# George H. W. Bush’s Liberal Trade Agenda : Defending Global Engagement and Managing U.S.-Japanese Relations 1990. 5-1992

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We're going to stay on this free trade approach, but we're also going to try to do our best to be sure the trade is fair and fairer and continuing to get fairer. That is what's essential here at this turn of events. We must not go back into this isolationistic sphere that inevitably will shrink markets and throw more people out of work.

George H.W. Bush, December 26, 1991[1]

Japan was a close ally. The President liked Kaifu a lot and he just felt that on these narrow and technical issues, it was OK to discuss them, but we shouldn't risk the relationship for what were after all <u>not</u> issues of overriding significance.

Brent Scowcroft, February 12, 2001[2]

During 1989-1990, the primary focus of the Bush Administration's trade policy was the affirmation of centripetal forces affecting the global trading system in order to encourage the expansion of global trade. With regard to trade with Japan, the Administration sought to make "adjustments" in economic relations in order to address the historical asymmetry in bilateral relations. At the same time, in order to mitigate the deleterious impact on bilateral relations, the Administration reduced its use of controversial unilateral policy tools and confirmed the importance of a complementary bilateral approach. By mid-1990, having reduced numerous structural trade barriers and having achieved significant market-opening, the Administration began to focus more intently on regional initiatives designed to complement its multilateral approach in order to encourage the trend toward global economic integration and to promote the successful conclusion of the Uruguay Round of the GATT talks. By aligning America's bilateral trade policy approach vis a vis Japan with its multilateral objectives, it appeared that the stage had been set for America's participation in a new era of global competition that promised the mutually beneficial expansion of global trade. But, with a breakdown in the GATT talks, with Japan and the United States slipping into recession and with sluggish global economic growth, a confluence of internal and external factors threatened to undermine the Bush Administration's liberal approach to trade.

Accordingly, during the latter half of 1990 through 1992, as the Administration increasingly contended with rising protectionist and neo-isolationist sentiment, President Bush primarily confined his efforts to combating these centrifugal forces that threatened both to undermine the global trading system and to diminish executive authority on trade. Having expanded his prerogatives in regard to trade by pursuing a global approach, in the latter half of his tenure, Bush sought to hold the line on those gains by defending liberal economic engagement. First, during a period of heightened global instability, the Administration sought to reduce uncertainty and counter America's neo-isolationist impulse by promoting cooperative bilateral relations and "a new world order." Second, to promote the expansion of global trade, Bush vigorously defended against encroachment of executive authority in the negotiation of trade agreements by emphasizing a multilateral approach that included regional initiatives and by ensuring the passage of Fast-Track authority on trade. Third, in countering mounting domestic pressure to pursue a more protectionist approach to trade with Japan, Bush crafted agreements with Japan at the Tokyo Summit that songht to preserve his fundamental commitment to a liberal trade policy. A discussion of each of these cases serves to illustrate the fundamental strategic consistency of the Administration's approach to trade. For, while the

Administration occasionally resorted to tactical retreat in contending with domestic and international pressures, it can be argued that the long-term impact of Bush's trade policy approach was the effective containment of these various centrifugal forces. Thus, the overall impact of the Administration's approach was more positive than it first appears as Bush achieved numerous successful policy outcomes while preserving and enhancing cooperative bilateral relations with Japan.

### *Preserving Stability : The Gulf Crisis/War*

While the Gulf Crisis/War was fundamentally a strategic priority, the economic disruption that accompanied the outbreak of war threatened the Administration's goal of the expansion of global trade. The U.S. economy fell into recession in the summer of 1990, developments in the Persian Gulf exacerbated America's economic problems by driving up the cost of oil and contributing to inflationary pressure.[3] The divergent responses by America's allies to developments in the Gulf provided valuable ammunition for proponents of protectionism and neo-isolationism that espoused a hard-line with Japan. In the fall, differences in the negotiations in the agricultural sector at the Uruguay Round of the GATT talks contributed to anti-Japanese sentiment in the Congress. Against this backdrop, the Administration sought to promote cooperative bilateral relations and to encourage Japan to play a role in restoring stability in the Gulf commensurate with its global stature. At the same time, Japan and other trading partners contended with their own sets of strategic, economic and political imperatives in reacting to developments in the Gulf. In formulating its response, the Administration sought to incorporate these various domestic and international realities while forging Bush's internationalist conception of a "New World Order."

The divergent nature of the responses to developments in the Persian Gulf stemmed from the divergent role of the United States as a military superpower, in contrast to Japan's role as an economic superpower and regional military power. America's military response to Iraq's invasion of Kuwait on August 2 encouraged the perception in the United States that it had shouldered an inequitable burden, threatening to reinforce the centrifugal forces affecting the bilateral relationship.[4] Also, as events in the Gulf unfolded, the perception in the United States that it was shouldering an inequitable burden relative to Japan in ensuring the maintenance of international stability threatened to undermine the logic of the underlying cooperative framework forged by the Bush Administration. In this respect, in addition to the obvious impact on security relations with Japan, Japan's responses to developments in the Gulf would have a substantial impact on the tenure of U.S.-Japanese relations and thus affect the direction of U.S. trade policy vis a vis Japan.

Initially, in contrast to the 1979 decision not to go along with an embargo of Iranian oil exports, Prime Minister Toshiki Kaifu responded promptly to Bush's request to freeze Iraqi assets in Japan and suspend economic aid.[5] Despite considerable disagreement between MITI and MOFA officials at a cabinet meeting on August 3, Chief Cabinet Secretary Misoji Sakamoto announced a four-point package of economic sanctions on August 5. Specifically, the economic sanctions banned the import of oil from Iraq, banned exports to Iraq and Kuwait, suspended investments, loans, and other capital transactions, and froze economic assistance to Iraq.[6] The fact that Japan instituted the ban prior to the adoption of a similar UN Security Council Resolution on August 6 led the Bush Administration to commend Japan for exercising decisive leadership.

However, although aware of Japan's Constitutional restrictions, the U.S. government indicated to Japan that in addition to political and financial support, "a physical presence in the Gulf"(「目に見える貢献」) was needed. As U.S.

