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March 12, 1994

MEMORANDUM FOR THE PRESIDENT

FROM: MICHAEL KANTOR
SUBJECT: Today's Japan Cellular Telephone Agreement

This memorandum briefly describes, for your information, the agreement on cellular telephone systems reached with Japan today.

Background

Today's agreement resolves a dispute with a Japan that dates from 1985. It was then that Motorola first attempted to convince the Japanese Government to approve its cellular telephone system -- the TACS system -- for Japan. After a series of government-to-government discussions in the mid 1980s, the GOJ approved the TACS technological standard for use in Japan, but did not allocate any radio frequency spectrum for the system in the Tokyo-Nagoya area -- a population center equivalent to the Washington-Boston corridor. The competing, Japanese-technology systems were approved for use throughout Japan, which made them far more attractive to customers.

Agreements reached in the mid 1980s (MOSS agreements) and in 1989 were aimed at achieving comparable market access for the TACS system in Tokyo-Nagoya. The GOJ grudgingly agreed to allocate spectrum to TACS in Tokyo-Nagoya, but insisted on naming IDO -- a competitor to Motorola that was building its own Japanese-technology cellular system in Tokyo-Nagoya -- to build the TACS system in Tokyo-Nagoya. Four years later, and despite a detailed commitment letter in 1992, IDO has not come close to completing the system.

The Agreement

The agreement reached today is specific and results-oriented. It sets forth a highly detailed, quarter-by-quarter schedule for installing, putting into operation, and promoting the TACS system, with a completion date of December 1995. It commits the Government of Japan to monitor and oversee IDO's commitments, and to ensure compliance with the quarterly schedule. Finally, it provides for quarterly assessment by the two Governments of the implementation of IDO's commitments.

This agreement validates the results-oriented approach you have taken for trade agreements with Japan. It contains, without question, the most detailed, specific, and measurable commitments to achieve results in any agreement to date. Finally, and most importantly, it represents the opening of the Japanese market for U.S. high-technology products, and support for high-wage jobs in the U.S., where the network and terminal equipment, and 80 percent of the cellular phones for this system are made.

ELEMENTS OF THE U.S.-JAPAN CELLULAR TELEPHONE ARRANGEMENT

CONSTRUCTION AND DEPLOYMENT OF THE TACS SYSTEM

- A plan containing a schedule of quarterly commitments on the numbers of base stations and voice channels and the ratios of population coverage.
- A deployment plan to be completed within 30 days setting out the precise geographic location of each base station in the Tokyo-Nagoya area.
- These commitments will result in 159 new base stations, containing an additional 9900 voice channels. The installation will begin in April 1994; installation and deployment of the base stations will be completed by September 1995; installation and deployment of the voice channels will be completed by December 1995.
- Coverage of 95% of the population in the Tokyo-Nagoya region by September 1995.
- An immediate letter of intent containing commitments with respect to the specific equipment to be purchased and all associated terms and conditions.

PROMOTION OF THE TACS SYSTEM

- Establishment of a sales organization dedicated to the promotion of the TACS system.
- Sales promotion of the TACS system, including devotion of 2/3 of IDO's total advertising budget to TACS promotion.
- An agreement to add no further capacity to the HI-CAP system beyond that which is currently underway.
- Implementation of a specially-designed campaign to encourage the movement of subscribers onto the TACS system.
- Transfer within 18 months, *i.e.*, by September 1995, of 1.5 MHz of spectrum from IDO's HI-CAP system to its TACS system which will be accomplished without inconvenience to HI-CAP customers as a result of the campaign mentioned above.

IMPLEMENTATION OF THE COMMITMENTS

- IDQ will provide quarterly reports to Japan's Ministry of Posts and Telecommunications.

GOVERNMENT OF JAPAN COMMITMENTS

- Monitor and oversee completion of the IDO commitments, including those in the letter and all associated documents.
- Ensure compliance with the letter and associated documents on a quarterly basis.
- Meet quarterly with the U.S. Government to assess implementation of the actions described in the letter and associated documents.
- Approve reallocation of 1.5 MHz to the TACS system.
- Expediently grant all necessary permits and licenses to IDO and approvals required by IDO to complete the TACS system.
- Give full and prompt consideration to any request from IDO for new tariff rates and conditions.

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

April 6, 1993

MEMORANDUM FOR AMBASSADOR RUFUS YERXA
AMBASSADOR-DESIGNATE CHARLENE BARSHEFSKY
COUNSELOR ELLEN FROST

FROM: IRA WOLF

SUBJECT: Your Meeting with Matsuura & Hatakeyama

Setting

Koichiro Matsuura (Deputy Foreign Minister for Economic Affairs) and Noboru Hatakeyama (MITI Vice-Minster for International Affairs) are the highest ranking career bureaucrats responsible for handling foreigners at their respective ministries. Both Matsuura and Hatakeyama are here to ascertain which trade issues will be raised by the President during the Prime Minister's visit. They are very interested in the status of the Japan policy review, and how that will affect the Miyazawa visit. They

Both Matsuura and Hatakeyama need to be reminded again of the political and economic context of the Clinton economic program and how this dramatic change is necessary for economic recovery

and growth at home. They must take back the message that a Japanese economy that is still closed to many American exports makes our recovery more difficult. The time for rhetoric has passed; Japan must act, and it must do so now. There can be no excuses. They have to appreciate that inaction by Japan will result in a severe response by the United States, including actions tailored to Japan's failure to abide by specific commitments along with more general action that might impact on the broader bilateral relationship. We are going to meet our responsibilities; Japan must meet theirs.

The P.M.'s visit and the Tokyo Summit will be the last two major events in the careers of these officials. Hatakeyama is expected to retire this summer and Matsuura is slated to become an ambassador somewhere.

Talking Points

--**Introduction.** Appreciate Matsuura and Hatakeyama's efforts in helping solve U.S.-Japan problems in the past. Look forward to working together. Real challenges ahead for us both, etc.

--**Implement trade agreements and understandings.** Japan must fully implement existing trade agreements. This includes semiconductors, supercomputers, computer procurement, paper, amorphous metals, and major projects. There must be concrete results from each of these agreements, that is, increased American sales. We will not participate in negotiations that will end simply in abstract process changes. Lack of observable results will lead directly to U.S. action. We also need to see results in areas where the Japanese government or the private sector made concrete pledges, notably auto parts. In general, there must be comparable access in our two countries' markets, and that is not the case today.

--**Supercomputers.** After seven years of negotiations, no American supercomputer manufacturer has won a head-to-head competition in Japan's government market, despite having overwhelming market share elsewhere in the world. We are now assessing in detail the supercomputer agreement. I hope that Japan will follow the agreement's procedures scrupulously for the four procurements in the regular budget for the current fiscal year and any additional procurements that included in the supplemental budget now under consideration.

--**Semiconductors.** We welcome the achievement of a 20.2 percent market share for foreign semiconductors in Japan in the fourth quarter of 1992. However, we cannot stress enough the importance of achieving gradual and steady improvement in market access over the remaining three and a half years, as explicitly called for in the Arrangement. We

believe, therefore, that it is reasonable to expect that foreign market share will achieve an average of 20 percent over the four quarters of 1992, at a minimum.

--Auto Parts. During President Bush's visit to Japan last year, the Japanese side committed to increasing auto parts purchases by Japanese auto producers in the U.S. and Japan to \$19 billion by 1994. Japan's auto transplants in the U.S. pledged to increase domestic content from 50 percent to 70 percent by 1994 and promised to give "special consideration" to traditional American auto parts suppliers. All indications are that those commitments will not be met. We need to see dramatic increases in auto parts procurement, as well as commitments for increased procurement levels in the succeeding years.

--Autos. Japan has made commitments to improve market access for U.S. made autos. Much needs to be done, including in the areas of standards, certification, and marketing assistance, especially with the difficult distribution system in Japan.

