rising.

- Japan's government faces a real challenge to achieve the Prime Minister's publicly stated objective of "promoting strong, domestic-demand led growth in Japan and avoiding a significant increase in the external surplus."

- (If asked) Japan needs to decide how to meet these objectives.

Market Access and Deregulation

- It is important that Japan fully implement our trade agreements and take additional steps to open its markets.

- We welcome Prime Minister Hashimoto's stated commitment to deregulate Japan's economy. We will work with the Japanese government to achieve genuine deregulation that will benefit both countries and result in greater market access.

- Talks are currently underway to liberalize Japan's port and civil aviation markets, to renew and improve the NTT procurement agreement, and to improve market access for U.S. autos and auto parts.

Enhanced Deregulation Initiative

- In addition, President Clinton and Prime Minister Hashimoto agreed at the Denver Summit in June to an Enhanced Initiative on Deregulation and Competition Policy.

- An agreed objective of the new deregulation initiative is to implement concrete deregulatory measures that increase market access in Japan for competitive goods and services.

- The initiative will focus on key sectors including telecommunications, financial services, housing, and medical devices/pharmaceuticals, as well as structural areas such as competition policy, distribution, and transparency of government procedures.

- We have already begun implementing this initiative at the expert level and anticipate holding senior level talks this fall. The success of this initiative will depend largely on whether Japan is truly committed to eliminating the significant regulatory barriers to its market.

Civil Aviation

- We are currently in talks with Japan to liberalize its civil aviation market. We did not reach agreement by September 30. Talks will continue in October.

- There are issue of great importance to the United States that have not been resolved. We will not agree to anything unless the package as a whole is in our national interest.

- Civil aviation is a sector in which U.S. companies are very competitive, but have been restricted by a tightly regulated market in Japan. We seek a substantial opening of the Japanese civil aviation market for our carriers, and full and faithful implementation of our current civil aviation agreement.

Ports

- We are disappointed that Japan has failed to remove obstacles to the way container vessels may dock, load and unload at Japanese ports, as it committed to do in April.

- Shipping lines need prior approval from the Japan Harbor Transport Association - a monopoly body that controls the provision of port services - for example on small changes to their schedules and to change stevedoring companies. The system is costly, disruptive, arbitrary and non-transparent. This arrangement is inconsistent with normal international shipping practices.

- Creating real competition for port services is an objective our countries share, and is consistent with Prime Minister Hashimoto's own efforts to deregulate the Japanese economy.

- We have been discussing this matter with Japan for years. In April, based on the Japanese commitment to liberalize, the independent Federal Maritime Commission deferred sanctions it had proposed in November, 1996 until September 4. When Japan failed to meet its commitment, the FMC, acting under Section 19 of the Merchant Marine Act, applied sanctions of $100,000 on all liner vessels owned and operated by Japanese shipping companies each time they enter a U.S. port from abroad.

- Talks are continuing, and both sides want to resolve this as soon as possible.

NTT

- Although progress has been made under existing arrangements, the foreign share of NTT telecommunications procurement still does not adequately reflect the global competitiveness of U.S. and other foreign firms.

- Extension and improvement of the arrangement is critical to ensure fair and open procurement opportunities for U.S. suppliers to the largest Japanese telecommunications purchasing entity.. We are now in negotiations with Japan to conclude an agreement by September 30, the expiration date of the current agreement.

Autos and Auto Parts

- Given that the autos and auto parts sector accounts for over half of our trade deficit with Japan, we are particularly concerned about the recent reversal of the positive trends we had witnessed over the past two years in this sector.

- It is important that Japan take steps to increase access to its vehicle distribution system, including improving access to dealerships. Without adequate access to distribution channels in Japan, U.S. auto manufacturers will have little chance of increasing their sales in the Japanese market.

- Progress has been made on deregulation of auto parts, benefiting both the U.S. and Japan. However, the pace and scope of deregulation in this sector needs to be enhanced significantly.

- Auto consultations with Japan will take place in early October. We are looking to Japan to take concrete actions to address our serious concerns about recent trends in this sector.

Financial Services

- We welcome Prime Minister Hashimoto's "Big Bang" financial modernization program, particularly his goal of making the Tokyo financial market competitive with those of London and New York by the year 2001.

- Deregulation along with the principles of "free, fair and global", if properly implemented will provide the basis for reinvigorating the Japanese economy and strengthening Tokyo as a major financial center.

- It is important for Japan to maintain the momentum of this process.

of which is to implement concrete deregulatory measures that increase market access in Japan for competitive foreign goods and services.

Civil Aviation

We continue to press for a liberalized civil aviation regime that upholds and secures the disputed rights of our incumbent 1952 Treaty carriers (e.g. Northwest, United, Federal Express) and significantly expands service for both our incumbent and non-incumbent (American, Delta, Continental, TWA) carriers and for underserved cities and regions in U.S. We seek a deal that will increase competition and consumer welfare, maintain our aviation trade surplus, and move us toward a fully liberalized open skies regime.

We have made clear to Japan that cargo issues must be resolved soon "one way or another".

Ports

Both the U.S and significant elements of the Japanese government, public and business community liberalization of Japan's costly and inefficient port system. At issue is breaking the monopoly of the Japan Harbor Transportation Association (JHTA) on the provision of port services by allowing carriers, both Japanese and foreign, to negotiate directly with terminal operators and/or labor as an alternative to arranging port services through JHTA. Japan's Ministry of Transportation has been unwilling and unable to get JHTA to agree to meaningful reforms. JHTA reportedly has close ties to organized crime.

The 100,000 per voyage sanctions will cut into Japanese carriers' profit margins, but are not expected to halt Japanese shipping to the U.S. However, if Japanese dock labor retaliates against U.S. shipping in U.S. ports, there could be an escalation of sanctions by the Federal Maritime Commission. Sanctions have been imposed, but payment will not be due until October 15. The FMC has the authority to reduce fines if it advances the agency's enforcement policies. Japan's reaction to the sanctions has been calm, and talks continue.

NTT

NTT is Japan's single largest purchaser of telecommunications equipment and accounts for nearly half of Japan's $30 billion telecommunications equipment market. The initial NTT agreement was reached in 1980, when NTT was wholly owned by the Japanese Government. Since then, the Japanese Government has taken steps to privatize NTT, but it still holds two-thirds of NTT's shares. Our NTT Procurement Agreement expires at the end of September.

The USG seeks greater transparency in the development of technical specifications, procurement information and evaluation of tenders.

Autos and Auto Parts

Sales of Big Three North American vehicles in Japan have fallen 17 percent so far this year after rising 34 percent last year. Meanwhile, Japanese exports of vehicles to the U.S. increased by 22 percent during the first half of the year, after having declined 11 percent last year. The Big Three seek strong Administration action, including watch listing Japan under Super 301, to increase the number of dealerships carrying Big Three cars. The Big Three have added 132 dealerships since the 1995 U.S.-Japan Auto Agreement, well below industry expectations of 200 by the end of 1996 and 1,000 by the end of decade.

Our auto parts trade deficit declined by 17% in the first half of this year, with U.S. exports up %. In 1996, U.S. parts exports increased 20% over the previous year, double their level in 1992. However, Japan has the lowest foreign market share among developed auto producing countries. Our parts industry is pleased with progress made over the past two years, and wants thee USG to press for additional progress, but opposes watch listing auto parts under Super 301.

At October consultations, we plan to press Japan to continue to work with us proactively in on structural distribution problems (e.g., zoning laws that inhibit access to dealerships) as well as with our industry on import promotion. We will also press for additional deregulation of the parts market.

Financial Services

On November 11, 1996, Prime Minister Hashimoto announced his government would undertake financial deregulation with the goal of bringing Tokyo financial markets up to the level of London and New York by 2001. Specific objectives outlined in the announcement included: greater cross entry among banks, securities and insurance, introduction of new products and services, internationally consistent accounting and disclosure standards and enhanced globalized supervisory cooperation.

Japan has almost completely implemented its commitments under the 1995 Financial Services Agreement. At our next round of consultations on October 22-23, we will focus on Japan's deregulation initiative. In particular we will press the Japanese on: creating new opportunities for foreign firms, bringing transparency and disclosure standards up to international "best standards"; and reducing systemic risk.

OFFICE OF JAPAN
Office of the U.S. Trade Representative
Executive Office of the President
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tel 202.395.5070
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Date: 11-17-97

NUMBER OF PAGES INCLUDING COVER SHEET: 2

To:

Name	*Phone*	*Fax*
Malcolm Lee		
Larry Greenwood		
Dan Rochman		

From: Byron Sigal

Subject: TPS on Dengg

Comment:

Talking Points on Deregulation for use with MOFA (11/17)

- Very disappointed with the pace of deregulation in Japan, in general, and with the pace of implementation of the Enhanced Initiative on Deregulation and Competition Policy, in particular.
- Last week's meetings in Washington revealed little common commitment to addressing the specific deregulatory issues raised at the expert-level. It will be extremely difficult to report progress to our Leaders in Vancouver without something more concrete to point to.
- We believe If our Leaders are to address this issue positively, we believe, as Ambassador Lang mentioned to Deputy Foreign Minister Haraguchi, that the U.S. and Japan should agree to achieving concrete results under the EI by the next G-7 summit in May, 1998.
- In addition, our Deputies will need to devote greater time and attention to this issue if they are to overcome the resistance of the bureaucracy and therefore believe our Deputies should agree to meet in early March and mid-May.