Ambassador Michael Armacost explained when the crisis first erupted in August of 1990, "President Bush decided upon this military operation recognizing that 20,000 to 30,000 youngsters may loose their lives in the heat of battle. Japan will not earn any sympathy (「共感」) by just providing money. The mood in the Congress will become increasingly severe."[7] Reflecting the domestic, political (party and factional), and bureaucratic division over the appropriate policy response, Kaifu tended to vacillate throughout most of August. First, despite the Bush Administration's urging to make his scheduled August trip to the Middle East, Kaifu postponed his visit until October as a result of high-level MOFA resistance. Second, the cabinet was unable to implement any kind of constitutionally acceptable form of logistical support, such as the sending of ships, transport planes, mine sweepers or medical personnel, until the end of the month.

Third, on August 29, when Kaifu's first comprehensive aid package totaling approximately $1 billion was announced, the Bush Administration privately expressed dissatisfaction with the amount.[8] At a high-level meeting on September 7, Treasury Secretary Brady meeting with Kaifu, Finance Minister Hashimoto and Foreign Minister Nakayama called on Japan to increase its contribution.

Irritation at Kaifu's seemingly timid responses prompted a rather severe Congressional reaction.[9] On September 11, the Congress passed an amendment to the National Defense Authorization Act (HR 4739) which required Japan to pay for the full cost of the deployment of U.S. troops stationed in Japan or the U.S. threatened to withdraw all of its troops stationed in Japan.[10] Partially as a result of the harshness of the U.S. pressure, Kaifu was able to immediately announce a second $4 billion aid package with $2 billion marked for the forces in the Gulf and $2 billion in aid to front line states, helping to prevent a serious deterioration in U.S. -Japanese relations.[11] Moreover, in late September, in a meeting with Bush in New York, Kaifu agreed to pay half the cost of U.S. troops an estimated increase of $600 million over the next five years.

Kaifu also introduced the United Nations Peace Cooperation bill (国連平和協力法案) that was designed to permit the sending of 1,000 members of the Self Defense Forces and to allow their participation in non-combatant roles along with other UN peacekeeping forces in the Gulf. Yet, reflecting Kaifu's weak power base, concessions made to generate support among the opposition parties for the bill resulted in the loss of roughly one third of critical LDP support, and ultimately was insufficient in preventing Komeito's rejection of the bill. Thus, on November 9, when the Democratic Socialist Party and Komeito agreed to cosponsor a revised bill in the next Diet session which proposed to eliminate the participation of the Self Defense Forces, the LDP agreed to withdraw the existing bill, dealing a considerable blow to the stature of the Kaifu cabinet.

In 1991, the nature of Japan's contribution to the multilateral forces in the Gulf was among the potentially most explosive issues in U.S.-Japanese relations. The end of the Cold War had brought with it a noticeable absence of a restraining influence on Iraq that resisted considerable international pressure and refused to withdraw from Kuwait. At the same time, the globalization of trade implied that such regional conflicts would have a considerably greater international impact than was previously the case.[12] Thus, both Japan and the United States shared fundamentally compatible interests in preserving international stability in an era described by John Lewis Gaddis as one dominated by, "the new competition between the forces of integration and fragmentation."[13] Concerned that the presence of Iraqi forces on the border of Kuwait posed a serious threat to Saudi Arabia and angered by Hussein's refusal to withdraw from Kuwait in clear violation of international law, Bush initially responded by sending U.S. troops to the region. Bush responded emotionally at a news conference following his trip to Camp David, stating "I view very seriously our determination to reverse out this aggression....This will not stand. This will not stand, this aggression against Kuwait."[14] Following a series of failed diplomatic moves, Bush declared on January 16 that the U.S. was at war with Iraq, and Japan quickly indicated its support for the deployment of troops under UN auspices.

Kaifu's desire that Japan's contribution to the Gulf be commensurate with its economic strength exacted an increasingly higher political cost domestically throughout the year. In truth, as a cabinet shuffle in December of 1990 in which only one other member of the Komoto faction other than Kaifu participated in the Kaifu cabinet attests, his support base within the party was never particularly strong. Nevertheless, once the war started, the Kaifu cabinet responded promptly pledging an additional $9 billion to aid the war effort.[15] Despite the strong objections of the Japan Communist Party and the Japan Socialist Democratic Party that opposed the bill on the grounds that it violated Article 9, it was approved by the Diet in February.[16] Elections held on February 18 appeared to affirm this effort as the LDP managed to retain its majority, holding onto 275 seats in the Lower House.

Yet, as a *quid pro quo* for obtaining Komeito's critical support on the supplemental aid bill, Party Secretary Ozawa, a key source of support within the powerful Takeshita faction, had pledged to back a compromise candidate in the Tokyo gubernatorial elections. The local LDP rejected the compromise candidate, Isomura Hisamori, and incumbent Governor Suzuki won in April. As a result, Ozawa resigned his post as LDP secretary to take responsibility for generating internal party division, weakening the Kaifu Administration's power base and further hampering Kaifu's ability to forge compromises within the party.[17]

Despite this setback, as the economies of the U.S. and Japan had become increasingly linked to the global economy, both governments had strong incentives to cooperate during the course of the war.[18] In Japan, the economy had begun to show signs of slowing and, although consumption was still strong for the first half of the year, the fall in oil prices and the weakening of domestic demand, caused Japan's import growth to begin to slow.[19] In the United States, with the economy already in recession, the turbulence in the Gulf caused oil prices to fluctuate, and contributed to the further dampening of domestic demand. In order to minimize the impact of the Gulf War on their shaky domestic economies, finance ministers at the G-7 Summit meeting in New York pledged cooperation in the stability of markets during and after the war.

A second area of economic cooperation during the war stemmed from the efforts by the Japanese government to strengthen domestic demand. The weakening of domestic demand in Japan had had a detrimental impact on Japan's bilateral and global balance of trade. For, slower growth of the Japanese economy entailed a decline in import growth while exports remained relatively firm, resulting in the widening of Japan's bilateral and global trade surplus throughout the year.[20] Because of the growing economic importance of Japanese subsidiaries located in the United States, the Bush Administration maintained that the imbalance could be partially reduced if Japanese subsidiaries were to purchase higher percentages of U.S. parts in their production. In response to the undesirable rise in Japan's trade and current account surpluses, the Japanese government began to push Japanese corporations to have their overseas subsidiaries increase U.S. imports. This effort resulted in the "Business Global Partnership Promotion Plan" which was unveiled by MITI in November. According to the plan, 40 major companies were required to submit plans that specified import targets to be met by their overseas subsidiaries.