--Construction. We are very concerned with the market access problems in the Japanese construction market and the alleged violations of the Major Projects Arrangement. We have been at this for years, and American construction, engineering, and architectural firms have barely made a dent in your market. We were disappointed to hear that the GOJ canceled the talks that were scheduled last week.

--Computer Procurement. We signed a computer agreement 14 months ago and still have not reached an agreement on the monitoring mechanism and definitions to use for the follow-up. We proposed to define "Foreign Computer Manufacturer" based on ownership while Japan insists it be based on location. The agreement explicitly calls for the expansion of foreign computer products and service, which we agreed means market access. Japanese subsidiaries producing overseas have no access problems at all, and frankly, it is preposterous to prevent the monitoring of the agreement by arguing that heir sales must be counted. I hope you will instruct your staff to accept the use of ownership as the basis for our review.

--Paper. We signed an agreement on paper products last April and have had one follow-up meeting with a second to occur soon. So far, U.S. companies report some increased receptivity on the part of Japanese corporate users but no appreciable increase in contracts or sales. It is very important that the Japanese Government work actively with your industry to increase purchases of competitive foreign paper products.

--Amorphous Metals. We understand that the U.S. industry is consulting with Japanese utilities on the specifics of a methodology for procuring transformers. We hope that the companies involved in this process will be able to resolve their differences to avoid this matter from resurfacing as a trade issue.

--Other. There are other problem areas that have been the subject of bilateral discussion for years and where little progress has occurred. Glass and legal services are two examples. It is essential that the Japanese Government address such areas and solve our outstanding problems.

--Private Sector Cooperation. There is significant opportunity for our private sectors to cooperate better and help solve problems. An excellent forum is the U.S.-Japan Business Council. Although the Council has accomplished little in the past, a promising development at the February meeting was the establishment of a committee led by Fuji Xerox President Kobayashi to examine trade issues raised by the American Chamber of Commerce in Japan and make recommendations by July for action. Success would show that your private sector is committed to change and to bringing Japan more in line with other industrialized countries. Failure would demonstrate that Japan's private sector is uninterested in addressing critical market access issues and give support to those who believe that Japan is a mercantilistic economy that requires special treatment by the rest of the world.

--Stimulate Economy. Japan must act to stimulate its economy. The world cannot accept the current level of Japan's current account surplus. "Recycling" this surplus is simply not enough; increased imports from the world is necessary to move us all onto a growth pattern. One specific measure that should be included in any stimulus package is a specific allocation, and a large one, for government procurement of foreign goods and services. This would ensure the success of our agreements, demonstrate Japanese government leadership in opening markets, and send a signal to Japan's private sector that things have changed. Prompt action by Japan to stimulate its economy will help ensure success at the Economic Summit in July.

--Structural Change. The government has the ability to institute meaningful structural change in many areas such as stringent enforcement of antimonopoly law, replacing administrative guidance with transparent rules and procedures, facilitating a less burdensome distribution system, easing restrictions on foreign investment, and taking measures to alter savings and investment patterns.

--Services. Japan needs to take steps to open its services market to foreign competition. This includes insurance, banking,

securities, diversified financial services, and as I mentioned earlier, legal services, and construction.

--Uruguay Round. Obtaining renewal of fast track to conclude the Uruguay Round won't be easy, but we will succeed. Japan can help or hinder that effort, and our interests go well beyond rice: real reductions in market access, including acceptance of zero/zero initiatives in non-ferrous metals, wood and paper, improving the Dunkel text in areas such as antidumping, and opening up services. But Japan cannot wait on the sidelines.

Drafted: I. Wolf/C. Lake

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Executive Office of the President
Washington, D.C. 20506

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SUBJECT: _____

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

April 27, 1993

MEMORANDUM FOR: John Rollwagen
Laura Tyson

FROM: Charlene Barshefsky 

SUBJ: Sectoral Issues

We think Commerce made a good first cut at the sectoral paper. Let me comment on the criteria and sectoral issues as well as mention several other concerns we have.

CRITERIA

We agree that a sector need not meet all the criteria. We suggest adding the following to John's list:

--Willingness of US industry to commit resources to selling in Japan and to back us up in the negotiations. One reason for success in semiconductors was the intensive effort of individual companies and the SIA. We have had unfortunate experiences in other areas where we have started negotiating market access in Japan and found that the industry was not behind us. That's a real killer.

--Ability of the Japanese Government to influence the outcome. This could be as in computers where the GOJ itself is the customer or as in semiconductors where MITI put considerable effort into ensuring sales.

--Ripeness. Is this the appropriate time to pursue the issue? Do we have the necessary information? Is there industry concern in the US? Have we identified the issues? Is the data we need available?

--The issue is winnable. We need early wins. Some of the sectors we choose should have a good chance to show early results.

--There are transnational allies. Although this criterion is more tactical, is the issue one where the EC, Canada, or Australia shares our views and goals?

--Japan has targeted a sector and there has been discrimination against foreign companies.

SECTORS

Sixty-five percent of Japanese exports to the US are in six sectors -- autos, auto parts, electronics, semiconductors, supercomputers, and computers. We are competitive in each sector, and these are all included in the Commerce list. Other possible sectors could include:

--Medical equipment. This was the subject of the MOSS talks and these discussions continue. The central issue facing the industry now, however, is access to the Japanese government procurement market -- specifically, hospitals. This is an enormous market with significant potential for our high tech medical equipment.

--Environmental protection services and equipment

--Telecommunications goods and services. Perhaps including optic fiber.

--Biotechnology

--Computer peripherals

--Instruments. This might include laboratory, process control, and electrical and measurement equipment.

--Components (other than semiconductors.)

Also, there may be areas on some of the critical technologies lists (Council on Competitiveness, Defense Science Board, etc.) that we should consider. Are there areas on Japan's own targeting list that we should have on our priority list?

GENERAL COMMENTS

We must be careful to distinguish between sectors where our competitive industry is shut out of Japan's market versus sectors where our industry is simply not yet developed. One example is the flat panel display industry.

Another concern relates to how we handle new issues versus old issues. A separate category of concern should be "implementation of existing agreements." For example, we have agreements in semiconductors, supercomputers, and computers. In semiconductors, the issue is increasing the 20.2 percent market share. In supercomputers, the issue is one of enforcement of the existing agreement. In computers, the issue is getting Japanese agreement on the definition of "foreign computer manufacturer."

Although we have no formal agreement in auto parts, Japanese industry has made voluntary commitments through JFY 94. We are calling these "pledges." The issue is ensuring that Japanese industry meets those commitments (with a focus on traditional US

auto parts suppliers) and obtaining similar commitments for JFY 95 and beyond.

The structural list that came out of our meeting last week included competition policy, financial liberalization, direct investment, technology transfer, and distribution. Although IPR and government procurement were not included on that list, these two serious problems run through many of our proposed sectors, and we must address them. This is an excellent example of how sectoral and structural problems intersect.

We also need to develop an early warning system for critical technologies, especially emerging or currently non-existent sectors. Given all we know about Japanese targeting, we must watch these technologies and be prepared to work with the Japanese to ensure that the market, as it develops, is open.

Finally, we must be sure that the sectors we choose are broad enough to cover new, emerging technologies of importance to us. For example, although the Supercomputer Agreement now applies to vector machines, it has been our intention all along to cover massively parallel processors, the next generation technology.

file
Kantor
testimony

TESTIMONY OF AMBASSADOR MICKEY KANTOR
UNITED STATES TRADE REPRESENTATIVE
BEFORE THE COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS
U.S. SENATE

March 16, 1993

Mr. Chairman, I welcome the opportunity to appear before the Committee on Environment and Public Works today to discuss the North American Free Trade Agreement (NAFTA) and President Clinton's plan to strengthen the NAFTA through supplemental agreements on import surges, worker standards, and, of particular interest to the Committee today, the environment.