*** ACTIVITY REPORT ***

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A3

U.S. Seeks Nonmilitary Actions on Iraq As It Seeks to Preserve Gulf War Alliance

By CARLA ANNE ROBBINS
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON – Committed to shoring up the shaky Gulf War coalition, the U.S. is pressing for new international sanctions against Iraq, rather than immediate military action.

U.S. officials are optimistic that the United Nations Security Council, which begins meeting today, will impose a travel ban on top Iraqi officials. France and Russia, which resisted earlier U.S. calls for a prohibition, "are now generally supportive of a tougher line" said a senior U.S. official, adding that it may take a day or two to come to a vote.

If after that Saddam Hussein continues to block U.N. arms inspections, "we have a few more diplomatic moves left, but not many," conceded the senior U.S. official, who cited a possible ban on foreign business travelers visiting Iraq as an additional punishment favored by the U.S. "But the immediate goal is to show that his gambit didn't work, that he can't split the alliance," the official said.

Iraqi will, and the will of the alliance, could be tested as soon as today when the U.N. is expected to resume American-piloted U-2 flights over Iraq. U.N. envoys failed last week to persuade Saddam to cease his threats to shoot down the spy planes or expel from the country all American arms inspectors – there are believed to be six currently in Iraq. Saddam, for his part, so far appears unmoved by international threats.

Yesterday, he declared that his country had "to choose between sacrifice or slavery." Iraq, he declared, has "been put in a position where it has to choose either to live honorably and with dignity or to face all the possibilities."

President Clinton and other top officials have said repeatedly that any military action by Iraq will be met by a swift, and if necessary unilateral, military response by the U.S. "We will not tolerate his efforts to murder our pilots acting on behalf of the United Nations," Mr. Clinton said on NBC's "Meet the Press" yesterday.

Britain already has signaled that it's ready to join in a military strike, if necessary. And Senate Majority Leader Trent Lott said yesterday that the president would have full congressional support if he orders bombing runs, suggesting that the Pentagon go after suspected Iraqi chemical or biological weapons-production sites.

Even without a first strike by Saddam Hussein, the U.S. may still decide that military action is the only way to force Baghdad's compliance with U.N. arms inspections. But U.S. officials are clearly reluctant to go that route, fearful that it will do even greater damage to the international alliance, playing even further into Saddam's hands.

Oil prices rose Friday on the possibility of a disruption in Iraq's limited oil sales. On the New York Mercantile Exchange, crude oil for December delivery gained 38 cents to $20.77 a barrel.

As ever, it is difficult to divine the Iraqi leader's motivations in setting off the current crisis.

Some analysts believe that he is using the standoff – and what is now a weeklong suspension of U.N. arms inspections – to hide weapons of mass destruction. "Frankly, we think that one of the reasons this latest crisis has erupted is because the inspectors were coming pretty close to finding something," Secretary of State Madeleine Albright said on CBS-TV's "Face the Nation."

And analysts following Iraq have no doubt that he is trying to sow divisions among his international enemies, in hopes of weakening, or eventually defeating, the current U.N. sanctions regime.

The anti-Iraq alliance has frayed stedily since the end of the Gulf War. Iraq's Arab neighbors are especially vulnerable to populist criticism that Western sanctions are cruel and unusual punishment on the Iraqi people. European allies, notably France and Russia, are eager to see sanctions lifted so they can pursue lucrative business ventures in Iraq. French and Russian oil companies have signed billions of dollars of contracts with Iraq in anticipation of an end to sanctions.

The current crisis has been brewing since at least last spring, with Saddam Hussein testing the Security Council's will by periodically blocking arms inspections. The game heated up last month, when the U.S. moved to punish Iraq for its recalcitrance, calling for the travel ban, only to have France and Russia abstain from the vote. The ban was approved, but deferred for several months pending further reviews of Iraqi behavior.

With the council obviously divided, Saddam decided to test the limits. On Oct. 29, he ordered all American inspectors to leave the country and soon after threatened to shoot down all American-piloted spy flights.

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from unions, accused the wealthy Mr. Bowles of supporting the measure merely to fatten his stock holdings.

"I put it in language Bowles could understand," Mr. DeFazio said. "I said 'you're supporting fast track because it provides profits to your stock portfolio.'"

On Saturday, the White House considered pulling the bill. But Mr. Gingrich, citing an improving GOP head count, persuaded Mr. Clinton to press ahead with a vote, even though victory remained uncertain. That was a high-stakes gamble, since defeat could be far more damaging to the president than simply pulling the bill. But Mr. Clinton rolled the dice.

Mr. Clinton's efforts were complicated by the AFL-CIO, which poured millions of dollars into the 1996 campaign. Few Democrats want to antagonize labor and fear a vote for fast track will prompt the AFL-CIO to withhold financial support next year – or worse, work against them. Labor leaders insisted there were no threats, but emphasized the issue's importance to union workers.

"There's no question this vote matters to working people, and they're going to remember this vote next November," said David Smith, the AFL-CIO's director of public policy. "But the notion, somehow, that a bunch of labor leaders with bags of money have been walking around the Hill saying, 'We won't share it with you unless you vote with us,' is absurd."

With the president's credibility at stake, lawmakers found the administration willing to deal. Promises were made to protect peanut growers in Georgia, and negotiations continued over how to satisfy the concerns of tomato and citrus farmers in Florida. U.S. Trade Representative Charlene Barshefsky pledged the administration would investigate Canadian wheat pricing and take other steps to help U.S. wheat farmers who are perpetually aggrieved over imports from Canada. And in an effort to woo Democratic Rep. Bob Etheridge of North Carolina, the administration pledged to back continued price supports for tobacco and protect growers from lawsuits.

"We've indicated that protecting tobacco farmers – as part of the tobacco settlement – is really something very important," said Agriculture Secretary Dan Glickman.

There was also hope that a few votes – perhaps among African American lawmakers – could be picked up by adding the sub-Saharan trade initiative to the bill. "There's talk about that," said Bill Richardson, the U.S. ambassador to the United Nations.

Mr. Richardson, a former House member, scoured Capitol Hill along with most of the president's cabinet, part of a larger flurry of lobbying activity. A Ways and Means Committee room on the first floor of the Capitol was thrown open to the U.S. Chamber of Commerce and other business

FAST TRACK

groups. And outside one closed-door caucus of Republicans, business lobbyists formed a phalanx, crowding the hallway and cajoling weary lawmakers.

Bemoaned Rep. Ernest Istook, a wavering Republican from Oklahoma: "Yea, though I walk through the valley of lobbyists, I will fear no evil."

Dropped from the bill was a provision that would have repealed a current law safe-harbor that allows taxpayers to avoid reporting as income money earned from renting out their residences, or vacation homes, for fewer than 15 days a year. The provision was offensive to GOP Rep. Howard Coble of North Carolina, some of whose constituents rent out their homes during the annual High Point furniture mart, and to the Georgia delegation, which feared an impact on people renting out homes during The Masters golf tournament.

—Bob Davis and Jackie Calmes contributed to this article.

C/9

Currency Traders Give Cold Shoulder To Yen as Japanese Economy Worsens

By MICHAEL CASEY
Dow Jones Newswires

NEW YORK – With Japan's economic crisis deepening by the day, currency traders are shunning the yen and buying dollars, and that's a trend that's sure to continue this week and beyond.

Fresh blows to investor confidence in Japanese and Asian financial markets sent the Japanese currency down about four yen against the dollar by the end of last week.

The dollar ended global trading Friday at 124.30 yen, compared with 120.40 yen, at the end of the previous week.

Some analysts interviewed say the situation in Japan is so bad that even an upturn in the yen would probably be a sign things are getting worse for investors and banks, not better.

That's because with stock prices plummeting and cash reserves limited, they contend, Japanese borrowers will soon have no choice but to sell their high-yielding U.S. dollar-denominated assets to meet yen-denominated loan repayments. Friday, the Nikkei average of 225 issues fell 4.2% to 15836.36, a level at which many Japanese banks are believed to have latent losses. The Nikkei last ended that low on July 6, 1995.

Even the 101 point drop in the Dow Jones Industrial Average Friday didn't deter investors from pushing the dollar to a six-month high against the yen of 124.30. Meanwhile, U.S. Treasury yields are near their year's lows, meaning prices are near their highs as investors flee to the safety of U.S. government bonds. The 30-year benchmark bond closed at 99½ for a yield of 6.157% on Friday.

With Japanese officials refraining from talking the dollar down, as they usually do when the dollar surges to conspicuous levels, most foreign exchange analysts say there aren't even such artificial constraints as concern about so-called "verbal intervention" to hold the dollar-yen back.