A third area of cooperation was in the promotion of a common post-Cold War vision. In his State of the Union address in late January, Bush declared,

> What is at stake is more than one small country ; it is a big idea : a new world order, where diverse nations are drawn together in common cause to achieve the universal aspirations of mankind-peace, security, freedom and the rule of law.[21]

The Bush Administration viewed the "New World Order" as an essential underpinning to the maintenance of global stability and called on Japan and other allies to support the United States. Contrary to the view of its critics, the Bush Administration espoused a limited global role for the United States. For example, NSC Deputy Advisor Robert Gates stated in a speech in May, "The New World Order is neither a Pax Americana nor a euphemism for the U.S. as world policeman. It is simply an attempt to deter aggression—and to resist it if necessary—through the collective and voluntary action of the international community."[22] The Administration sought to cast off ideology in order to promote a global vision that would generate widespread international support for the peaceful settlement of disputes. As James Pinkerton, Deputy Assistant for Policy Planning, noted, "The New World Order is... based not on brinkmanship, throw-weights, or kitchen debates, but rather on core values like international law, human rights, and peaceful democratic change."[23] In effect, the Bush Administration was attempting to lay the foundation for a new form of strategic engagement that reflected the trend toward heightened multipolarity in the international system. In advocating its vision of a "New World Order," the Administration rejected both isolationism and unilateralism in favor of a new pattern of engagement and a new style of American leadership.[24] Japan welcomed America's continued engagement, shared America's concerns about international stability, and subscribed to this set of "core values." Thus, the Japanese government readily supported Bush's conception of a "New World Order" and Kaifu repeatedly echoed many similar themes in his public remarks.

In short, consistent with the Administration's desire to defend global engagement, Bush had demonstrated strong global leadership in promoting international stability and in preserving military and economic order at a critical juncture. Reflecting his preference for multilateral approaches, Bush successfully forged an international coalition that, in firmly resisting Iraq's violation of UN resolutions, helped shape a new consensus regarding the principles of the conduct of nations in the post-Cold War era. Moreover, despite the occasional "squabble" regarding Japan's contribution to the Gulf, Bush's National Security Advisor Brent Scowcroft confirmed that in the end, "The Japanese actually... they came through very well."[25] By consulting closely with Japan and by securing Japan's support for its initiatives, Bush had thus reinforced the Administration's complementary approach to bilateral relations.

### *Defending Multilateralism : The Uruguay Round & Fast-Track Legislation*

While bilateral cooperation had proved helpful in promoting long-term stability, the Gulf War had had a turbulent effect on the global economy, negatively impacting the Bush Administration's efforts at bilateral and multilateral cooperation in achieving the expansion of global trade. U.S. economic conditions had steadily worsened throughout the year and by the summer of 1990, as events in the Gulf had caused a temporary decline in both U.S. imports and exports, the economy had fallen into recession. With declining fiscal revenues and rising outlays, the Administration's budget projections, based on Gramm-Rudman-Hollings Law, grew increasingly irrelevant. Ironically, while the Administration managed to maintain bipartisan support for its policies in the Gulf, the period of domestic "reconciliation" between the Executive and the Congress had ended with the battle over the budget in 1990. As a result, there was a steady deterioration in relations between the executive and legislative branches that continued throughout the remainder of Bush's tenure. In the 1990 Congressional elections, Republicans lost one seat in the Senate and eight in the House, contributing to Bush's political difficulties.[26] America's huge federal budget deficit and the need to attract foreign capital to finance it also hampered the Bush Administration's efforts to use either fiscal or monetary policy to help jump-start the economy.[27] America's stagnant economy contrasted sharply with Japan's surprising 5 percent growth in GNP for the year, reigniting fears of America's diminished competitiveness and fueling a rise in anti-Japanese sentiment in the United States.

Although the economic trends in the second half of the year were somewhat alarming, the trade figures for the year, not fully reflecting these developments, were encouraging. In fact, America' global trade deficit in 1990 had fallen to $108.1 billion, the smallest deficit in seven years. Moreover, the increase in oil prices and the consequent fall in the value of the dollar helped the growth of U.S. exports to reach 8.3 percent, exceeding import growth for the year. America's bilateral trade deficit with Japan also fell 18 percent to 41 billion for the year. Within the Economic Policy Council, the relatively positive trade figures vis a vis Japan strengthened the so-called international relations faction within the Administration consisting of Chairman of the Council of Economic Advisors Boskin, Secretary of State Baker, and Secretary of Treasury Brady who favored the promotion of more harmonious international relations.[28] As a result, the Administration sought to defend its policy of global engagement despite a rise in protectionist sentiment and economic nationalism that stemmed from deteriorating conditions within the domestic economy.

### *The Uruguay Round*

In this context, in order to encourage the expansion of trade, successful conclusion of the Uruguay Round of the GATT talks in the latter half of 1990 was increasingly vital to sustaining the Administration's trade policy approach. The purpose of the

Uruguay Round was to negotiate further reductions of tariffs and non-tariff barriers in a variety of sectors. Yet, throughout 1990 the fundamental divergence between the U.S. and EC countries on agricultural products became the major stumbling block and thus the focus of negotiations.[29] As the world's largest exporter in agricultural products, the United States proposed "tarrification," a two-staged process by which the U.S. sought the eventual elimination of all agricultural subsidies. First, the United States proposed the immediate elimination of all quantitative restrictions (quotas), replacing them with high tariffs. Second, following a certain period of time, the high tariffs would gradually be reduced until they could be eliminated altogether.[30] But, as the European countries of the EC were reluctant to abandon their common agricultural policy, they refused to disassemble their system of export subsidies and thus rejected the US proposal.[31]

As the EC and the U.S. negotiators were locked in opposition, Japan's position on agricultural subsidies grew increasingly important. Although in recent years, Japan had tended to favor proposals that promoted the liberalization of trade, as the number two importer of agricultural commodities and with a tradition of emphasizing the need to maintain economic food security, Japan was hesitant to support the U.S. position. Japanese negotiators initially argued that because of Japan's unusually low level of self-sufficiency, particularly within its rice and dairy sectors, it should be given special consideration.

Iwata Kazumasa argued that in the interest of maintaining a consistent long-term trade strategy Japan, "should have sided with the U.S. against the Europeans to help promote freer global trade."[32] But, with farmers a critical component to the LDP's shrinking support base, the Japanese government was still hesitant to reverse its policy against the import of rice and risk further alienating the powerful farming lobby.