In his speech at the American University on February 26, President Clinton laid out his vision of economic growth in America based on expanded trade and market opening: competing in, not retreating from, the global economy. This Administration's economic strategy begins at home with the adoption of the President's economic plan, reform of the health care system, welfare reform, a civilian technology initiative, a program of national service, and intensified commitment to education and job training. But it goes on to include NAFTA, strengthened by the supplemental agreements, a completed Uruguay Round, and far more balanced trading relationships with Japan and China.

Several basic ideas guide our efforts to complete and strengthen the NAFTA:

First of all, we have made it clear that this administration will not come to the Congress for approval of the NAFTA without supplemental agreements that have real teeth, meaningfully advance their objectives, are concrete, and contain serious commitments.

Secondly, despite the advances of the current agreement in linking nations of different stages of economic development, it is not yet enough. These supplemental agreements must break new ground in finding ways to raise worker standards and environmental protection. In these areas, we are committed to a NAFTA which harmonizes upward, not downward.

Third, we seek to raise prosperity throughout North America -- while improving working standards, social conditions, and environmental quality.

During the campaign, President Clinton concluded that while NAFTA carried with it the potential for real benefit to the

United States, that potential could be fully realized only through significant additional steps to enhance environmental quality and worker safety and standards throughout North America.

On March 17, our negotiators, led by Ambassador Yerxa, begin the process of negotiating the supplemental agreements to which the President is committed. We will not re-open the NAFTA, and we hope to see it enter into effect, as envisioned in the agreement, on January 1, 1994. However, in these supplemental agreements, we are dealing with issues, and fashioning provisions, that have never been associated with a trade agreement. We will not sacrifice substance for speed, we will not ask you to vote on NAFTA until the supplemental agreements are completed and you can judge how they strengthen the NAFTA.

Having travelled the country during the 1992 campaign, and having talked to many members of Congress during the past two months, I think that I understand the concerns that many have expressed about NAFTA. Assuming that we are successful in negotiating effective supplemental agreements, it will be the obligation of this administration to deal frankly and forthrightly with those concerns, and to convince Congress and the public that NAFTA is in our national interest. But we need to be realistic about the standard by which NAFTA must be judged.

For those who would emphasize the imperfections of the NAFTA and supplemental agreements, the test must be whether, on balance, we will be better off with NAFTA and meaningful supplemental agreements than we would be without it. In other words, will this economy be stronger, will workers be better off, and will the environment be better protected with or without the NAFTA and the supplemental agreements?

Let me turn now to the environmental issues before us.

As President Clinton said in his October 4 speech in North Carolina, much remains to be done:

1. A North American Environmental Commission.

President Clinton is committed to the creation of a three-nation commission on the environment. This is one of the most challenging assignments facing us in the negotiations, but I believe that we can create a commission that contributes to enhanced environmental quality in North America.

We envision the commission as a forum for reviewing and analyzing environmental issues on this continent. It would have access to independent experts and the authority to review complaints. It would be able to request information from environmental enforcement agencies in the three countries, and pursue effective follow-up actions to ensure compliance. The

commissions could review and report publicly on the environmental protection activities of the three governments, including the progress made in implementing NAFTA's environmental provisions.

Our goal for the commission is the strongest possible improvement in environmental quality throughout North America. At the same time, we have to bear in mind that the powers granted to the commission will apply to us as well as to our neighbors. The challenge is to create bodies which respect national sovereignty while accomplishing things that none of the nations in North America can do alone. From my consultations with this committee and others in Congress, I am acutely conscious of the depth of your concern that this commission have the requisite authority to make a real difference, and I expect the supplemental agreements will be judged accordingly.

Let me say that in the last few days, as I've consulted with you, Mr. Chairman, and with others on the Hill, I have received some excellent advice and guidance. You were one of the first, in your January 29 speech, to recognize some of the important roles that a commission can play, such as a technological clearinghouse. You were grappling early on with the kind of problems we'll be facing in these negotiations.

Our environmental non-governmental organizations are also another source of inspiration. Just to name a few, on Friday I met with representatives of the Environmental Defense Fund. Along with the Natural Resources Defense Council, they presented some excellent recommendations for crafting an environmental commission. I have also received significant contributions from the National Wildlife Federation and the Sierra Club.

This process must result in decisions that have real teeth and meaningful results.

2. Border Cleanup. The NAFTA process has produced an intense focus on the depth of the problem and an unprecedented degree of cooperation in attacking it. As President Salinas told President Clinton when they met in January, Mexico has dedicated \$450 million over three years to invest in environmental projects in Mexican border cities. The joint U.S.-Mexico Border Plan, which was formulated in the period leading up to the NAFTA negotiations, set up a number of working groups and projects -- including cooperation on enforcement -- to deal with border problems. Plainly, this must be a sustained effort. USTR and the other agencies are studying the various options for funding critical border activities.

3. Stronger enforcement of national laws. Mexico has solid legislation on its books. Mexico's environmental laws, regulations and standards are in many respects similar to those

in the United States. Its comprehensive General Ecology law embodies principles similar to ours, and the regulations and technical standards implementing this law take an approach comparable to ours.

The issue, of course, is enforcement of the laws, to make the protections on the books a reality for those who live and work and do business in Mexico. I believe that we might use the negotiations on these supplemental agreements to discuss with the Mexican government ways to strengthen the enforcement of their laws. These initiatives might include changes in the administrative and judicial processes to increase access of citizens and non-governmental organizations.

In thinking about ways to improve enforcement, it is noteworthy that all NAFTA parties committed, in Articles 1714-16 of the NAFTA, to a significant set of principles and administrative and judicial procedures for the domestic enforcement of intellectual property rights. We will review these provisions to assess their applicability for environmental issues. Procedures like these to promote due process, judicial review, and citizen access to judicial and administrative bodies can contribute to improved enforcement of the law, as well as increased public confidence in the law.

While it is natural for us to focus on the role and responsibilities of government, the private sector also has a significant role to play. NAFTA explicitly provides that none of the parties to the agreement should relax environmental standards in order to attract investment. While it is the responsibility of governments to enforce the law to ensure that environmental standards be maintained, it is also the responsibility of companies doing business in Mexico to plan for, and adhere to, the environmental standards on the books.

Let me summarize why the President believes that NAFTA, if strengthened through these supplemental agreements, can help promote economic growth in the United States.

In this global economy, where capital and production are mobile, we face the challenge of creating high-wage and high-skill jobs here in the United States. We have already begun to see the benefits that the United States can gain as Mexico opens its markets. Our merchandise exports have grown from about \$14.6 billion in 1987 to \$40.6 billion in 1992. This export growth has reversed what was a \$6 billion trade deficit in 1987 and turned it into a trade surplus of nearly \$6 billion last year. These increased exports have come from every region in the United States. Mexico is one of the top ten overseas markets for 38 states, and 20 states each shipped roughly \$250 million or more to Mexico in 1991.

Mexico is our fastest growing major export market, our second-largest market for manufactured goods, and our third-largest market for agricultural products. Seventy percent of Mexico's imports come from the U.S., and Mexicans already consume more U.S. goods per person than either the Europeans or the Japanese. The NAFTA will open still greater opportunities for U.S. exporters by eliminating Mexican tariffs (which average two and one-half times as high as U.S. duties), knocking down other forms of Mexican trade restrictions, and eliminating discrimination against U.S. providers of goods and services.

Today, more than 600,000 Americans owe their jobs to our exports to Mexico. This number is estimated to increase to more than 1 million by 1995 with NAFTA. We know that U.S. workers in export-related jobs earn 17% more per hour than the average American wage. This agreement will be of particular benefit to small and medium-sized companies that are experiencing the fastest export growth. Unlike big companies, small and mid-sized firms do not have the resources to locate around high trade barriers. With trade barriers removed, U.S. firms will not have to move to Mexico to sell to Mexico.