Japan's influential Vice Finance Minister for International Affairs Eisuke Sakakibara, in the U.S. for a visit last week, said that investors were excessively pessimistic, but declined to comment on the dollar-yen.

"Even the Bank of Japan is saying the economy is not growing, so there are clearly serious concerns about the financial situation in Japan," said Chris Iggo, foreign exchange economist with Barclays Bank in New York.

"There is no real good news at all. The fundamentals are overwhelmingly in favor of a weaker currency," said Mr. Iggo.

The longer-term trend, however, is a harder one to pick.

On a fundamental basis, the longer-term equation is relatively straightforward, say some economists. Things can only get worse, so the yen can only go lower.

Mr. Iggo, for one, expects the dollar to rise to 140.00 yen within the next six to nine months.

For others, however, it is precisely the threat of a crisis that lends longer-term support to the Japanese currency.

Carl Weinberg, chief economist at High Frequency Economics, is expecting a massive flow of funds from dollars to yen as a liquidity squeeze takes hold.

"We have a mega balance sheet problem in Japan that has been made unendurable by the recent drop in the Nikkei," said Mr. Weinberg. "You must remember that stocks are a major part of the collateral base for bank loans in Japan. We are now seeing negative asset balance sheets."

"So, more and more banks are going to turn to their foreign assets as the only assets from which they can fund their loans. That's a bad thing for both U.S. Treasurys and the dollar," he said.

According to U.S. Federal Reserve statistics, Japanese investors accounted for approximately 25% of all foreign holdings in U.S. Treasurys as of June 27, 1997.

The divestment of even a small portion of those holdings would have a profound effect on the yen's value against the dollar, but there is little incentive for Japanese investors to unwind their U.S. Treasurys positions, Mr. Iggo said.

"They are quite happy to sit there with U.S. dollar positions, because they are being fed 400 basis points over their funding. On top of that, they make an exchange rate gain on the dollar's appreciation against the yen." The yield on Japan's 10-year government bond hit a new record low of 1.570%.

In New York late Friday, the dollar fell to 1.7060 marks from 1.7230 marks late Thursday and rose to 124.30 yen from 123.22 yen Thursday. About noon Monday in Tokyo, the dollar was trading at 1.7138 marks and at 123.85 yen; sterling was quoted at $1.6850.

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'Fast Track' Comes Down to the Wire

Clinton and Gingrich Team, Cutting Political Deals In Scramble for Support

By Greg Hitt
Staff Reporter of The Wall Street Journal

WASHINGTON—President Clinton and his free-trade allies last night pushed toward a showdown vote in the House over his request for "fast-track" trade-negotiating authority.

The desperate scramble for support teamed Mr. Clinton with Speaker Newt Gingrich in an alliance that belied their bitter partisan differences. Both men worked through the weekend twisting the arms of members of their respective parties, and arguing a defeat would undercut America's global leadership. Mr. Clinton was motivated as well by an understanding that defeat would be seen as an indication of his lame-duck status; Mr. Gingrich was eager to show he could maintain control of the narrowly divided House, and to score a victory over Big Labor, which has made defeat of the trade initiative its top priority.


Bill Clinton

Last night, Congress appeared to be heading toward a cliffhanging vote in the early morning hours.

With the outcome uncertain, White House officials and GOP leaders resorted to retail politics, fashioning deals on issues ranging from price supports for U.S. tobacco growers to trade in sub-Saharan Africa. "The president is on full throttle," said Samuel Berger, the president's national security adviser.

Under fast-track authority, Congress can vote yes or no on trade agreements negotiated by the president, but it can't modify them. The measure enjoys broad bipartisan support in the Senate. But in the House, only about 45 Democrats support fast track, and that means Mr. Gingrich has to find 170 or more Republican votes to ensure passage.

"It's like the Marine Corps ad, we need a few good men," Mr. Gingrich said.

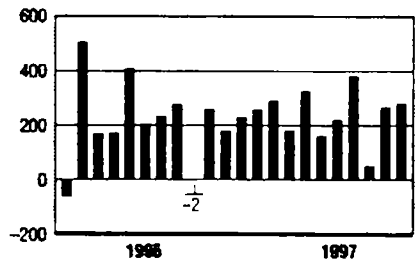
Over the weekend, Republican leaders pushed five undecided panel chairmen to back the effort. They included Transportation Chairman Bud Shuster and Education Chairman Bill Goodling, both from Pennsylvania, where labor is a powerful force; Science Chairman James Sensenbrenner of Wisconsin; Rep. Harold Rogers of Kentucky, chairman of the Appropriations subcommittee on state, justice and commerce; and House International Relations Chairman Ben Gilman, a moderate from New York.

"We're all under pressure," Mr. Gilman said.

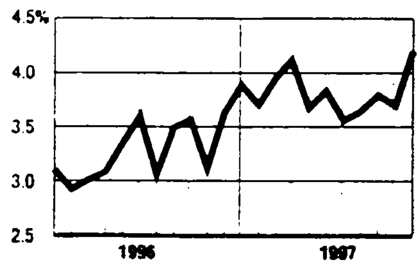
Mr. Clinton personally lobbied Democrats, but found the going rough and at times showed his temper. An Oval Office meeting with Democratic Rep. Bob Filner of California turned stormy, and in the same session, Democrats said Mr. Clinton was disparaging toward Rep. Nancy Pelosi, a popular California Democrat. Tensions boiled at a weekend caucus of House Democrats with White House Chief of Staff Erskine Bowles. Oregon Democrat Peter DeFazio, upset with Mr. Clinton's suggestion that lawmakers were opposing fast track because of special-interest pressure

The Employment Picture

Payrolls Are Expanding...
Change in nonfarm payrolls, seasonally adjusted, in thousands



Wages Keep Rising
Year-over-year percentage change in average hourly earnings of production workers, seasonally adjusted



Source: Bureau of Labor Statistics

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Indian currency

India's central bank, the Reserve Bank of India, has a new boss, Bimal Jalan. The view he takes of the rupee could influence the country's progress in achieving its highest priority, faster economic growth.

The Reserve Bank forecasts India's growth this year at 6 per cent. That is probably over-optimistic. Domestic investment is sharply lower than last year; exports are up only around 4 per cent; and domestic demand is flat. With a population growing 2 per cent a year, much stronger growth is needed if India is to tackle poverty.

Mr Jalan's predecessor, C. Rangarajan, did much to improve the monetary environment. His new credit policy, announced three weeks ago, included a cut in banks' reserve requirements and in interest rates, as well as a number of welcome liberalisation measures, such as the deregulation of deposit interest rates.

But slow growth is too deep-seated to be solved by monetary policy. Serious structural problems are stunting the country's undoubted potential. The fiscal deficit, at 5 per cent of gross domestic product, is excessive. Government spending priorities are distorted - spending on subsidies, for example, outweighs spending on education and health. The banking sector is saddled with a huge stock of bad loans, leaving it reluctant to take on new lending. And Indian infrastructure remains inadequate, after government spending cuts to rein in the fiscal deficit.

These problems are well-known. Reforms are happening, but at a gradual pace. In the meantime, the Reserve Bank should continue with its programme of liberalisations, but should not expect monetary policy to perform any miracles.

Exchange rate policy, though, could make a difference. In August this year, the Reserve Bank's deputy governor implied that the rupee might be overvalued by 10 to 15 per cent. Since then, the currencies of south-east Asia have fallen further, and the Pakistani rupee has devalued by 9 per cent. Whilst India's trade with these countries is relatively small, they are some of its main competitors in cheap, labour-intensive goods. A devaluation would be risky, and could introduce inflationary pressures. But these risks must be balanced against the disadvantages in maintaining what is probably an overvalued exchange rate.

A devaluation would not solve any of India's structural problems. But it might at least prevent its export performance from deteriorating further, and could even prompt a modest export-led recovery. Mr Jalan should now use his influence to press for a review of policy.

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Gillian Tett • Economics Notebook

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Tokyo has a fit of the sulks

A tax rise in April has brought gloom to the Japanese economy

Japan's consumers are sulking. That, at least, is the impression in Tokyo this autumn.

For since the government made the controversial decision to raise consumption tax from 3 per cent to 5 per cent in April, a stream of poor economic data has tumbled out: retail sales have fallen in annual terms every month since then; car sales showed a year-on-year fall of 17 per cent in October; and housing purchases have also fallen.

This gloom was not entirely unexpected: most economists expected the tax increases to dent spending briefly, particularly since income tax breaks have also been reversed. But what has caught forecasters on the wrong foot has been the scale of the drop. Consequently, the crucial question now is whether these sulks can be blamed on the tax rise alone or is there something else afoot? One possible clue might lie in the country's savings ratio. Recent economic news has focused on Japanese spending habits, but the more mysterious side of the equation is what is happening to their savings.

Japan has long been famous for having the largest pool of savings in the world and a savings ratio that used to be much higher than many other industrialised countries (see graph). These savings famously financed its post-war industrial reconstruction. And it has been an important factor driving up the huge current account surplus with the US.