In October, Japan temporarily averted mounting U.S. pressure by agreeing to a reduction plan submitted by the EC which called for Japan to reduce its internal supports by 30 percent. But, following the failure to reach agreement the proposal was abandoned and a new proposal that introduced a new framework for negotiating agricultural issues came to a vote in December. At a critical vote at the GATT ministerial conference in Brussels, Japan joined with the EC and Korea in rejecting the new framework. The U.S. was clearly disappointed by Japan's failure to adopt a higher profile approach in support of the free trade system.[33] With the rejection of this proposal, Latin American delegates withdrew from the conference in protest over the European delegates' intransigence over agriculture policy. As a consequence, GATT member countries failed to reach an agreement prior to the deadline and the talks were suspended on December 7.

The failure to achieve a multilateral agreement at the Uruguay Round of the GATT talks was a fundamental setback for the Administration. In the latter half of 1990, with less than six months before the final deadline for reaching agreement at the GATT talks, the Administration had attached the highest priority in trade policy to achieving a breakthrough in Brussels.[34] Despite the Administration's leading role in promoting an agreement, EC intransigence on agricultural reform remained the stumbling block to the multilateral agreement. With the breakdown in the talks, the Administration came to rely increasingly on its regional initiatives to sustain its vision of the liberal trading order.

The Administration had deliberately pursued a softer line on a number of contentious issues with Japan throughout 1990 partly to insure its cooperation at the multilateral level. For example, the Bush Administration sought to block foreign trade investment bills from surfacing in Congressional committees so as not to jeopardize America's position at the ongoing talks. While the EC was the recipient of the bulk of U.S. frustration, Japan's role in bringing about a temporary end to the round contributed to frustration within the bureaucracy and weakened the

Administration's hand in convincing members of Congress of the utility of its liberal trade agenda. In particular, the failure to achieve agreement reinforced the perception in the United States that Bush's cooperative trade policy approach was too lenient and that it was permitting an asymmetry of benefits favoring America's trading partners. Congressional pressure to adopt a more aggressive approach to trade with its U.S. trading partners was clearly rising in the Congress.[35] With the absence of full cooperation from the EC and Japan and with America in recession, the Administration encountered a new wave of domestic opposition to its vision of liberal trade.

*Fast-Track*

In contending with these domestic and international forces, the Administration sought to act as centripetal force in the defense of global engagement. The debate over Fast-Track authority in the first half 1991 illustrated the importance the Administration attached to preserving executive authority and in countering the neo-isolationist and protectionist trends that impeded the advancement of the Administration's vision. Bush's decision to move forward on a free trade agreement with Mexico was made with the expectation that the debate in Congress over that initiative would take place following the conclusion of the Uruguay Round of the GATT talks in December of 1990.[36] But, the breakdown in the GATT talks and the uncompromising mood in the Congress implied greater difficulty in securing support for Bush's regional initiatives. As the Fast-Track debate took place in the aftermath of the Gulf War in the spring of 1991, Bush enjoyed approval ratings in the range of 80 to 90 percent. The Fast-Track issue provided a good example of how Bush chose to expend his political capital, utilizing the power of the presidency to achieve his objectives in regard to trade.

As Fast-Track authority was set to expire on June 1, 1991, the Administration had sought an extension of that negotiating authority in February. In reviewing the request for extension, the Congress had 90 days in which to pass a resolution of disapproval. In the absence of disapproval resolution, the extension would be automatically granted to the Executive. Fast-Track authority permitted the President to negotiate trade agreements with its trading partners and to submit those negotiated agreements to the Congress for a clear up or down vote of dis-/approval. In granting Fast-Track authority, members of Congress were precluded from adding amendments to agreements once negotiated. Fast-Track thus provided the Executive with important authority to ensure that agreements reached with its trading partners would be enacted as negotiated. The Congress retained the right of final approval or rejection of the negotiated outcome of those agreements. In recent years, as Congressional prerogatives in regard to trade have risen, the Congress has been increasingly reluctant to grant the executive branch the power to negotiate trade agreements. With the American economy in recession and the trade imbalance worsening, the Democratically controlled Congress was also political resistant to granting executive authority to a Republican administration. Opposition to Fast-Track came from protectionist leaning Congressmen concerned about the loss of benefits from enacting international trade agreements. Protectionist Congressmen tended to oppose the granting of Fast-Track authority because of their specific opposition to the GATT process itself. Still others were opposed to granting Fast-Track extension because of their opposition to NAFTA. For these reasons, the Fast-Track issue engendered a highly contentious debate among members of Congress and between the legislative and executive branches regarding the direction of U.S. trade policy. The outcome of this domestic debate had important implications for U.S. trade policy vis a vis Japan.

As the failure to obtain Fast-Track authority threatened to derail important multilateral and bilateral trade initiatives, the Administration had a huge stake in ensuring its passage. Congressional resistance within the House Ways and Means Committee to a free trade agreement with Mexico was evident even among its supporters from the outset. On May 30, 1990, upon learning of Bush's plan to move forward jointly with Mexico in June, Chairman Dan Rostenkowski (D.-Illinois) and Ranking Minority Member Bill Archer (R.-Texas) had sent a letter to the President. In the letter, fearing that the free trade agreement would, "detract both government and private sector attention" from the Uruguay Round, the Congressmen wrote, "We are deeply concerned about the timing of this request."[37] As they also expressed concern that the Administration may be abandoning GATT as the central focus of its trade strategy in favor of this bilateral agreement, they urged that formal negotiations not begin until the House Committee had laid the groundwork for negotiations. Accordingly, in a joint statement on June 11, Presidents Bush and Salinas endorsed the goal of a free trade agreement while confirming that a successful conclusion of the GATT Uruguay Round remained their highest trade priority. At that time, the Administration believed that the final negotiation of the Uruguay Round of the GATT would be completed by December of 1990 and predicted that consideration of the free trade agreement would occur separately several months later. Thus, in her response on behalf of the Administration on June 26, USTR Hills wrote, "We firmly believe our bilateral efforts with Mexico will be complementary in terms of substance and timing to the top priority we accord the [Uruguay] Round."[38] She further indicated, "We also do not believe that the timing of our bilateral efforts would or should pose any conflict with the Round, even if before December."[39] In mid-1990, the Administration clearly believed that both objectives were achievable.