TESTIMONY OF AMBASSADOR MICKEY KANTOR
UNITED STATES TRADE REPRESENTATIVE
BEFORE THE SUBCOMMITTEE ON INTERNATIONAL TRADE
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

March 11, 1993

Mr. Chairman, I welcome the opportunity to appear before the International Trade Subcommittee today to discuss the North American Free Trade Agreement (NAFTA) and President Clinton's plan to strengthen the NAFTA through supplemental agreements on worker standards, the environment and import surges.

In his speech at the American University on February 26, President Clinton laid out his vision of economic growth in America based on expanded trade and market opening: competing in, not retreating from, the global economy. This Administration's economic strategy begins at home with the President's economic plan--increasing investment, reducing the budget deficit. But it goes on to include NAFTA, strengthened by the supplemental agreements, a completed Uruguay Round, and far more balanced trading relationships with Japan and China.

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I have emphasized, in a very abbreviated way, some of the potential economic benefits to the United States. But obviously, economic growth will not only make Mexico a better customer, but a stronger and more stable neighbor. The success of President Salinas' reforms is very much in his country's interest, but it is also, very much, in ours.

During the campaign, President Clinton concluded that while NAFTA carried with it the potential for real benefit to the U.S., that potential could be fully realized only through significant additional steps to enhance environmental quality and worker standards throughout North America. On March 17, our negotiators, led by Ambassador Yerxa, begin the process of negotiating the supplemental agreements to which the President is committed. We will not re-open the NAFTA, and we hope to see it enter into effect, as envisioned in the agreement, on January 1, 1994. But we will pursue these supplemental agreements

vigorously, we will not sacrifice substance for speed, and we will not ask you to vote on NAFTA implementing legislation until these negotiations result in full and effective agreements, with benefits that you can assess.

Through the supplemental agreements and related initiatives, we seek to strengthen NAFTA in five ways:

1. Border Cleanup. We will work with Mexico to address the serious environmental problems at the border. The NAFTA process has produced an intense focus on the depth of the problem and an unprecedented degree of cooperation in attacking it. As President Salinas told President Clinton when they met in January, Mexico has dedicated \$450 million over three years to invest in environmental projects in Mexican border cities. The joint U.S.-Mexico Border Plan, which was formulated in the period leading up to the NAFTA negotiations, set up a number of working groups and projects -- including cooperation on enforcement -- to deal with border problems. Plainly, this must be a sustained effort, and it will be costly. USTR and the other agencies are studying the various options for funding critical border activities.

2. Stronger enforcement of national laws. Mexico has solid legislation on its books to protect the environment and its

workers. Mexico's environmental laws, regulations and standards are in many respects similar to those in the United States. Its comprehensive General Ecology law embodies principles similar to ours, and the regulations and technical standards implementing this law take an approach comparable to ours. The Mexican Constitution and subsequent legislation guarantees basic worker rights, such as the right of association and the right to strike, prohibits forced labor, and regulates the working activities of children. Mexico also has detailed laws and regulations governing occupational safety and health.

The issue, of course, is enforcement of the laws, to make the protections on the books a reality for those who live and work and do business in Mexico. President Salinas has taken significant steps, but much more remains to be done. I believe that we might use the negotiations on these supplemental agreements to discuss with the Mexican government ways to strengthen the enforcement of their laws. These initiatives might include changes in the administrative and judicial processes to increase access of citizens and non-governmental organizations.

In thinking about ways to improve enforcement, it is noteworthy that all NAFTA parties committed, in Articles 1714-16 of the NAFTA, to a significant set of principles and administrative and judicial procedures for the domestic

enforcement of intellectual property rights. We will review these provisions to assess their applicability for environmental and labor issues. Procedures like these to promote due process, judicial review, and citizen access to judicial and administrative bodies can contribute to improved enforcement of the law, as well as increased public confidence in the law.

3. North American Commissions on environment and labor standards. President Clinton is committed to the creation of two tri-national commissions -- one on the environment, and one on worker standards. This is one of the most challenging assignments facing us in the negotiations, but I believe that we can create commissions that break new ground in both these areas, and contribute to enhanced quality and improved worker standards in North America.

We envision the commissions as forums for discussing and analyzing environmental and labor issues on this continent. They would have independent, expert staffs and the authority to review complaints from citizens and non-governmental organizations. They would be able to request information from environmental and labor enforcement agencies in the three countries, and publicize the request and any failure by the governments to comply. The commissions could review and report publicly on the enforcement activities of the relevant government agencies, including the implementation of NAFTA's environmental

provisions.

Our goal for the Commissions is the strongest possible improvements in environmental quality and worker standards throughout North America. At the same time, we have to bear in mind that the powers granted to the Commissions will apply to us as well as to our neighbors. The challenge is to create bodies which respect national sovereignty while accomplishing things that none of the nations in North America can do alone. From my consultations with this committee and others in Congress, I am acutely conscious of the depth of your concern that these Commissions have the requisite authority to make a real difference, and I expect the supplemental agreements will be judged accordingly.

4. Worker Adjustment and Retraining. We believe that NAFTA will create jobs in the United States and contribute significantly to economic growth. At the same time, we recognize that the agreement will undoubtedly cause some loss of jobs. This Administration recognizes that to those who lose their jobs, it is cold comfort to know that others are benefitting from expanded trade. We are committed to helping those who lose their jobs with an effective program of retraining and assistance. This is a priority of the President, and Secretary Reich is taking the lead in fashioning a comprehensive program to deal with those who lose their jobs, whether the cause is this trade

agreement, defense cutbacks, or corporate downsizing. We know that NAFTA will be judged in part by the effectiveness of that program, and it should be.

5. Import surges. In the area of import surges, we are not looking to change the mechanisms in NAFTA, but rather want to ensure that these provisions can be effectively and fairly used for all sectors. I know that there are concerns in certain industries about whether NAFTA's provisions could result in an import surge, and I want to address those concerns. At the same time, we should remember that our exports are a much greater share of the Mexican and Canadian domestic markets than are their exports in our much larger economy. So any new measures we press for may be more likely used against U.S. exports. As with labor standards and the environment, I will be looking to you and the private sector for guidance on these matters.

In conclusion, I want to assure the subcommittee that I am well aware of the concerns that many here in Congress, and around the country, have about NAFTA. I believe that the depth of the concern reflects, in part, doubts about our economic strength that grew understandably during a long period when our government did not address our fundamental economic problems. But we are beginning to attack those problems now. In conjunction with the President's economic package, I believe that NAFTA, if strengthened by the supplemental agreements, will come

to be seen as a positive step for our nation, and an historic step for the North American continent.

TESTIMONY OF AMBASSADOR MICKEY KANTOR,
UNITED STATES TRADE REPRESENTATIVE
BEFORE THE SENATE COMMITTEE ON FINANCE

March 9, 1993

I welcome the opportunity to appear before the Finance Committee today to discuss the approach and direction of the trade policy of the Clinton Administration. This is my first public appearance before a Congressional committee since I assumed my responsibilities. I am delighted that I can appear first before this Committee, which recommended me for confirmation to the position of USTR.

In his February 26 speech at the American University, President Clinton set forth his vision of America's role in the global economy, confronting the third defining moment of the 20th century. Our role in the world emerges quite clearly from that important speech. As we and other nations struggle to face the new realities in the aftermath of the fall of Communism, the United States will be fully engaged internationally, not turning inward. We see our prosperity bound up with prosperity of our trading partners, in Canada, Europe, Japan and Mexico. We will work with them to promote global growth, aid the development of other less prosperous nations, address the emerging issues of environmental degradation and proliferation, and focus on the central importance of what is at stake in Russia.

Where trade policy is concerned, the United States will continue to champion open markets and expanded trade, but we will insist that the markets of other nations be open to our products and services. As the President said, we will compete, not retreat.