In recent years, the ratio has been drifting down. Quite what will happen in coming decades is causing lively debate among Japanese academics. Some argue it will fall sharply, because the country's population is projected to age sharply and may thus consume its savings. An advisory panel of Japan's Economic Planning Agency, for example, forecasts that the household savings rate will fall to some 9 per cent in 2010, from 13 per cent in 1995.

But in the short-term, some economists project a different trend. The sheer prospect of looming old age will be enough to persuade Japanese households to save more, not less, in the coming years, they argue.

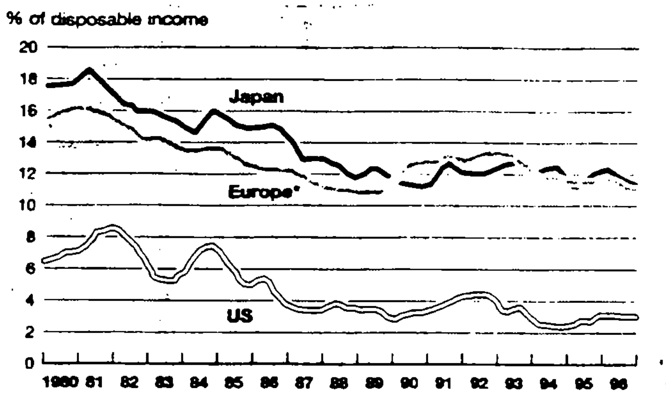
These academic arguments are rather abstract. But they may have implications for what has happened in Japan this summer. One reason for the government's forecasts having proved wrong might lie in a wrong prognosis about how the savings ratio would behave.

Before the tax rise, it was widely expected inside and outside the Japanese government that Japan's savings ratio would fall this year. The Organisation for Economic Co-operation and Development, for example, projected the rate would fall to 11.5 per cent in 1997. Consumers, in other words, were expected to dip into their savings to offset the price increases and roughly maintain spending levels.

One reason for this was that a similar pattern had been detected in previous one-off price increases. When Japan introduced tax cuts in 1995, the savings ratio rose as consumers hoarded the bonus, prompting economists to argue the reverse might happen with tax rises.

So what actually happened to

Household savings rates



Source: OECD

*France, Germany, UK and Italy

the savings ratio this year? Nobody really knows.

At present there are two main sources of information about Japan's savings ratio. One comes from the income side of the national gross domestic product data. This is considered the most accurate and reliable measure. But the problem is that it is published well after the release of the expenditure side of the GDP data. The most recent available information, for example, refers to the 1995 fiscal year, meaning it is 20 months out of date.

The other information comes from a regular government survey of households. This is timely and detailed. But it is suspiciously volatile. Although it appears to show that the savings ratio surged this summer, the level fluctuated between 2.7 per cent and 42.7 per cent in different months.

Furthermore, it only covers households with workers in a permanent company job who agree to fill in a survey for some Y1,000 (£4.95) a month. Consequently, the survey is apt to be biased towards a minority of households. And the series sometimes moves in the opposite direction to the national accounts data.

So where does this leave the economists? Some suspect that the savings ratio has indeed risen, largely because there does not appear to have been any prolonged fall in take-home pay, according to available data.

But the scale of this, and reason behind it, is unclear. It might reflect short-term factors: maybe consumers feel nervous having indulged in a spending spree before the April tax increase. Or perhaps, suggests Jesper Koll of J. P. Morgan, it reflects the government's recent promise to cut taxes on housing transactions, which has tempted consumers to delay purchases.

But another possibility is that a structural shift is under way,

e cont.

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Sulks

which means previous equations about consumer behaviour no longer hold so true. Opinion polls show the population is gloomier about its economic future than ever before, partly because of concern about the age burden.

There have also recently been some intriguing, small changes in the labour market. Japan has recorded a steady rise in employment in recent months. But, unusually, most of this has come from part-time jobs, many of which are temporary.

In some circumstances, this could make consumers more cheerful. More part-time work might, for example, encourage more housewives into the workforce to provide second wages. But, in practice, the impact may be negative. Some of these new part-time jobs are apparently replacing previously secure full-time jobs, particularly in sectors like construction. Some Japanese workers may be feeling something previously alien to the country - job insecurity.

Could these changes have made households more savings-prone? Perhaps. But at present it can only be conjecture. Comprehensive data on what has actually happened to the savings ratio this year will not emerge until 1999. In the meantime, a spending rebound among consumers cannot be discounted in the coming months, even if the latest signals appear grim.

Nevertheless, one conclusion is already clear: the government urgently needs to improve its statistical data on the savings ratio. This requirement will not change, even if consumers do finally throw off their sulks this year.

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Yeltsin, Jiang to focus on trade

By James Harding in Beijing

China's commercial relations with Russia and Japan will be at the heart of Beijing's diplomacy this week as the country welcomes President Boris Yeltsin and despatches its prime minister, Li Peng, to Tokyo.

The high-level meetings follow President Jiang Zemin's recent summit with President Bill Clinton and are clearly expected to deflect suggestions that China's foreign policymakers have become preoccupied with the US.

Mr Li, who will go to Tokyo tomorrow, is expected to seek to secure Japanese support for China's application to join the World Trade Organisation as well as discuss bilateral trade and regional security issues.

Mr Yeltsin is due to hold a summit with Mr Jiang today, when commercial issues are likely to come high on an agenda which is also expected to produce agreement on a long-standing border dispute. Russian officials are hoping to finalise contracts for nuclear power equipment sales to China as well as reach agreement on the details of a multi-billion-dollar pipeline from Siberia to China and South Korea.

Beijing hopes to ensure that it has an ally in Tokyo in its bid for WTO membership and Chinese officials have recently referred to Japan's "positive" efforts to support China.

Long Yongtu, China's chief negotiator for WTO membership, was quoted yesterday in China's official press saying he appreciated Japan's efforts to support China's WTO bid "in action, not just in words". He did not elaborate.

Mr Li and Japanese officials in Tokyo are expected to hold talks on trade in services, one of the chief obstacles to Chinese accession to the WTO. China is also likely to be pressed on falling Japanese imports into the country, which slid 0.5 per cent in the first eight months of this year.

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Japan's banks and brokers have rough ride

By Gillian Tett in Tokyo

This has been a bad year for banking and brokerage in Japan. The fear is it might become even worse.

On Friday the shares of banks and brokers took a battering, falling 5.9 per cent and 5 per cent respectively. Industrial Bank of Japan, Fuji Bank and Sanwa Bank, for example, all fell by almost 10 per cent.

The losses rounded off an abysmal October for the two sectors, which tumbled 25.4 per cent and 16.5 per respectively. This compares with a 10.5 per cent drop in the Topix, the broad measure of Tokyo's stock market.

The most worrying aspect about Friday's fall – which pushed the Nikkei through the psychologically crucial level of 16,000 – is that it awakened fears that a vicious circle might be developing in Japan, where the financial sector and stock market keep dragging each other down.

Banks and brokers have traditionally held large amounts of shares in other companies. When these shares fall in value, the companies record this as a loss. But when the shares rise they do not record a profit in their accounts, unless they sell them.

Previously this left analysts assuming the banks had large "hidden" financial cushions, which they could use to tackle unexpected problems, such as the need to write off bad debts.

But the stock market falls are eroding these hidden cushions. While precise data are unavailable, as banks do not reveal the mix of shares they hold, J.P. Morgan believes that the Nikkei's fall to around 16,000 has meant some five of the top 20 banks have lost their cushions.

The cushion also threatens the financial health of brokers and life assurance companies.

J.P. Morgan estimates that eight of the life assurance companies have lost their cushions at the 16,000 range. Although these groups are not quoted on the stock exchange, they are linked to the banks through long-standing financial ties.

On top of this, there is another "feedback" loop.

The issue which ostensibly triggered the slide on Friday, for example, was a local media report that the Bank of Yokohama, a large regional bank, was planning to sell its Y600bn ($4.8bn) of cross shareholdings.

The bank later insisted it had no intention of making a rapid sale, although it confirmed it intended to dispose of the shares in coming years.

But other banks are clearly also drawing up plans for share sales. Long Term Credit Bank, for example, has disposed of some Y400bn of cross holdings in the first six months of this year, on top of Y300bn it sold last year. IBJ has sold some Y50bn worth of shares in the first six months and Nippon Credit Bank says it plans to make about Y700bn in sales in the next few years.

There are other worries, too, including the state of the banks' huge bad debts; the crisis in south-east Asia (Japanese banks are the largest single lenders to Thailand, Indonesia and Hong Kong); and a recent spate of bankruptcies.

The construction sector has seen most bankruptcies, but last week Sanyo Securities, Japan's seventh largest broker, shocked the financial community by becoming the first broker in post-war Japan to file for bankruptcy.

Until recently it was assumed the government would not let large brokers fail, but this assumption is being challenged. Sanyo's failure led Moody's, the US credit rating agency, to warn last week that the debt of Yamaichi, the fourth largest broker, could be downgraded to junk bond status. Yamaichi's shares plunged on Friday by 16 per cent to close at Y173.

"This has been a lot of bad news in a short time," a fund manager said. "Perhaps the market has overshot, but a sustained rally in bank and broker stocks seems unlikely soon – unless better data about the economy push the rest of the market up."