By early 1991, with the breakdown in the GATT talks and with diminished domestic support for its trade policies, the Administration faced an uphill battle for the passage of Fast-Track legislation. The Administration had little choice but to adopt a strategy designed to placate the moderates within the Congress to garner support for Fast-Track legislation. In particular, the Bush Administration sought the support of key Democratic leadership that tended to support free trade especially House Speaker Thomas Foley (D.-Washington), House Ways and Means Chairman Dan Rostenkowski (D.-Illinois) and Chairman of the Senate Finance Committee Senator Lloyd Bentsen (D.-Texas).[40] But, Bush encountered strong resistance from Senator Hollings (D.-South Carolina), Chairman of the Senate Commerce Committee, who viewed the GATT agreement as harmful to the powerful textile interests in his state. In December 1990, Hollings introduced a resolution against the extension of Fast-Track authority and obtained the support of 37 Senators. At the same time, the Administration faced stiff opposition from labor supporters to the free trade agreement with Mexico particularly among 60 "Rustbelt" Democrats.

In light of the breadth of resistance within the House and Senate, the Administration began to lobby for passage of Fast-Track authority as early as January of 1991. USTR Hills, through meetings with individual "peelable" co-sponsors, helped reduce the number of supporters of the Hollings resolution to 15 within a few months aptly handled the initial lobbying campaign by the Administration.[41] Given Hill's apparent initial success among Senators, the Administration concluded that the Congress would more likely endorse the free trade agreement with Mexico if it were linked to support for the Uruguay Round of the GATT through the Fast-Track legislation. Thus, on February 5, Bush informed the Congress of his decision to expand the free trade agreement with Mexico by including Canada, embarking upon a North American Free Trade Agreement (NAFTA).[42] By combining the free trade leaning supporters within Congress for both GATT and NAFTA, the Administration believed they would be more likely to defeat the narrower protectionist interests against Fast-Track within the Congress.

In February, USTR Hills and Nicholas Calio, Deputy Assistant of the

Legislative Affairs Office, continued their intense, low-profile, lobbying efforts. Hills met with Republican members of the key Congressional committees individually and in small groups. Calio contacted most Senate Democrats, over 100 House Democrats and nearly all of the Republicans in Congress in an effort to "whip" the Fast-Track vote. In mid-February, GATT negotiations had led to a breakthrough on the thorny issue of agricultural reform with the EC agreeing to negotiate in each of the three areas under disputes, namely, import restrictions, export subsidies, and internal price supports. Following this breakthrough, high-level officials began to express strong public support for Fast-Track extension. On February 26, in a meeting arranged by the legislative affairs office, Bush met with the Congressional leadership and the key committee chairman for a one hour meeting. The following day, having reviewed a memo from Carla Hills entitled, "Fast Track," Bush launched the public campaign in support of the legislation by announcing his support for Fast-Track before reporters. On March 1, Bush officially notified the Congress that the Administration was requesting a two-year extension of Fast-Track authority and similar authority for the negotiation of NAFTA.

The Administration faced strong Congressional opposition to the extension of Fast-Track particularly in regard to the NAFTA issue. On March 7, Senator Bentsen and Chairman of the Ways and Means Committee Rostenkowski together with Senator Bentsen wrote a letter to Bush in which they warned that Congressmen had, "a number of legitimate concerns" in regard to NAFTA, calling on Bush to introduce an "action plan" to address them.[43] Specifically, the Congressmen mentioned concerns related to Mexico's enforcement of its environmental standards, health and safety standards and workers rights.[44] Majority leader Richard Gephardt (D.-Missouri) sent a separate letter in which he raised issues related to the economic effects of NAFTA on labor and the environment. Bentsen and Rostenkowski requested that the Administration respond by May 1 to the issues raised in their letter as time was needed for deliberations within their respective committees prior to expiration of the existing negotiating authority.

According to Frederick McClure, Director of the Legislative Affairs Office, although Rostenkowski originally wanted to separate NAFTA from the GATT negotiations, the Legislative Affairs Office, "discouraged him from making this suggestion."[45] Apparently, Calio had convinced Rostenkowski that the Administration's linked approach to Fast-Track extension was political viable. Nevertheless, Rostenkowski requested a private meeting with Bush to discuss the Fast-Track request and McClure sent a memorandum to the President on March 12, recommending that Bush personally initiate the meeting. After reviewing the McClure memo on March 18, Bush held a luncheon meeting with Rostenkowski the next day.[46] As Bush and the free trade leaning "Danny" were quite amicable toward one another, Bush undoubtedly relied on his political judgment. Following the meeting, Bush again called on the Congress to support his Fast-Track request in his remarks to reporters.

Given the depth of Congressional resistance, administration officials grew concerned about the outcome of its lobbying efforts and began to more vigorously promote the agreement. The Political Affairs Office sent letters to key constituents to rally support for the President's initiative. In one letter, Director David Carney wrote, "Extension is one of our highest legislative priorities because Fast-Track equals fair trade."[47] Bush began to make frequent reference to the need for Fast-Track authority in his public statements. For example, on March 19, in remarks to a group of Hispanic Businessmen at the White House, Bush remarked,

> We need an extension of this "fast track" authority right now—to pursue critical new trade initiatives of unprecedented promise—like the Uruguay Round—we've got to complete that successfully; the Enterprise for the Americas Initiative, that means so much in our hemisphere;

and the North American Free Trade Agreement. Fast track authority gives us the chance to negotiate agreements that help everyone concerned.[48]

On March 27, Gephardt sent a 10-page letter to Bush in which he spelled out a long list of problems areas related to NAFTA that included environmental issues, wage disparity, job loss, transition relief for displaced workers, and concerns about Mexico becoming, "an export platform for third world countries."[49] By April, intense lobbying efforts by organized labor, textile interests and environmental groups aimed at House members to defeat the NAFTA authority represented a serious challenge to the passage of Fast-Track.[50]

Given the complexities of trade issues and given the importance of interagency coordination, the Administration's response to Congressional concerns in its "action plan" took time to formulate. In response to the letters by Bentsen and Rostenkowski and by Gephardt, Joshua Bolten, USTR General Counsel drafted a letter that was forwarded to the Economic Policy Council for interagency review in late March.[51] USTR Hills chaired the Trade Policy Review Group that worked on formulating a final draft while consulting and intensely lobbying the Congress. Deputy USTR Rufus Yerxa, a former aide to Rostenkowski, was also brought back from Geneva to help lobby the Congress.