The trade policy of this Administration starts from the same point as its economic policy does: our prosperity and that of our children depends on our ability to compete and win in the global markets.

A little more than a generation ago, American industrial and technological superiority were unquestioned. Our workers, consumers and companies lived almost entirely within the American economy, and prospered there. But those days, when the world was a far simpler place, are long gone. Today, our exports and imports represent more than a quarter of our entire economy. And in the new global marketplace---where capital, management, production, technology and even labor are increasingly mobile---more than 70% of our products face competition from products produced in other countries.

Principles of Administration Trade Policy. Let me start with the principles that will guide Clinton Administration trade policy, as articulated in the President's American University speech.

1. In this Administration, trade policy is a part of integrated economic policy, and the fundamental goal is economic growth and the creation of high wage jobs for American workers.

The trade deficits which have grown up since 1980 are a fair measure of our competitive slippage, but they represent many factors beyond trade policy and trade agreements. If as a nation, we increase public and private investment, if we attack our budget deficits, if we take control over our health care system, if we educate our children and train our workers---we will have taken enormous steps toward prospering in global competition. If we do not take those actions, trade agreements alone will not produce prosperity for our people.

Nothing is more important to our economic prosperity, our competitive success, and our trade policy than the adoption of the President's economic package. Bill Clinton was elected to get the economy back on track, and to fix the track: to insure that we came out of recession in the short term, and to lay the groundwork for long-term prosperity. The lack of investment and the deficits have crippled our economic performance; if unaddressed, they could consign this country and its children to a diminished economic future. America, and all of us in political life, will benefit if we can come together to pass the President's program.

A real attack on the budget deficits will reduce long-term interest rates, leading to increased investment and job growth. U.S. companies choosing where to invest will find contributing to our own country's growth a more attractive option. Over the longer term, increased investment in the education and training of our workers, our transportation and communications infrastructure, and research and development generally, are vital to our ability to compete globally. In that connection, the Administration's New Technology Initiative, unveiled by the President and Vice President Gore on February 24, is a concerted effort to bolster U.S. civilian technology which has too often been slighted because of our traditional focus on defense technologies.

Moreover, the link between the President's program and our ability to promote global growth is inescapable. The economic stagnation of the past few years has not been confined to the United States. Growth will resume through concerted action by the leading economic powers: our attack on the budget deficits, Germany's willingness to lower interest rates, Japan's readiness to stimulate its domestic economy. For each of us, hard steps, with short term costs, are necessary to produce growth and prosperity. President Clinton's call to arms makes it possible for him to enlist other nations in joining us in a concerted effort to promote global growth.

2. Past Administrations have often neglected U.S. economic and trading interests because of foreign policy and defense concerns. The days when we could afford to do so are long past. In the post-Cold War world, our national security depends on our economic strength.

In the immediate aftermath of World War II, the United States led the free world in creating a free and open trading system. The Bretton Woods Agreement, the Marshall Plan, the creation of the GATT and the IMF are all testimony to the vitality of the free world in creating a post-war economic framework.

This framework was both geo-political and economic in its origin. The United States recognized the military threat posed by Communism; that our vital interests would almost always be defined in national security terms. At the same time, we realized that the expansion of trade and investment was one of the Free World's most potent weapons.

This policy was virtually painless for the United States. Although the U.S. was the world's economic giant, U.S. trade amounted to relatively little. In 1950, for example, U.S. exports and imports each amounted to only about 4% of the GNP, or

8% for trade as a whole. For Britain and France, on the other hand, trade was their economic life line, representing 30-45% of their GNP.

As a result, the United States tolerated "infant industries" policies in both Europe and Japan and other forms of protectionist economic policy in the post-war environment. Indeed, the creation and support of these economic policies by our allies was seen as an essential element of our national security interests.

Our foreign and economic policy in the post war era deserves credit for its historic accomplishments. We contained Communism, and rebuilt the economic strength of the free world. In the four decades following World War II, growth in the non-Communist world tripled. More importantly, Communism as a political system failed to maintain its toehold in Western Europe.

By the early 1970's, however, our trading partners had begun to come of age, and external shocks, such as the oil embargo of 1973, jolted our economy. The U.S. ran its first merchandise deficit of the century in 1971, and confronted the first wave of popularity of cars from Japan. Accustomed to steady economic growth and a secure domestic market, American business and workers had difficulty adjusting to the new dynamics

of world trade. Equally important, government policy did not change. American jobs and economic interests continued to take a back seat to foreign policy concerns.

The deep recession of 1981-82 took a devastating toll on U.S. manufacturers, but even when the economy recovered strongly, the overvalued dollar saddled U.S. exporters with a serious competitive disadvantage. Confronted with the reality of Japan's trade and industrial policies, the Reagan Administration's principal response was laissez faire and, after the 1985 Plaza Accord, dollar devaluation. By 1987, the U.S. merchandise trade deficit was \$150 billion, \$57 billion of which was with Japan. The weakness infecting basic industries spread to our leading edge high technology sectors as well.

The truth is there is ample blame for everyone. The great majority of U.S. companies were very slow to adjust to the blast of competition; there was no excuse for their failure to see what was happening years ago. But it is also true that U.S. government policy saddled our companies with every conceivable burden: higher costs of capital, increasingly serious health care costs, and, most relevant to us, a trade policy that for many years failed to enforce our laws at home, or open markets abroad.

The fundamental question that I am asked about trade policy is: how much continuity, and how much change? There will be a great deal of continuity, largely because of the six year, bipartisan Congressional effort, in which this Committee was instrumental, which culminated in the Omnibus Trade and Competitiveness Act of 1988. Thanks to that Act, the United States has a trade policy, with clear objectives that have broad support from Congress and the private sector. Obviously, there will be no shortage of difficult decisions to make, but the United States Trade Representative is charged with enforcing the laws and opening foreign markets, and given the tools to do so.

At the negotiating table, I will be representing the interests of American workers, farmers and businessmen and women, just as my counterparts represent theirs. We will continue to play our part in making the international trading system work, but we will insist on our trading partners bearing their share of the responsibility as well.

3. We will compete, and we have proven that we can.

Because of failed government policies, and the difficulty of adjusting to the new global economy, the United States has had serious competitiveness problems in many areas of the economy. But I have no doubt about the ability of our corporations, our farmers and our workers to compete. In many

sectors---computers, aircraft, machinery, agriculture, motion pictures, financial services---American companies and American workers set the standard of excellence in the world. Our universities and our entrepreneurs are the envy of the world. We will build and maintain a strong manufacturing base, and we will manufacture a full range of products from semiconductors to steel. We welcome the products of other nations, but we will not prosper if we are content to simply buy, sell, assemble, and distribute high-quality and low cost goods from abroad.

Export expansion has been the bright spot in an otherwise dismal economic picture over the past few years. From 1985 through 1992, U.S. merchandise exports increased from \$222 billion to \$445 billion, in current dollars, a virtual doubling. We regained our position as the world's number one exporter. By 1990, more than one in six U.S. manufacturing jobs were related to merchandise exports, and the average wages for workers in manufacturing and service exporting sectors, where American products are most competitive, substantially exceed the U.S. average. This dramatic increase in exports has occurred even though 85% of U.S. exports come from only 15% of U.S. companies. The export potential of our vibrant small and mid-sized businesses remain to be realized, and that is a high priority for this Administration.

4. We will seek to expand trade by opening foreign markets, and we will enforce the laws at home. One of my principal responsibilities as USTR is to open foreign markets and break down barriers to U.S. manufactured goods, agricultural products and services. This includes pursuing the strong protection of U.S. intellectual property, so important to our high technology industries. When all is said and done, opening foreign markets is our main objective in the Uruguay Round; it is the impetus, from our standpoint, for the North American Free Trade Agreement (NAFTA); it will be a principal focus of our efforts with respect to Japan and China, as well as in other nations around the world.