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Clinton's political standing at stake in congressional vote

Tough trading on fast-track

Republican leaders in the US House of Representatives made a tentative claim last night to have secured enough votes from their own party to enable passage of President Bill Clinton's fast-track trade negotiating authority.

"I think we can get there," said Newt Gringrich, the House speaker, after a day of intense political bargaining during which the outcome teetered in the balance.

So uncertain was the result that earlier yesterday, in a television interview, President Bill Clinton spoke of perhaps having "to regroup and try to figure out some other way to go forward next week or when Congress resumes" next year. It was a frank admission that he was by no means sure of succeeding on one of the issues on which he has staked the credibility of his presidency.

A loss on this key vote would diminish his political standing at home and abroad and harm the reputation he has established for being able to pull rabbits out of hats at moments of crisis.

Under fast-track trade authority, Congress would promise to vote for or against trade agreements without amendment when they were brought to Capitol Hill for approval. Mr Clinton hopes to use the authority to negotiate free trade in Latin American, sectoral deals in Asia and launch new talks in the World Trade Organisation.

Beyond that, trade ranks with welfare reform, budget deficit reduction and possibly climate change as one of the issues on which he rests his hope for a favourable verdict from history.

The president's uncertainty about the likely outcome of the battle left him lobbying desperately to increase the number of votes among Republicans, who are broadly supportive, and among his own Democrats, who are mainly sceptical. Even by the standards of the toughest battles on Capitol Hill, yesterday's scenes were extraordinary as Congress rushed to complete its work for the year and adjourn.

Union lobbyists stood outside in the autumn chill urging their Democratic allies to resist the president's pleas. "I think we're going to prevail – today and into the future," said Rich Michalski of the machinists' union, "because we are committed and we have the right cause – working men and women and their families."

While Republicans conferred behind closed doors, campaigners for business interests, strongly in favour of fast-track, lined the hallways outside, their presence serving as a blunt reminder that this vote was at the top of their benefactors' agenda.

Bill Archer, chairman of the influential ways and means committee, said he had been able to gather more than the 150 Republican votes earlier expected. But he was contemptuous of the president's inability to deliver more than 45 members of his own party.

Upstairs, in a room reserved for the fast-track supporters, lobbyists were calling their offices to urge that phone calls be targeted towards undecided congressmen. Others traded gossip and watched a football game on a nearby television while preparing for a long night ahead.

The administration's lobbying tactics were stiffening Democrat resistance and by yesterday Mr Clinton was in danger of alienating the majority of his own party. "There are a lot of people angry about the way they are being harassed, yelled out, threatened," said one Democrat aide.

Republicans were also playing hardball. Mr Gingrich warned undecided congressmen that fast-track failure would set a bad precedent by conceding to organised labour. "The country should not be dominated by the unions."

Anti fast-track Republicans made it known that their votes could be had if the president were to agree to stop international funding of population programmes for those nations which perform abortions. The president refused, after charges from Democrats that he was willing to trade away the party's soul.

The president has failed to make the argument that new trade deals – without labour, environmental and human rights safeguards – are necessary for future US prosperity. Instead, he has tried to win a majority of House votes by horse-trading – offering to appear at members' fundraisers, provide tickets to state dinners, and special favours for individual industries.

Nancy Dunne and Bruce Clark

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The Outlook

Antitrust Isn't Obsolete In an Era of High-Tech

WASHINGTON

One of the great myths of our time is that technology is eradicating the imperfections of market economies. Like all great myths, it has some truth to it.

Technology hasn't eliminated business cycles, but it seems to have helped mitigate them. Computers, for instance, have helped revolutionize the control of business inventories, which in turn reduces the risk that an unexpected inventory surge could cause a recession. Products such as software and pharmaceuticals are easier to ship around the world, thus encouraging trade.

And those products are less subject to the "capacity constraints" that limit the ability to make steel and cars and that in the past have prodded manufacturers to increase prices rather than boost production.

But how has technology changed the need for antitrust enforcement? That's a question Washington has been tackling in recent years. It was a central issue in the debate over the telecommunications bill Congress passed last year and is at the core of the Federal Trade Commission's antitrust inquiry into the chip maker Intel Corp., as well as the Justice Department complaint against software giant Microsoft Corp.

In the debate over the telecommunications bill, the techno-optimists carried the day. They argued the government could lift regulatory restrictions on telephone and cable monopolies without fear. Rapid technological innovation would ensure competition, they said, with wireless services, satellite services, the Internet and other still-undiscovered methods of digital transmission providing a constant challenge to existing providers. Even electric utilities, some contended, would get into the game.

In the 20 months since the bill became law, however, that optimism has faded. Competition for residential telephone customers has increased at an imperceptible pace. In a few scattered markets, phone companies are challenging cable monopolies, but even that is rare.

The main effect of the bill to date has been an incredible urge to merge, with Bell Atlantic Corp. taking over Nynex Corp., and GTE Corp., WorldCom Inc. and British Telecommunications PLC all vying to acquire MCI Communications Corp., while AT&T Corp. considers deals with one of the remaining Bell monopolies. It isn't clear how all that serves consumers. And it is hardly what the legislators had in mind.

The Justice Department's new charges against Microsoft have again brought the techno-optimists out in force. The government needn't worry, they say, that Microsoft will use its monopoly in computer operating systems as leverage to dominate the market for Internet browsers or other software products. The pace of innovation is so rapid, they argue, that unless Microsoft offers the best products, others will quickly take away its markets.

"The rapid, ever-accelerating pace of technological change creates new opportunities for outsiders and new challenges for incumbents," former Reagan administration antitrust chief Charles F. Rule told a Senate panel last week. He cited the government's failed 13-year attempt to sue International Business Machines Corp. on antitrust grounds in the 1970s, noting it was "ultimately market forces, not government or private antitrust enforcement, that finally brought IBM back to the pack." So, antitrust enforcers can relax; changing technology will take care of monopolists who don't serve the consumer's interests.

But that view is too simplistic. Even economist Frank Fisher, who spent years as a witness for IBM, doesn't buy the notion that technology makes antitrust enforcement obsolete. Technology has changed the way economists think about antitrust matters. But those changes cut both ways.

On the one hand, it is true that rapid innovation can make it hard for a company to maintain monopoly power. Technology certainly overtook IBM. And in spite of Microsoft's monopoly in operating systems, Bill Gates clearly hears the footsteps of new competitors at his heels. As long as Microsoft is driven to innovate to fend off real or imagined competitors, the consumer is likely to benefit.

But there are also reasons to think high-tech industries might be more susceptible to antitrust problems than their low-tech brethren. That's because consumers often feel a need to buy the product that everyone else is using, even if it isn't the best, so their equipment is compatible. Economists call this "network externalities."

It's why most people use a keyboard that begins clumsily with the letters QWERTY; why most videos are now available only in VHS format; and why Windows has become the dominant operating system. Once a standard is set, competition declines, and innovation can stagnate. No one, of course, is proposing breaking up Microsoft or the Windows monopoly in order to promote innovation in operating systems; that war is over, and Microsoft won.

But the Justice Department is arguing that Microsoft shouldn't be able use its Windows monopoly to help it dominate the Internet-browser market or other markets and thus stifle competition and innovation in them. Microsoft counters that the department itself would stifle innovation if it prevents Microsoft from integrating Internet Explorer into its Windows software.

The issues involved are complicated and difficult to sort out. But they are well worth sorting. The U.S. economy is thriving these days largely because competition is thriving, and an expanding software monopoly could threaten that. Technology may have changed the rules for antitrust enforcement, but it hasn't eliminated the need.

—ALAN MURRAY

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 A1

Business and Finance

WORLDCOM RAISED its offer for MCI by 20% to about $36 billion, and the quickly moving talks could result in an agreement as early as today. MCI's and WorldCom's directors met yesterday to discuss the new offer, which seems to require WorldCom to issue more shares. It's unclear whether WorldCom might also offer some cash as payment for BT's 20% share of MCI. GTE is studying how to counter the new bid.

(Article on Page A3)

* * *

The nation's jobless rate fell to 4.7% of the work force in October, a 24-year low, the Labor Department reported Friday. The decline lends credence to Greenspan's concern that the economy's growth rate has resulted in a dearth of employable adults.

(Article on Page A2)

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The Dow Jones industrials slipped 101.92 points to 7581.32 as more and more investors turned their concerns to deflation from inflation. Bond prices fell and the dollar was mixed.

(Article on Page C1)

* * *

Hilton is considering whether to raise its bid for ITT for a third time following an increased offer Friday by Starwood Lodging. Hilton is also saying that if its slate of directors isn't approved at ITT's shareholders meeting Wednesday, it will walk away and not participate in any further auction.

(Article on Page A3)

* * *

WinStar got a big boost in its plan to build a national system of wireless local phone networks from an FCC ruling allowing the firm to expand its transmission capacity and services.

(Article on Page B6)

* * *

Coopers & Lybrand is having a bumpy start in its planned marriage with Price Waterhouse as the firms' partners begin voting today on a merger to create the world's No. 2 accounting and consulting firm. Retaining blue-chip clients is one of the biggest problems for the firms.