During the interim, Bush continued to promote the extension of Fast-Track at every possible juncture in his public remarks. The Administration chose to emphasize the economic and trade benefits of Fast-Track extension. For example, in his statement following his bilateral meeting with Kaifu at Newport Beach, California, Bush urged the Congress, "to take decisive action and send a clear signal that America stands for free trade by extending the Fast-Track procedures."[52] In a speech in mid-April, Bush stressed the importance of Fast-Track in pursuing "vital trade objectives" such as the Uruguay Round of the GATT, NAFTA and the Enterprise for the America's Initiative. He warned, "If we loose this Fast-Track Authority, we lose any hope of achieving these three vital agreements."[53] In an editorial defending Fast-Track authority in the *New York Times*, David Demarest, Assistant to the President for Communications, explained the importance of these agreements and pointed to economic realities that underlie the need for Fast-Track extension. Demarest rhetorically concluded, "In short, a vote against fast track is a vote against trade. And, in the world's increasingly global marketplace, can the U.S. afford that?"[54] Similarly, in early May, Bush defended Fast-Track authority on the grounds that it would, "enhance the global competitiveness of the United States."[55] In fact, Bush wrote in his report to the Congress, "A rejection of fast track would also signal a retreat from the world trading system precisely at the time when U.S. economic growth is critically dependent on export growth."[56] Clearly, Bush viewed his global and regional initiatives as interconnected.

In light of the strategic importance, Bush also met with key Congressional leaders to discuss legislative strategy and garner support for the initiative. On April 15, in a luncheon meeting with Senator Bentsen, Bush discussed Fast-Track and other trade issues. In a Statement by the Press Secretary Bush was quoted as saying, "[Senator Bentsen] is one of our most knowledgeable leaders on trade matters and his support is crucial as we pursue the fast track legislation."[57] Clearly, both Senator Bentsen and Chairman Rostenkowski had played an important role in shaping the Administration's response.

On April 22, the Economic Policy Council (EPC) met to discuss the Administration's response to various Congressional letters on Fast-Track and to review the proposal of the strategy group chaired by USTR Hills.[58] Hills had carefully forged interagency support within the Trade Policy Review Group and had consulted with Congress on a daily basis. There was also widespread recognition among EPC members of the need for a cooperative approach on issues related to

NAFTA and wide division did not mark the meeting. The EPC agreed to adopt an "Action Plan" to incorporate Congressional concerns. Deputy Assistant of the Legislative Affairs Office Nick Calio and Deputy Chief of Staff Andrew Card jointly developed a legislative plan. On April 30, in regard to Fast-Track, Bush announced, "This is a priority and we are going all out."[59]

On May 1, the Bush Administration released an 80-page "Action plan" a separate "Action plan" on the economic impact of NAFTA, and released a joint letter to Senator Bentsen, Chairman Rostenkowski and Majority leader Richard Gephardt. In his letter to the Congressmen Bush wrote, "The fast track in no way limits the ability of Congress to review any agreement negotiated, including the Uruguay Round or a North American Free Trade Agreement (NAFTA). If Congress is not satisfied, it retains the unqualified right to reject whatever is negotiated."[60] He further pledged "bipartisan cooperation" during the negotiations of the various agreements and gave his "personal assurance" that the Administration would take the time necessary to negotiate agreements to the satisfaction of the Congress.[61] Bush also referred to the numerous economic and trade benefits of the Fast-Track extension.

At the same time, the Administration had taken a number of important steps to assuage Congressional fears about the implications for the United States of a free trade agreement with Mexico. In his letter to Senator Bentsen and Chairman Rostenkowski, Bush wrote, "At my direction, Ambassador Hills and my Economic Policy Council have undertaken an intensive review of our NAFTA objectives and strategy to ensure through consideration of the economic, labor, and environmental issues raised by you and your colleagues."[62] Thus, Bush released a 13 page report entitled, *Response of the Administration to Issues Raised in Connection the Negotiation of a North American Free Trade Agreement*, that had been drafted in a two-stage process by USTR General Counsel Bolten and the EPC under the direction of USTR. The Administration agreed to include safeguard provisions in order to guard against sudden "injurious increases in imports" in the industry and farm sector.[63] The EPC recognized the "need to assist dislocated workers" that might experience adjustment problems as a result of the agreement. The report also responded to issues raised in Congress related to the needs of stricter enforcement of Mexico's environmental laws, workers rights, human rights, and labor laws.

While recognizing the need for "achieving a balance" in dealing with environmental and labor issues related to Mexico, there was a clear limit to the Administration's conciliation. In its report to the Congress, the Administration dismissed the exaggerated claims about the economic costs of a free trade agreement with Mexico. Specifically, the Administration argued that the deal would foster improved access to Mexico's growing market.[64] Second, the Administration rejected the notion that a free trade agreement would lead to a flood of Mexican imports into the United States. For, as America's economy was 25 times larger than that of Mexico, the Administration estimated that imports from Mexico would constitute a mere 6 percent of U.S imports.[65] Moreover, the Administration rejected the assumption that bilateral liberalization would be a zero-sum game in which Mexico's gain resulted in an economic loss for the United States. Rather, the report noted that with rising productivity and real wages both countries would gain economically from the agreement.[66] The Administration further contended that the resulting economic integration with Mexico would enhance America's ability to compete with Japan and the EC.[67]

The Administration also sought to defend executive authority on trade. On the eve of the vote in the House, some outspoken members of Congress, such as Congressman Dan Glickman, had began to assert that Congress played the principle role in negotiating trade agreements. Indeed, according to Article I of the U.S. Constitution, the Congress has been granted legal authority to "regulate Commerce with foreign countries, between the states, and among the Indian Tribes," but the

President retained the authority to negotiate treaties with foreign governments. In order to defend against executive encroachment and to promote the passage of Fast-Track authority, Bush had sought clarification from his Chief Counsel and good friend, Boyden Gray, in formulating the Administration's response. In a memorandum to the President, Gray noted a Supreme Court ruling in 1936 that determined that, "The President alone has the power to speak or listen as a representative of the nation."[68] But, since the Presidents power is limited to negotiating "proposals" that are submitted to Congress, the executive has needed to consult with Congress prior to and during the course of negotiations with foreign governments. Thus, according to Gray,

> Presidents have found that they must consult with Congress while negotiating trade agreements in order to assure that the agreements can actually be put into effect. There is, however, no constitutional obligation to do so, and Congress could not displace the President by negotiating agreements on its own behalf. [69]

Just prior to the vote on Fast-Track, the defense of executive authority was a clear priority for the President. Bush reviewed the Gray memo the day it was written, scrawling at the top, "Good Report GB."[70] The Gray memo effectively undercut the Glickman argument. In fact, many members of Congress in principle acknowledged the importance of Fast-Track for the President in negotiating trade agreements even though they were reluctant to grant Bush that authority.