We are not a perfectly open market, of course, but because of history, practice, and our concern for maximizing consumer choice, this market will always be basically open. Consequently, we need to use every tool at our disposal--- multilaterally where possible, and bilaterally where necessary--- to make sure that other markets are comparably open to our own. That includes resort, where legitimate and necessary, to Section 301, strengthened by Congress in 1988. Both Super and Special 301, used appropriately, have proven to be valuable tools for breaking down significant barriers to our products and services, including the failure to protect our intellectual property.

It should be understood: while there are many factors beyond trade policy that contribute to trade deficits, trade policy matters. In today's global economy, allowing other nations to promote and protect their industries, building profits from secure home markets, while targeting our open market, is a formula for competitive suicide. We will not stand by and pretend that other nations share our commitment to expanded trade and open markets if the real world evidence suggests that they do not.

5. We will ask companies and workers to join in partnership with government to build competitive industries. Nor will we stand by, indifferent, when companies, workers and communities are hard hit by foreign competition---fair or unfair. In appropriate cases, our Administration will offer trade relief to industries under pressure, but we will expect in return that the affected companies and workers will commit to actions that will build the future competitiveness of the industry. This Administration is asking all Americans to join in the effort to rebuild our country's economic strength; there will be no free rides. We will not protect industries, only to watch them raise salaries for their CEO's and prices for their customers.

Let me address specifically a number of the major issues facing us.

NAFTA. President Clinton has consistently affirmed his support for the North American Free Trade Agreement (NAFTA), provided it is accompanied by effective U.S. domestic economic policies and supplemented by additional agreements and domestic actions to address concerns regarding labor, the environment, and safeguards against import surges. Addressing these concerns does not mean re-opening the NAFTA text. Our goal is rather to negotiate the necessary supplemental agreements and to work with Congress to develop implementing legislation so that the NAFTA and the supplemental agreements and domestic measures can be in place by January 1, 1994. An enhanced NAFTA package can contribute to the ability of our companies and farmers to compete at home and abroad and help improve working condition, living standards, and environmental quality throughout North America.

We have already seen the benefits we can gain as Mexico opens its markets. Thanks to the economic liberalization program enacted by President Salinas, our merchandise exports already have grown from about \$12.4 billion in 1987 to \$40.6 billion in 1992. This export growth has reversed what was a \$6 billion trade deficit in 1987 and turned it into a trade surplus of nearly \$6 billion last year. And these increased exports have come from every region of the United States. Mexico is one of the top 10 overseas markets for 38 states, and 20 states each shipped roughly \$250 million or more to Mexico in 1991.

Mexico is our fastest growing major export market, our second-largest market for manufactured goods, and our third-largest market for agricultural products. Seventy percent of Mexico's imports come from the U.S., and Mexicans already consume more U.S. goods per person than either the Europeans or the Japanese. The NAFTA will open still greater opportunities for US exporter by eliminating Mexican tariffs (which are more than twice as high as US duties, on the average) knocking down other forms of Mexican trade restrictions, and eliminating discrimination against US providers of goods and services.

On March 17 we will begin negotiation of the supplemental agreements on labor standards and safety, the environment, and import surges which the President called for during his campaign. We will pursue these agreements vigorously, let me assure you that we will not sacrifice substance for speed -- nor will we delay our efforts in the name of an artificial timetable. We will not ask you to vote on NAFTA implementing legislation until these negotiations result in comprehensive, enforceable agreements.

In the supplemental agreements on environment and labor, we are looking for concrete improvements. We want the agreements to have mechanisms and provisions to help raise standards where they are deficient, strengthen national enforcement of national laws, improve the U.S.-Mexico border

environment, and ensure, so far as possible, that the NAFTA promotes prosperity and improved social conditions in all three countries.

I am optimistic that we can achieve these goals. My Mexican counterpart, Jaime Serra Puche, has told me that he would like to view these talks not as a negotiation, but a collaboration. Mexico has excellent labor and environmental standards on its books, and President Salinas has repeatedly recognized the need for strengthened enforcement.

I see the labor standards and environmental agreements covering three basic areas:

- improved cooperation on worker and environmental safeguards, including technical assistance, and data sharing, with a goal of attaining the best protections possible;
- improving enforcement of standards and national laws, both through the administrative and judicial processes of each country, and new labor and environmental commissions which will provide independent scrutiny of measures taken to enforce national laws; and
- encouraging a positive impact of the NAFTA on North America's working conditions and the environment.

In these negotiations, we will be breaking new ground for the United States and for our continent. We want to promote the strongest possible improvements in all areas. At the same time, we have to bear in mind that the agreements will apply to us as well as our neighbors. This could raise tough issues for us, including matters of prosecutorial discretion, state/federal relationships, the operations of the courts, and Constitutional guarantees of due process. My staff and I will be looking to you and to our experts in the labor and the environmental communities to find ways to address these problems as the negotiations progress. At the same time, USTR, along with OMB, Treasury, Labor and EPA, will be studying the various options for funding critical environmental cleanup efforts.

In the area of import surges, we are not looking to change the mechanisms in NAFTA, but rather want to ensure that these provisions can be effectively and fairly used for all sectors. I know there are concerns in certain industries about whether NAFTA's provisions could result in an import surge, and I want to address those concerns. At the same time, we should remember that our exports are a much greater share of the Mexican and Canadian domestic markets than are their exports in our much larger economy. So any new measures may be more likely used

against U.S. exports. As with labor standards and the environment, I will be looking to you and the private sector for guidance on these matters.

The Uruguay Round. President Clinton is committed to the successful completion of the Uruguay Round of multilateral trade negotiations which has been on-going since 1986. When Sir Leon Brittan, the EC Trade Minister was here on February 11, I announced the President's decision to seek the renewal of fast track procedures to complete the Round. I indicated at that time that timing of the request and the duration of the authority we would seek would be determined only after further discussions within the Administration, and consultation with Congress and the private sector. We are in the midst of that process, and no final decision on timing or duration has yet been made.

Ambassador Hills, and the staff at USTR, expended enormous effort for four years to reach a strong Uruguay Round agreement. Others committed to the Round, including the Director General of the GATT, Arthur Dunkel, have done the same. Through discussions with the private sector and Congress, we are developing a good sense of the accomplishments to date, and the remaining obstacles to be overcome before the Round is completed. I think we can complete the Round in a way that will benefit the United States and the world economy, but based on our discussions to date, I do not believe that we were as close to completion as

some have reported in early January. I told Sir Leon that our goal was a good agreement, not just a quick one.

Sir Leon pointed out the danger that whatever consensus that has emerged so far behind the draft "Final Act," known as the Dunkel text, could dissipate if quick agreement was not reached and the U.S. and other nations tried to re-open the text to address issues where we have concerns. While I recognize his concern, the fact remains that we are not going to reach agreement until some of our major problem areas with the draft "Final Act" are dealt with seriously and effectively.

Moreover, the question of whether we can reach an agreement depends very much on the market access commitments for goods and services which are still being negotiated. If we reach ambitious agreements on market access---cutting tariffs, breaking down non-tariff barriers---the Round will hold out potential benefits of the magnitude that will inspire enthusiasm in the American business community, and their workers, that has been, to date, muted, at best.

We chose to announce the decision to seek fast track procedures when Sir Leon was here, because the Round depends, in the first instance, on U.S. and EC leadership in setting out the ambitious objectives to be achieved in areas such as market access for goods and services. The three-year deadlock between

the rest of the world and the EC over agriculture stalemated the Round and gave other nations, most notably Japan, the ability to avoid contributing meaningfully to the successful completion of the talks. We will not complete the Round without some leadership by the U.S. and the EC, but we will also not complete it if Japan continues to behave as if it has little stake in the outcome. We also need to see meaningful contributions from other trading partners---the newly-industrializing countries in Asia and Latin America---and the developing countries who owe their economic gains to a strong, open multilateral system. It is time to address the free riders in this Round.