(Article on Page B14)

* * *

Japanese stock prices dropped 4.2% Friday amid growing fears that Japan Inc. is getting serious about abandoning its tradition of cross-shareholdings that has long supported the country's financial system.

(Article on Page A15)

* * *

GM is expected to announce this week that it plans to install batteries in its electric vehicles that will double their range on a single charge.

(Article on Page B16)

* * *

IBM will unveil a personal-computer disk drive that uses a new technique to store up to eight times more information than is currently available in an average desktop computer.

(Article on Page B8)

* * *

Disney is preparing video releases for many of the made-for-TV movies it is producing for the revived "Wonderful World of Disney" program that airs on the company's ABC network.

(Article on Page B10)

* * *

Fred Meyer gains entry to growing markets through its planned purchase of two West Coast supermarket chains for just over $2 billion in stock, but will be saddled with substantial debt.

(Article on Page B4)

* * *

Markets–

Stocks: Volume 564,084,730 shares. Dow Jones industrials 7581.32, off 101.92; transportation 3184.23, off 27.37; utilities 241.99, off 0.90.

Bonds: Lehman Brothers Treasury index 7411.33, up 4.98.

Commodities: Oil $20.78 a barrel, up 40 cents. Dow Jones futures index 143.89, up 0.12; spot index 135.45, up 0.74.

Dollar: 124.30 yen, up 1.08; 1.7060 marks, off 0.0170.

3

APEC TRADE QUESTIONS

FROM: USTR

Q: What impact will the Asian financial crisis have on the APEC trade agenda?
A: We recognize the destabilizing effects of the financial turbulence in the region, but it is important to recognize that expanded trade has been a force of stability throughout the Asia-Pacific region. Increasingly those countries and economies that undertake economic reform and market-opening initiatives will gain economic stability in the long run. Trade is a force for economic stabilization, and we are going to work with our trading partners to continue on the path APEC leaders set in motion in 1993.

Q: What does the U.S. expect in the way of new trade initiatives at APEC?
A: We hope to make some progress in advancing sectoral market-opening initiatives. As you recall, the Information Technology Agreement (ITA) reached last year at APEC covered $500 billion in global trade and eliminated tariffs on most technology products by the year 2000. This agreement is significant for the United States because it eliminates tariffs that are much higher in other countries than ours, saving U.S. companies $5 billion a year in the year 2000. Areas that we will pursue include expanding the ITA, and eliminating tariffs on trade in environmental products and services. APEC members have also put their own ideas forward. This is a new process, and we will have to see what occurs in the Trade Ministers meeting. We would obviously like to see the process move forward, but we will see what comes out of the meeting.

Q: Won't you need fast track to implement these initiatives at APEC?
A: Yes. These are areas where the benefits for U.S. workers and companies are very clear. We are starting negotiations at APEC that would conclude by the end of next year, and we will have necessary authority to implement our agreements at that time.

Q: Isn't this likely to be the last progress we see for some time on the trade agenda?
A: No. We are going to move the trade agenda forward. We are now approaching the deadline (12/12/97) toward a global agreement to open-up trade in financial services -- a trillion dollar sector of the global economy, and an area where the U.S. leads the world. Indeed, the Administration will pursue fast track next year and remain committed to advancing the trade agenda wherever there are opportunities for U.S. workers and companies.

Q: Will the growing trade deficit erode confidence in the U.S. trade policy? Won't the growing trade deficit make it harder to pass fast track?

A: The trade deficit is the result of larger macroeconomic forces. The fact is the United States economy is out-performing the rest of the world and creating extraordinary demand for domestic and imported products and services. In the last five years, the U.S. economy has created more than 13 million jobs while the rest of the G-7 countries combined have added less than a half million. Since 1992, GDP growth in the United States is roughly twice that of other

G-7 countries and industrial production in the United States has grown by 22%, while over the same period Japan's industrial production is up 7% and Germany's is up less than 2%.

In real terms, the trade deficit (goods & services) is 1.5% of GDP today, down from 3.3% in 1987 -- relative to the size of the economy, the trade deficit has been cut by more than half since the late 1980s'.

Fast track defines our ability to open foreign markets. Because our market is already open, not approving fast track will only reduce our ability to gain access to foreign markets. If the trade deficit is a concern, then fast track is part of the solution.

Q: Will trade issues be addressed with Japan at APEC?
A: There are a full range of bilateral meetings at APEC and a number of trade issues will be raised including our concern about the slow rate of progress to date under the U.S.-Japan deregulation agreement. This accord covers major areas of the Japanese economy including financial services, construction, medical equipment & pharmaceuticals, and telecommunications.

Q: What about the U.S.-Japan auto agreement?
A: We have consistently expressed our concern about the slow rate of progress in establishing dealerships (for imported vehicles in Japan) and the need for additional progress in deregulating the auto parts sector. We will have a semi-annual report out soon on the auto agreement, probably in a week or so.

APEC PRESS BRIEFING SCHEDULE

TIME/PLACE	BRIEFERS	SUBJECTS
Thursday, Nov. 20		
2:45 p.m. White House Briefing Room	• Steinberg/NSC • Tarullo/NEC • Lipton or Summers/Treasury	• Detail financial stabilization accord • Preview APEC • Trade liberalization • Bilaterals
Sunday, Nov. 23		
12:30 p.m. Vancouver Filing Center	• Berger or Steinberg/NSC • Barshefsky/USTR • Daley/Commerce • Tarullo or Sperling/NEC	• Detail trade liberalization agreements • Preview APEC • Preview bilaterals
Monday, Nov. 24		
2:30 p.m. Vancouver Filing Center	• Berger or Steinberg/NSC • Summers/Treasury or • Tarullo/NEC	• Read-out ASEAN breakfast • Read-out bilats • Preview afternoon • Preview Leaders Declaration on background? (tbd)
Tuesday, Nov. 24		
12:30 p.m. Vancouver Filing Center	• Berger/NSC or • Tarullo/NEC • Barshefsky/USTR or • Summer/Treasury	• Read-out morning session (infrastructure; financial markets; environment)
4:30 p.m. Vancouver Filing Center Wrap-Up	• Steinberg/NSC • Tarullo/NEC	• Read-out afternoon session (trade liberalization)

Lee, Malcolm R.

From:	SitRoom
Sent:	Wednesday, November 19, 1997 9:05 PM
To:	Bader, Jeffrey A.; Gagnon, James M.; Kristoff, Sandra J.; Kyle, Robert D.; Lee, Malcolm R.; Norris, John J.; Pritchard, Charles (Jack) L.; Panerali, Kristen E.
Subject:	JAPAN:HashimotoSeeksUs

CLASS:	INTERNATIONAL
ORIG:	FBIS
PREC:	RUSH
TOR:	971119203648 F0270465

F9011
FBIS S 011NOV20
UNCLAS 4A

JAPAN: Hashimoto Seeks Use of Public Funds for Banking System OW2011013197
Tokyo Kyodo in English 0055 GMT 20 Nov 97

[FBIS Transcribed Text] Tokyo, Nov. 20 Kyodo - Prime Minister Ryutaro Hashimoto on Thursday supported a proposal to use taxpayers' money to help stabilize the nation's shaky banking system.

Hashimoto accepted the proposal during his meeting with former Prime Minister Kiichi Miyazawa at his official residence, government sources said.

Miyazawa proposed that the government instruct the Finance Ministry and the ruling Liberal Democratic Party to come up with certain measures for infusing public funds into the banking system, the sources said.

Hashimoto was quoted as saying, "I will instruct these parties today to do so."

Hashimoto had earlier denied the possibility of the government using public funds for troubled banks.

This stance had disappointed stock market players, leading to the biggest yearly drop in the key Tokyo stock price index Wednesday [19 November].

Market concerns over the nation's financial system were renewed following the recent collapses of Hokkaido Takushoku Bank and Sanyo Securities Co.

The proposed use of public funds is apparently meant for the disposal of massive bad loans gripping the financial sector since the bursting of the "bubble" economy.

[Description of source: Tokyo Kyodo News Service in English--Japan's largest domestic and international news agency, owned by nonprofit cooperative of 63 newspaper companies and NHK]

0135z FBIS NNNN
FBIS 11/19/97 20:35:00

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Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
003. email	To Jeffery Bader, James Gagnon, Sandra Kristoff et al from SitRoom at 8:53 pm. Subject: Japan-US/CivAir. (4 pages)	11/19/1997	P1/b(1)

COLLECTION:

Clinton Presidential Records
National Economic Council
Malcolm Lee
OA/Box Number: CF 1184

FOLDER TITLE:

Korea, Auto Agreement, 1997 [10]

2009-0528-F
vz1411

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P1 National Security Classified Information [(a)(1) of the PRA]
P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
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C. Closed in accordance with restrictions contained in donor's deed of gift.
PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).
RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
004. memo	For Gene Sperling from Malcolm Lee. Subject: Meeting with Ambassador Saito. (1 page)	11/17/1997	P1/b(1)

COLLECTION:

Clinton Presidential Records
National Economic Council
Malcolm Lee
OA/Box Number: CF 1184

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From: Tim Dulaney
To: ATKINSONC, LISTERJ, COXB, QUINNL, GAGNONJ
Date: 11/17/97 11:09am
Subject: TEXT OF LARRY'S TOKYO STATEMENT

TOKYO, Nov 17 (Reuters) - The following is the full text of the statement made in Tokyo by U.S. Deputy Treasury Secretary Lawrence Summers, issued at his news conference on Monday:

------------------STATEMENT-------------------------

Governor Laurence Meyer and I met this morning with the Finance Minister and the Bank of Japan Governor to discuss a number of issues of economic and financial interest to our two countries, against a backdrop of recent economic developments in Asia and in financial markets. I think we had a very useful exchange of views.