In late May, the House disapproved of a motion (H Res 101) to reject Bush's request for Fast-Track extension by a margin of 39 votes (192-231) and a similar motion (S Res 78) was defeated by an even larger margin in the Senate (36-59).[71] Thus, the Administration won a hard-fought battle for Fast-Track extension as the Congressional leadership had responded favorably to Bush's "Action plan." In fact, Bush won the support of most of the Democratic leadership including House Speaker Thomas Foley (D. Washington), Finance Chairman Lloyd Bentsen and House Ways and Means Committee Chairman Rostenkowski who all favored extension.[72] At a press conference, Rostenkowski indicated, "President Bush has taken an important step...His response to the questions Senator Bentsen and I posed is both comprehensive and compelling. I embrace his action plan and fully endorse the President's fast-track request."[73] In a letter to the President, reflecting his free trade leaning views that he shared with the President, Rostenkowski wrote that Fast-Track authority would help America to "improve our capacity to compete in a free and open world economy."[74] He further credited the President for his pragmatic approach to the issue, writing, "Your commitment to addressing the environmental and labor issues we raised helped make this victory happen."[75] Similarly, Bentsen endorsed the extension, noting in a statement that Bush had made, "significant concessions."[76]

As a result of the successful passage of Fast-Track negotiating authority, the Administration was able to prevent significant deterioration in its leadership on trade. In mid-1990, the Administration had clearly determined to utilize primarily multilateral policy tools. Despite the failure to achieve a breakthrough in the GATT talks and deteriorating economic conditions, the Administration was able to successfully defend its approach. Just as presidential leadership at the Palm Springs bilateral meetings had ensured forward momentum in the SII (Structural Impediments Initiative) talks, Bush's vigorous promotion of Fast-Track authority had thwarted the forces of protectionism at a critical juncture. At the same time, the President had preserved important executive authority that, as the recession continued to worsen, he could draw upon in combating the forces of protectionism and neo-isolationism in the final year of his tenure.

Despite Bush's impressive victory in regard to trade, the President increasingly struggled to maintain leadership in regard to his economic policy. To be sure, important foreign policy concerns related to the collapse of the Soviet Union and the Middle East in the aftermath of the Gulf War continued to demand Bush's attention. Also, as the economic recovery predicted by Bush Administration economists failed to materialize in the first half of 1991, Congressional dissatisfaction with Bush's timid response implied greater scrutiny of the President's economic policies. The budget battle in 1990 had all but destroyed even the pretense of cooperative relations between the executive and legislative branches and both sides blamed one another for the worsening economic situation.

In January of 1991, Bush had called on the Congress to enact a two-part economic growth plan. That plan included a number of initiatives aimed at boosting the economy in the short-run and promoting long-term growth. With the Savings and Loan debacle and with the failure to substantially reduce the budget deficit, interest rates rose, banks were more reluctant to lend to the real estate sector and businesses grew more cautious. To help jump-start the economy and reduce the "credit crunch" the Administration had proposed a long list of measures designed to stimulate the economy. In order to gain politically from the Administration's economic problems, Democratic Congressmen refused to enact the President's agenda and criticized the Administration as too optimistic and complacent about America's economic problems. This obstructionist strategy proved largely successful when the economy failed to turn around.

Bush Administration officials optimistically characterized the economic downturn as a "mild recession" that had followed a long period of expansion that compared favorably with earlier recessions. In April, CEA Chairman Boskin optimistically predicted, "following a period of stabilization, the economy will be rebounding in the second half of this year through 1992 and beyond."[77] In fact, as Boskin predicted "a modest recovery" had begun in the spring of 1991 but, contradicting his prediction of a 2-3 percent annual increase, sluggishness returned in the latter half of the year.[78] The President's approval rating had dropped from a peak of nearly 90 percent in March to approximately 50 percent by the third week of November. According to a Times/CBS News Poll, in responding to a question about the condition of the U.S. economy, 74 percent of American respondents asserted that it was either "bad" or "fairly bad" with only 24 percent responding favorably.[79]

The Administration blamed the Congress for refusing to act early in the year when action was necessary, attributing the particularly slow second quarter to Congress' failure to stimulate the economy. According to Bush, "Every one of the economic proposals that I've sent up to Capital Hill serves the single standard of generating growth."[80] By the end of the year, Treasury Secretary Brady explained the difficulties the Administration faced,

> We must also continue to work with the Congress to pass the President's economic growth package. When I say "work with the Congress", I have to admit to a certain level of frustration. The Administration is criticized for not having a domestic growth plan, but in fact, the Congress has chosen to ignore the President's plan.[81]

Throughout 1991, the President increasingly struggled to forge a political feasible domestic legislative agenda while relying increasingly on the veto to block Democratic initiatives.[82] Bush was also personally frustrated by the lack of cooperation within the Congress. At the end of 1991, Bush characterized the legislative year as "a particularly bitter session" in which, "I sent up to the Congress economic proposals over and over again."[83] The deterioration in relations between the executive and legislative branches contributed to Bush's difficulties.

*Confirming Bilateralism : Sectoral Disputes and Super 301*

Having obtained the extension of Fast-Track authority, the Administration was able to continue to focus on its integrated global strategy to achieve its multilateral and regional objectives. But, the Administration also needed to tackle a number of important bilateral issues with Japan. Throughout 1991, with the Administration preoccupied with events in the Persian Gulf, issues related to Japan's international contribution initially at least overshadowed other bilateral economic issues. Yet, as the U.S. economy remained sluggish, and with the bilateral trade deficit beginning to rise after having dropped in the previous two years, the Administration continued to press the Japanese government to take steps to lower its bilateral and global trade surpluses. As was noted in the previous article, at the macro-economic level, the Administration relied on the SII follow-up meetings to press Japan to fiscally stimulate its economy, and to ensure progress on a host of structural barriers.[84] In terms of sectoral disputes, the Administration limited its focus mainly to continuing to press Japan to further liberalize its semiconductor and construction markets. Failure to resolve either of these disputes threatened to reinforce protectionist sentiment in the Congress. Thus, in order to maintain leadership on trade, swift resolution of these two bilateral access issues was important to the Administration.