A successful Round would give an immediate boost of confidence to the world economy, sorely in need of one. It would contribute to increased economic growth over the next decade by lowering barriers to trade in goods, bringing new rules and discipline to services, agriculture and textiles, and creating, for the first time, a set of enforceable rules for protecting intellectual property and governing investment. But the Round is not a favor that the United States is doing for the world. If it is ambitious enough, U.S. companies and workers stand to gain a great deal because of lowered barriers in our existing markets, and the creation of new markets.

But our criterion should be clear: despite the sometimes single-minded focus on agriculture, and the

preoccupation with the so-called "new issues" of intellectual property and services, support for the Round in the U.S. will turn on the benefits that result for U.S. exports of manufactured goods, agricultural goods, and services produced by workers and farmers here in the United States. However, in pursuit of those benefits, we will not weaken the provisions of current law such as those that provide remedies for our industries against the unfairly traded products of other countries, and those that protect health, safety and the environment.

European Community. We have our share of current difficult issues with the EC. Despite this, our trading relationship with the European Community is one of the most important in the world and is critical to the integrity and vitality of the multilateral trading system. We are each others' largest trading partners, and maintain a diverse and largely balanced trade relationship. Last year two way-trade amounted to \$197 billion, with the U.S. running a surplus of nearly \$9 billion.

The evolution of the European Single Market (EC-1992), which officially came into effect on January 1 of this year, has been a prominent feature in our trade relations with the EC in recent years. We have welcomed the European project for its elimination of trade barriers between 12 of our most important trading partners, creating a single market comparable in size to

our own. But we insist that European integration legislation and policies treat US firms fairly. When European policies create new barriers to US exports, we will act firmly to protect our interests. I have already moved to address the barriers to US firms created by the newly-implemented EC directive on procurement by utilities. As the EC proceeds to form the European Economic Area with other Western European countries, to deepen its own economic and monetary integration and to add associate members from Eastern Europe, we will continue to make full use of the tools in our international agreements and US trade laws to keep markets open.

Japan. No aspect of our trade policy has proven more complex or contentious than our relationship with Japan. In the past decade, our trade deficit with Japan has totalled nearly \$500 billion dollars. The bilateral deficit peaked at \$57 billion in 1987, and then came down over the next four years to \$43 billion. U.S. exports did increase from \$28 billion in 1987 to \$48 billion in 1991, but have levelled off since, as the Japanese economy has stalled. This year, the bilateral deficit has again increased to \$49 billion. As always, the disproportionate amount of the deficit is made up of autos and auto parts, and electronics.

A year ago, in the immediate aftermath of President Bush's trip to Japan, there was significant anger on both sides

of the Pacific, particularly as the recession deepened. The presidential campaign, which had the potential for inflaming the relationship further, did not. A great deal of credit goes to President Clinton who steadfastly refrained from criticizing Japan and instead ran a campaign focused on dealing with our problems at home to strengthen our economy.

Nonetheless, the U.S.-Japan trade relationship needs immediate and serious attention. Clearly, the Japanese market has gradually become more open to our products and services, and those of other nations, over time, but the progress has not been rapid enough to produce the level playing field that we have sought for years. Numerous barriers remain in Japan which prevent, or dramatically reduce, the sale of U.S. products and services which are highly sought after in other countries around the world.

At the same time, Japan feels that it has been bombarded by demands from the U.S.---export less, import more, strengthen the yen, negotiate about individual products, negotiate about sectors, talk about structural impediments---demands that frequently change, but never end. After years of a booming economy, Japan faces its own economic difficulties, making government and business leaders even more hostile to pressure from the United States, even while many in Japan express the view that change can occur only as a result of outside

pressure. Resentments on both sides of the Pacific have built as a result of a decade of almost constant acrimony over one trade issue after another, but despite efforts by both sides, we still find ourselves with an intolerable trade deficit, and still limited access to this critical market.

In the first instance, we must insist that Japan fully implement the range of agreements already negotiated---and implement them in such a way that they provide important and concrete benefits to the U.S. and other non-Japanese suppliers. Very early on, we have a chance to gauge the efficacy of these agreements. In the coming weeks, we will be reviewing the progress on the Semiconductor Agreement, to monitor the progress being made toward the expectation of a 20% market share in Japan for foreign semiconductors. We intend to vigorously follow up on commitments that were made in January 1992 with respect to the auto parts market in Japan. Recent developments in our Supercomputer Agreement are troubling, and we are evaluating our next steps. On all these issues, we will be consulting closely with this Committee and other interested members of Congress.

Above and beyond the series of individual disputes, we need to find a better approach for dealing with Japan trade issues---one that will lead steadily in the direction of a more equitable balance of economic benefits and responsibilities. The beginning of a new Administration is the natural juncture for a careful review of the overall U.S.-Japan relationship, to

underscore the importance of the relationship by collaborating on problems that we can move on jointly, while moving to address the very real bilateral problems between us. President Clinton's commitment to dealing with our problems at home, without blaming Japan or any of our other trading partners, provides a more promising starting point for discussions about hard steps that Japan needs to take on its part.

China. With the highest growth rate in the world over the past decade and an entrepreneurial boom in the south, China has enormous potential as a market for American goods and services. At the same time, China's human rights practices do not conform with international standards; we are concerned that its arms sales behavior jeopardizes our global non-proliferation efforts; significant barriers to our products and services continue while China sends an increasing share of its exports to the United States. All these factors raise serious questions about the nature of our relationship.

These issues have come together in the annual MFN debate in the Congress. The Bush Administration was adamant in rejecting every effort to put conditions on extension of MFN to China. The Clinton Administration will address all of these concerns---human rights, proliferation and trade---and we will address them aggressively. We are currently reviewing our policy

toward China, including MFN, and I can tell you that we will consult closely with the Congress.

On trade, an interagency team was in China last week following up on the two trade agreements that Ambassador Hills negotiated last year on intellectual property rights and on market access. So far, the Chinese are abiding by the terms of the IPR agreements. On market access, there are some problems, and I am following up with my Chinese counterparts. We are leading the process to negotiate China's entry into the GATT, and we will ensure that significant further changes in China's trade regime are made before that happens. Finally, we are looking at other areas, such as services, that were not the subject of earlier negotiations yet are very important to our businessmen. We expect an equitable and balanced trading relationship with China, and we will settle for no less.

The Administration and Congress also face the issue of renewing the Generalized System of Preferences (GSP) program, which we are reviewing carefully as we consider our overall policies of trade and aid with developing and Eastern and Central European countries. As the President noted in his speech, the steady expansion of growth in the developing world is in our interest and theirs as well. We need to do our part to alleviate the grinding poverty which afflicts much of the world; at the

same time, we are building markets for products made by our workers here.

Let me close on a personal note, which I mentioned in my confirmation hearing. There is nothing theoretical about the job I have, or the work that we will do together. I travelled around the country during the last campaign, and I have seen the pain inflicted on people and communities from jobs lost as a result of a changing global economy. I have spoken with many of you, and through you, I have heard the concerns of those you represent. Together, we need to find the mix of policies that rebuild the U.S. economy so that our children have the opportunities that we were fortunate enough to have.

REMARKS BY AMBASSADOR MICHAEL KANTOR
SEMICONDUCTOR INDUSTRY ASSOCIATION

WASHINGTON, DC
March 3, 1993

I want to thank you for inviting me here this evening to join you in honoring Lloyd Bentsen and my fellow Californian Norm Mineta. They are both friends and colleagues: leaders who recognize the imperative of maintaining American leadership in the face of massive global change.

Two hours ago I had the opportunity to meet with Jim Norling, Pat Weber, and other members of SIA's leadership. Our discussion was open, frank, and constructive. That's trade talk for getting down to business quickly. We dealt with issues that are high on our agenda -- continuing to open the Japanese semiconductor market -- eliminating the 14% European Community tariff -- and concluding the Uruguay Round so that we can boost American interests and stimulate global growth.