Governor Meyer and I expressed our concern about the outlook for the Japanese economy, and the importance for the United States and for stability in this region of effective action to restore domestic demand growth. Minister Mitsuzuka clearly shares this concern, and he reiterated the Japanese Government's objective of achieving domestic demand led growth in Japan and avoiding a significant increase in Japan's external surplus.

We discussed developments in exchange markets. I understand that the Minister made a statement this morning on the yen. Let me say that the U.S. authorities share the concern expressed by the Japanese authorities regarding the depreciation of the yen.

We also discussed the Japanese financial system, where we share a strong interest in seeing the Japanese Government successfully address the current problems. The actions announced this morning are a constructive step in this context and the market's response appears to confirm the desirability of decisive actions. The Minister reaffirmed the Japanese Government's determination to continue to strengthen the financial system in Japan.

We also exchanged views on how best to enhance cooperation to promote financial and economic stability in the region and in the international financial system as a whole. We agreed that we would work together to build consensus among the countries in the region attending this week's meetings in Manila on new arrangements to promote regional cooperation and enhance prevention of crises and new initiatives to strengthen the capacity of the International Monetary Fund to respond effectively in event of financial emergencies.

Let me emphasise again that Japan plays a critical role in this region and that stability and growth in Japan are critical to stability and growth in the region and the world economy.

Sunday, 16 November 1997 22:56:30
RTRS [nT1729750]
MORE

CC: COFFMANP, imo3

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Sunday, 16 November 1997 22:56:30
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MORE

CC: COFFMANP, imo3

TOKYO (Dow Jones)--Tokyo stocks soared Monday, with the Nikkei average posting a 7.96% gain that was its fourth biggest percentage rise ever, on hopes that the government would take more aggressive steps to aid the economy.

The failure of Hokkaido Takushoku Bank, announced shortly before the opening, was taken as a positive sign that authorities were moving to resolve long-festering bad debt problems in the financial system. The bank's operations will be transferred to another private bank, while depositors will be protected.

An unconfirmed rumour in New York markets Friday had said Japan might establish an Y8 trillion fund to aid debt-burdened banks - and the Hokkaido Takushoku announcement was viewed by some as a prelude to this step.

Later in the morning, Deputy U.S. Treasury Secretary Lawrence Summers, meeting Finance Minister Hiroshi Mitsuzuka, suggested that Japan use fiscal stimulus to boost demand and employ public funds to assist banks.

Mitsuzuka was noncommital - he said debate was needed before any use of public funds for banks, and that Japan must press ahead with cutting its budget deficit.

But investors were nevertheless cheered by Summers's remarks, which were enough to ignite a frenzy of short-covering from the 28-month lows where the market had been languishing.

'He may not get them to spend more this year, but they may not tighten next year,' said Pelham Smithers, a strategist at ING Baring Securities.

At the close, the Nikkei average of 225 selected issues was 1,200.80 points higher at 16,283.32. Advancers overwhelmed decliners 1,166 to 74, while 39 issues were unchanged. Volume was estimated at a fairly active 578 million shares, compared to 623.9 million Friday.

Hokkaido Takushoku Fails, To Transfer Operations To North Pacific Bank

TOKYO (Nikkei)--Japanese Finance Minister Hiroshi Mitsuzuka and U.S. Deputy Treasury Secretary Lawrence Summers agreed here Monday to cooperate in preventing the yen from falling further.

In a statement read after the meeting, Mitsuzuka said, "It is not desirable for the yen to fall excessively. We will take proper action to maintain a stable forex market.

During the meeting, Summers expressed concern over the recent slowdown of the Japanese economy and called on Japan to boost its economy by stimulating domestic demand, government sources said.

In response, Mitsuzuka said Japan's economic fundamentals remain firm and that pessimism is not warranted.

The MOF chief said he hopes the Japanese government's economic stimulus package due out Tuesday will dispel uncertainty over the course of the economy.

The two also expressed hope that progress will be made to resolve the Asian currency crisis at Wednesday's meeting in Manila of senior officials of the Asia-Pacific Economic Cooperation forum, the sources said.

Itochu To Post FY97 Special Loss Of 150-200 Billion Yen

TOKYO (Nikkei)--Itochu Corp. will record an extraordinary loss of 150-200 billion yen for the current fiscal year through March 1998 on write-offs of property and stock investment losses, The Nihon Keizai Shimbun learned Monday. As a result, the major trading company is likely to incur a net loss for the term.

Itochu previously forecast a fiscal 1997 pretax profit of 45 billion yen and net profit of 13 billion yen.

Govt To Begin Intensive Talks On Administrative Reform

JAPAN UPDATE

November 14, 1997

Financial Data. Today's data showed market participants unimpressed by the LDP's latest economic package announcement. The stock market moved to new lows, interest rates remained at low levels, and the yen depreciated through ¥126/$.

- The Nikkei stock index closed at 15,082.52, down 345 points (-2.2%) on Friday, November 14. The Nikkei closed last year at 19,361.35 (19,868.15 at end-1995). The impact of the recent stock declines on Japanese banks is discussed in Tab 2.

- 10-year government bond rates closed today with a yield-to-maturity of 1.635% (benchmark). Short-term rates remained under 0.5%.

- The "Japan premium" on interbank borrowing has returned and is around 40 basis points today.

LDP Economic Package. The ruling LDP party announced on November 14 a "second-round" economic policy package, following up and expanding on a package introduced in October. As before the announcement lacked both specificity and evidence of real fiscal stimulus. Six elements of the package consisted of measures to assist small and medium-sized firms, promote housing investment, improve telecommunications infrastructure, promote effective distribution systems; promote redevelopment of urban areas, and improve the environment. The November 14 announcement did not call for any tax cuts or additional public works spending, leaving the GOJ's fiscal consolidation objective intact. The cabinet is expected to announce these, and possibly other, measures as early as November 18. Specifics on tax measures, if any, are not expected before December.

Recent Economic Data.

- EPA's Monthly Economic Report for November released today reported the economy has come to a "standstill." The report cites mounting inventories of consumer products, declines in industrial output and a worsening employment situation.

- Household spending rose a real 1.9% y/y in the third quarter.

- Also in the third quarter, the manufacturing production index showed a widening gap between large companies and small to medium-sized firms with a spread of 11.6 points between the two sectors, the largest since 1990.

- September housing starts were down 22% y/y.

- September industrial production rose (1.6% m/m s.a.) but, after a much larger decline in August (-3.0% m/m s.a.), left the third quarter as a whole down 0.6 percent from the previous quarter, the first such decline in five quarters. Surveys of manufacturers' intentions point to monthly declines in October and November.

- The January-September current account surplus annualizes to $89 billion and is expected to reach $95 billion for the year as a whole.

IMI/Carol Carnes
G:\imi\japan\japanup.n14

TOKYO (Nikkei)--Hokkaido Takushoku Bank announced Monday that it has become insolvent due to severe funding difficulties and that its assets, including deposits and loans, will be transferred mainly to North Pacific Bank, a Sapporo-based regional bank. Deposits and interbank assets held by the failed bank will be fully protected, the bank said.

Japan's smallest city bank said it will ask the Deposit Insurance Corp. to purchase its nonperforming loans. When this is done, all operations will be transferred. The corporation is responsible for bailing out failed financial institutions.

The amount of Hokkaido Takushoku's nonperforming loans will be determined by a Finance Ministry inspection that has been underway since mid-October.

The DIC is expected to advance funds to Hokkaido Takushoku to supplement shareholder equity if its liabilities surpass its assets.

The Bank of Japan decided earlier in the day to provide funding for Hokkaido Takushoku until the transfer of bank operations is completed. Such assistance would take the form of emergency unsecured loans, as provided for under Article 25 of the Bank of Japan Law, BOJ Governor Yasuo Matsushita said.

Public trust in the city bank has been deteriorating of late due to its huge portfolio of nonperforming loans. It was further effected when the bank indefinitely postponed a planned merger with Hokkaido Bank, a regional financial institution, in September.

The failure of any of Japan's 20 leading banks, including city banks, is likely to significantly affect domestic and overseas financial markets, banking sources said.

Hokkaido Takushoku operates 133 branches in Hokkaido, most of which will likely be transferred to North Pacific Bank. The bank will also request the ssistance of Sapporo Bank and other Hokkaido-based financial institutions.

Its 63 branches on Japan's main island of Honshu will probably be ransferred to other financial institutions.

Mitsuzuka, Summers Agree To Stem Yen's Decline

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
005. talking points	Points to be Made with Hashimoto. (2 pages)	11/1997	P1/b(1)

COLLECTION:
Clinton Presidential Records
National Economic Council
Malcolm Lee
OA/Box Number: CF 1184

FOLDER TITLE:
Korea, Auto Agreement, 1997 [10]

2009-0528-F
vz1411

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
006. memo	For the President from Samuel Berger and Daniel Tarullo. Subject: Meeting with Japanese Prime Minister Ryutaro Hashimoto. (4 pages)	11/1997	P1/b(1)

COLLECTION:
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To: Kristen G160J

November 18, 1997

Mr. Malcolm Lee
Director
International Economic Affairs
National Economic Council/
National Security Council
17th Street & Pennsylvania Ave., N.W.
Room 389
Washington, D.C. 20500

Dear Mr. Lee:

We would like to get in touch with the U.S. side in Vancouver, as necessary, to talk about the economic issues which will be brought up in the coming bilateral summit between President Clinton and Prime Minister Hashimoto. Therefore, we would like to know the contact points and hotel of the U.S. delegation, as well as yours and Mr. Tarullo's schedule. Mr. Koji Tsuruoka would especially like to talk with you at some time on the afternoon of Sunday, November 23, if your schedule permits.

The following is the itinerary and contact points of those from the Japanese side:

1. Itinerary

   - Mr. Oshima, Director General of Economic Affairs, and Mr. Tsuruoka will arrive in Vancouver at 11:00 am on Friday, November 21.

   - Deputy Foreign Minister Haraguchi will arrive in Vancouver at ~~7:00 am on Monday, November 24.~~ 11:00 Friday Nov. 21.

2. Contact Points

   - Delegation Room: 604-333-3215 ~9 (or) 604-333-3200 ~9

3. Hotel

   - Four Season's Hotel

Sincerely yours,

Shinichi Hosono

Shinichi Hosono
First Secretary

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
007. email	To Asian Affairs from Charles Pritchard at 10:03 am. Subject: Hashimoto Bilat. (1 page)	11/17/1997	P1/b(1)

COLLECTION:

Clinton Presidential Records
National Economic Council
Malcolm Lee
OA/Box Number: CF 1184

FOLDER TITLE:

Korea, Auto Agreement, 1997 [10]

2009-0528-F
vz1411

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P1 National Security Classified Information [(a)(1) of the PRA]
P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P3 Release would violate a Federal statute [(a)(3) of the PRA]
P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [a)(5) of the PRA]
P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

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PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).
RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

b(1) National security classified information [(b)(1) of the FOIA]
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b(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
008. note	To Dan Tarullo from Malcolm Lee. Subject: Japan Update for POTUS APEC Pre-Brief. (1 page)	11/19/1997	P1/b(1)

COLLECTION:

Clinton Presidential Records
National Economic Council
Malcolm Lee
OA/Box Number: CF 1184

FOLDER TITLE:

Korea, Auto Agreement, 1997 [10]

2009-0528-F
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11/17

Not clear what Malcolm is asking for in terms of process?

J. Baker

SOME Q'S AND A'S ON ASIAN BILATS

Q: Is the U.S. satisfied with ASEAN's efforts to weather the financial crisis?

A: Results of Manila deputies meeting are positive; ASEAN needs to recognize that it has to get fundamentals right, make macroeconomic adjustments, provide transparency; also must continue trade liberalization. This is tough love message President will deliver.

Q: Any new initiatives to announce with ASEAN?

A: Hope President and ASEAN leaders can agree on ways to respond to disaster relief challenges - such as those presented by current forest fires. Also hope U.S. and ASEAN can support jointly APEC agenda on trade liberalization, environment, infrastructure.

Q: Will President raise human rights and East Timor with Soeharto?

A: President has discussed our concerns with Soeharto in past meetings and would expect him to do so in Vancouver. Will encourage Indonesia to be flexible in the UN sponsored East Timor talks, take strong measures to prevent violence in East Timor and hold accountable those who have abused rights of Timorese. President wants relations with Indonesia to deepen but that requires movement on human rights, democratization.

Q: Are we going to tell Japan that a trade war is on the horizon?

A: Are deeply concerned about Japan's slow growth, high surpluses. Answer is stimulation of demand led growth, deregulation, open markets.

Equally important we find ways to cooperate with Japan on climate change, UN reform, Iraq, landmines.

Q: Why no bilateral with China?

A: Expect President will in fact thank Jiang for release of Wei Jingsheng, urge further steps on human rights, press for completion of commercially meaningful WTO accession, and discuss entire Iraq issue. With summit only two weeks behind us, do not anticipate that much more could be accomplished at this time.

Q: Have the Chinese been helpful to our efforts to persuade Saddam Hussein to back down and allow U.S. inspectors to participate in UNSCOM inspections of Iraqi facilities?

A: The Chinese supported the UN Security Council consensus resolution passed November 12 calling on Iraq to comply fully with UN resolutions and to reverse their decision barring Americans from participating in UNSCOM inspections. We are consulting closely with the Chinese leadership to assure their continued support for our efforts.

Q: What is your reaction to Wei Jingsheng's release? Have you made any promises to the Chinese about what we might do in response? Will President meet with Wei? When?

A: We welcome Wei's release. We worked hard over a long time to make this happen, and are very pleased the Chinese government has taken this decision. We have made no promises to the Chinese government about what we might do in response to this decision. Believe we made progress in building a stronger U.S.-China relationship through Jiang's visit. This is one more step in the right direction, which we hope will be followed by others. President looks forward to meeting with Wei when Wei's health recovers sufficiently.

PRESS MATERIAL ON ASIA BILATS

Points for Steinberg

- President welcomes opportunity to meet Asian leaders; intends to host informal breakfast for ASEAN leaders. No set agenda, but expect discussion to zero in on financial crisis, environmental challenge of forest fires/haze, need to restore democracy in Cambodia and Burma, climate change conference.

- ASEAN is core of APEC, central force for stability in Southeast Asia. Important U.S. interests and objectives be understood and supported.

- East Asia accounts for 20 percent of our exports; slow down in growth of Asian markets costs U.S. jobs. Want to encourage ASEAN countries to undertake needed financial market reforms, press for continued trade and investment liberalization.

- ASEAN also critical to our security interests. Need cooperation from Southeast Asians on Cambodia, Burma, Iraq, peacekeeping. Hope to elicit their support for our objectives.

Indonesia

- Indonesia is key regional partner, pivotal leader within ASEAN. Positions Indonesia takes - Cambodia, Burma, South China Seas, environment, peacekeeping - often drive ASEAN.

- See relations from strategic perspective. Largest Muslim country, sits astride important sea lanes. Want to encourage active role in sustaining stability and evolution toward more open political system, as well as urging improvement in human rights practices. Critical to U.S. interest that Soeharto and his eventual successor are strong proponents of U.S. presence in region.

- Discussions with President Soeharto will of course touch on Indonesia's efforts to recover from its current financial difficulties and the devastating effects of the forest fires.

- We have actively participated in the IMF package for Indonesia (($3 billion in contingency support), are committed to working with Indonesia as it implements the reforms recommended by the

IMF, and are confident that Soeharto will stay the course on macroeconomic reforms.

- We responded quickly to the forest fires with technical assistance, fire fighting equipment and personnel. We would welcome opportunity to develop better coordination in responding to emergencies and hope we can translate this into concrete programs for sharing information, expertise.

- Also anticipate exchange on ways to restore democracy to Cambodia, encourage genuine political dialogue in Burma, resolve long standing East Timor issues. President has raised human rights concerns with Soeharto in past; expect him to do so again, including treatment of labor leader Pakpahan and recent violence in Dili.

Japan

- Relations generally excellent, but may be facing growing economic tensions; are some differences in positions on several international cooperation issues (North Korea, climate change).

- Since President last met Hashimoto in Denver, Hashimoto has faced political reshuffling of his cabinet, continued anemic economic performance, shaky banking and financial system (hit by bad loans stemming from currency crisis).

- Will review Hashimoto's plans to stimulate domestic demand led growth, undertake deregulation and open markets. All critical to restoring regional economic health. All critical to reversing unacceptable increases in current account surplus.

- On security side, will review implementation of recommendations of Special Committee on Okinawa (intended to lessen U.S. footprint on Okinawa) and of Defense Guidelines which modernize alliance and prepare it to respond to regional crises.

- Since Japan hosting Kyoto conference, anticipate robust discussion of climate change issues. President will press joint implementation and emissions trading; need for developing countries to participate in meaningful way.

- Also expect discussion of outcome of Manila deputy finance ministers meeting, explain rationale behind U.S. positions, especially regarding "Asia Fund."

NO OTHER BILATERALS PLANNED BUT SHOULD MENTION:

China

- Just finished summit so would not expect lengthy discussions at Vancouver. President likely to find opportunity to thank Jiang for release of Wei, press on Iraq and urge intensification of discussions on WTO, human rights concerns.