The semiconductor industry is a building block of our high-tech future. It is a leader in demonstrating what Americans can do when the crunch comes, when you have to compete. In the last four years you have completed a remarkable turnaround, closing an enormous gap in global market share.

This achievement came about because of your willingness to invest in new technologies, to accept new challenges and to foster a growing partnership with the U.S. government. Sematech is a case in point, a demonstration of how joint and strategic economic decisions pay off. The President has every intention of making this partnership stronger.

I want to talk to you about trade. It's a complex topic. Just look at today's newspapers: Nissan is reporting its first annual pretax loss since 1951. Coca-Cola is going to build ten bottling plants in China. Russia is competing with us to sell fighter planes in Malaysia and has agreed to accept payment in palm oil, fabrics, and other goods. An archaic steel mill in eastern Germany is struggling to find a place in a glutted steel market. The European Community is asking for talks on steel.

I'm here to tell you that in the midst of all this complexity, we have a clear direction. And it goes without saying that we have, in Bill Clinton, a President who understands the connection of our domestic economy to the global marketplace.

You will not be shocked that I intend to say good things about President Clinton's economic policies. As his campaign chair I did everything I could to put him into the White House. So I am not shy in stating my belief that the President has the country headed in the right direction.

The President's economic program is comprehensive. We need every part of this package. Some people are going to tell you that we just don't need the short-term stimulus, that the economy is back on track and let's just save the money. Well, don't listen to them.

Unemployment is still at 7% and has been so for over 14 months. More than one in ten Americans are now on food stamps -- the largest number of persons to use this program since its inception. Sixteen million Americans are looking for full-time work. The recovery is profoundly uneven, and too many industries are still shedding workers. California's economy, as we all know, has yet to see the light of day. The short-term stimulus package is as important to this President as every budget cut and commitment to long-term investment. We want this recovery to kick in for every American, and we want it to be broad-based and lasting.

I am asking you to support our President's policy, and to work with us to break the gridlock. This Administration is committed to real spending cuts -- a relentless attack on the deficit -- and an investment policy that is vital to our ability to compete globally. We want people back on the job soon, 2 million kids working this summer and new investment dollars to retrain our work force.

We recognize there is real pain involved in passing this economic program. But there is no going back. If we don't seize this opportunity to get America's economy back on track, all your efforts to be globally competitive will be meaningless. We must all be committed to change.

Our commitment to change reflects our awareness that America's economic and trading interests can no longer take a back seat to traditional definitions of foreign policy and national security concerns. Now, that may seem entirely sensible to you and long overdue. But let's recognize what is being done here. We are overturning four decades of fixed assumptions about how this government looks at the world. The new reality is that our national security is completely interwoven with our economic security.

Trade policy in this Administration isn't going to be an add-on or an economic filler to compensate for the lack of a domestic policy agenda. It totally integrated with the rest of the President's economic program. This President is determined to create a new framework for how we think and act economically.

This is a President who has already made it clear that we will "compete, not retreat." The United States has led the world in creating the global market system that is now emerging. We do not intend to go backwards.

We are committed to opening markets, determined to increase opportunities for American corporations. We have every intention of creating a new framework of shared responsibility with our trading partners.

Above all we want a global trading system that fits the 1990s, that recognizes the world as it is rather than as it once was. We are in a period of massive, global transition. We need new rules of engagement to ensure global economic growth. We want shared responsibility, no free riders and a new set of standards about what is productive behavior.

The President summed it up best in a speech last Friday at American University. He said our trade policy "will not be a policy of blame, but one of responsibility. It will say to our trading partners that we value their business, but none of us should expect something for nothing."

We intend to carry out a trade policy that meets the President's standard. We are asking our trading partners to work with us to establish clear and enforceable rules that expand trade and abide by those rules. Our question is: are you willing to accept new responsibilities in return for the opportunity to compete in the new world economy -- and act to fulfill them?

Let me make it clear: we expect the markets of other nations to be comparably open to U.S. goods and services.

Shared responsibility also means that we will not blame our trading partners for our own failures. Our deficit, our lack of a long-term investment strategy, our failure to invest in our own people -- these are not the fault of others. They were Made in America, and they can be Changed in America.

Most importantly, shared responsibility means that our trading partners must carry their own weight. The U.S.-Japan Semiconductor Arrangement is a case in point. The American semiconductor industry is a global leader, number one in every market around the world except Japan. Specifically, not counting Japan, the U.S. share of the world market is a whopping 53 %, and the Japanese share is half that. That's competitive. But in the Japanese market, we still haven't cracked 20%.

To be sure, our sales in the Japanese market have climbed somewhat. But the results to date are not sufficient. We have made it abundantly clear to our Japanese counterparts that we expect substantial progress. Like you, we will be paying particular attention to the fourth quarter number that will be issued in about two weeks.

As called for by your Board today, we will work with you to ensure that this agreement is fulfilled. This is what the President means when he says that our trade policy is one of "responsibility." A bargain struck is a bargain made.

This Arrangement remains in force through 1996. We expect to use it as a vehicle for steadily improving market access. We are resolute and determined to get results. USTR will be vigilant in monitoring the progress of this Arrangement. We fully expect Japan to live up to the letter of the agreement.

We also seek results in Europe, and in a successful conclusion to the Uruguay Round, which is a particular concern of this industry. Frankly, we find it unacceptable that the EC remains reluctant to eliminate its 14% tariff on semiconductors. We have already made it clear to our counterparts in the EC that this is a U.S. priority.

President Clinton is fully committed to a successful conclusion of the Uruguay Round. We will seek renewal of the fast-track authority to conclude the Round. But we will determine the timing of that request and the duration of the authority only after extensive consultations with Congress and the private sector.

The United States is not seeking to conclude the Round simply to show progress after so many years of effort. We want results that make a difference to our manufacturers, our service sector, investors and agriculture -- that make a difference in the lives of our workers. We want to retain our ability to rigorously enforce our trade laws.

Those of us who are forging this trade policy see a policy emerging that is more active, anticipatory and inclusive -- incorporating new concerns about the environment, international labor standards, science and technology policy -- enlarging the productive capabilities of developing countries through sustainable growth.

We do not want to be pigeon holed by labels -- be it managed trade, strategic trade or fair trade. We intend to avoid getting bogged down in long drawn out theological debates about free trade and protectionism. It is a senseless exercise and ultimately futile. The agenda of this Administration will be to move beyond the gridlock of the extremes, the limitations of either/or categories that set boundaries rather than break them.

As the new USTR I am especially interested in expanding the number of companies exporting goods and services overseas with a new emphasis on small and medium sized businesses. We simply need more American companies going global, following your lead.

In addition, we intend to be inclusive in our representation.

We represent the American people, all of them. What has been absent is a sensitivity to how our trade policy effects the lives of Americans on the other side of the equation. The men and women who are losing their jobs or who have lost their jobs because of competition from imports.

The result has been a rising tide of resentment, a feeling among many Americans that they were getting the short-end-of-the stick. These feelings have not dissipated. Indeed, they are very much a part of today's public mind set.

People standing on the unemployment line are not about to listen to abstract lectures about the value of free trade and exports. They want jobs, retraining and a future for their kids. If we ignore the reality that a paycheck every Friday puts meals on the table, we will lose the political support we need for a vigorous trade policy so essential to the ongoing success of this industry.

I am proud to be asked to serve as USTR. I think there is a tremendous competitive spirit in this country. The President captured it when he said, "the American people are at their best when alarm bells ring in the dead of the night." They show up, they organize, they get the job done.

President Clinton's economic policy is the alarm bell. And, the American people are showing up. I feel certain that I can tell the President that your industry has already arrived, that SIA will lead from the front in making America globally competitive in the 1990's.

Thank you.