*Semiconductors*

With the U.S. economy in recession and most of America's economic growth tied to growth in exports, access to Japan's $20 billion semiconductor market, the largest semiconductor market in the world, remained an important sector to the Bush Administration.[85] As the 1986 semiconductor trade agreement was set to expire on

July 31, the USTR conducted a review in accordance with section 301 of the 1974 Trade Act to determine the extent to which U.S. access had improved. In fact, following the 1986 Semiconductor Trade Agreement, U.S. semiconductor exports to Japan had grown 26 percent between 1987 and 1991.[86] Yet, according to U.S. Commerce figures, the foreign share of Japan's semiconductor market grew on average only 1 percent per year, reaching 13 percent in 1990. According to the U.S. interpretation of the 1986 Semiconductor Agreement, the Japanese government was responsible for insuring the foreign share of Japan's semiconductor market reached 20 percent by 1991. Under pressure from the powerful Semiconductor Industry Association (SIA), the Bush Administration pressed vigorously to negotiate a second five-year bilateral agreement in an effort to attain the 20 percent market share.[87]

As MITI was skeptical of entering into an agreement that involved the use of specific numerical targets, it was clearly unenthusiastic about the need for another bilateral agreement on semiconductors. But, MITI officials were eager to negotiate the removal of the remaining $165 million worth of economic sanctions on Japanese exports of consumer electronics, imposed by the Reagan administration in 1987 for failure to satisfactorily implement the market access provisions of the 1986 Semiconductor Agreement.[88] Thus, in February MITI and MOFA officials entered into negotiations with Deputy USTR Linn Williams who proposed that foreign market share be used as a benchmark, that is, as one of a number of quantitative indicators to measure improvement in access to Japan's semiconductor market. When the Japanese side refused to agree to guarantee market share, the meetings ended without much progress.

In May, in negotiations over the desirability of the 20 percent benchmark figure, the Japanese side became more receptive to the idea. However, in response to the U. S. claim that Japan's foreign market share was under 13 percent, the Japanese side maintained that the figure was actually 19 percent.[89] Thus, administration officials desire to forge a new agreement had been persistently rebuffed by Japanese negotiators. With the two sides unable to reach agreement as to the method of measuring market share and with the Japanese side clearly reluctant to play the role of guarantor, a compromise was needed to avoid damaging bilateral relations.

On June 4, a second five-year agreement with the option to terminate after three years was reached. The Japanese government agreed to the benchmark figure of 20 percent in evaluating improvement in market access.[90] In a memorandum to the President, Hills acknowledged, "this figure is not a guaranteed market share, but rather one indicator of progress in obtaining market access."[91] In fact, in May, concerned that the benchmark might limit U.S. market share, Deputy USTR Williams had contended, "The 20 percent figure is only one important factor in measuring market access and is not to be construed as a floor for foreign market share."[92] USTR Hills was satisfied that the new arrangement "raises the foundation for improving our access to Japan's semiconductor market, increasing sales opportunity.[93]

In exchange for Japan's partial concession, the Administration agreed to terminate the remaining economic sanctions on Japanese exports of consumer electronics to the United States. Although fundamental disagreement over how to measure market share and the appropriate role of the government in implementing the agreement remained, Deputy USTR Williams agreed to suspend, though not terminate, the Section 301 case, warning that if market access did not substantially improve, the USTR was "prepared to reimpose sanctions."[94] Fortunately, as early as 1992, the foreign share of Japan's semiconductor market had risen to a level that slightly exceeded the 20 percent benchmark figure, placating the semiconductor industry and the U.S. government. Consequently, the 1991 Semiconductor Agreement, signed by USTR Hills and Ambassador Murata on June 11, succeeded in removing the contentious issue of access to Japan's semiconductor market from the list of priority bilateral issues for the remainder of Bush's tenure.

*The Construction Issue*

A second sectoral dispute that reemerged in the spring of 1991 was over access to Japan's $165 billion construction market. The Bush Administration handling of the dispute, reflecting the division between the market-opening faction and the international relations faction within the Administration, demonstrated both the Administration's firm determination to improve U.S. access and its desire to avoid an overly confrontational posture vis a vis Japan.

In December of 1989, the USTR had determined in accordance with Section 304 of the 1974 Trade Act, that foreign access to Japan's public construction market was "unreasonable."[95] Since that time the Bush Administration had consistently pushed the Japanese government to take steps to eliminate collusive business practices in Japan which were believed to be blocking market access to foreign firms.[96] But, in 1990, when the Administration was faced with a statutory deadline on April 30 to specifically designate Japan for not providing fair and equal opportunities for U.S. firms in bidding on domestic public works projects, the USTR refrained, citing the Japanese governments "helpful steps" in this area.[97] Pointing to the Construction Ministry's pledge to stiffen the penalties for firms caught twice in one year in collusive business practices by increasing the term of suspension from 2 to 9 months, and improvements in the transparency of the bidding system, the Bush Administration chose to hold off on the imposition of sanctions.

Yet, given that Japanese construction firms in the United States continued to receive considerably more money from contracts than the U.S. in Japan and given Congressional pressure, the Commerce Department continued to discuss issues with Japan and monitor progress.[98] The access issue resurfaced in August of 1990 with the failure of an American and German team, AEG Westinghouse Transportation Systems Inc., to win a contract for a people-mover system at the Kansai International Airport. The difficulties of these two teams seemed to violate the spirit if not the letter of the 1988 Major Projects Agreement. Citing the "pricing, reliability and experience," the Kansai International Airport Co. Ltd. awarded the contract to a joint venture of Niigata Engineering Co., and Sumitomo Corporation.[99] In fact, the Japanese team had yet to build a single people-mover while Westinghouse had already built 14 out of 18 of the existing people movers.[100] Moreover, despite the fact that the contract called for over 200 tons of equipment the Kansai International Airport Company insisted that this was a "consulting" rather than "construction" contract. Following unfruitful bilateral discussions on the issue on August 2-3, the Foreign Ministry reiterated that according to the procedures in the 1988 Major Projects Agreement for "consulting" were followed and that Niigata Engineering did have experience building other municipal transportation systems. The U.S. side pointed to the frequent reports in the media of collusive bidding and corruption in the construction industry, and noted that Niigata Engineering was one of the contractors found guilty of fixing prices on a job at Yokosuka naval base.

The 1988 Major Projects Agreement had guaranteed that U.S. firms could participate in the bidding on 17 projects in Japan. Following this incident, the two sides began to take more entrenched positions and progress in the negotiations slowed.[101] In 1991, negotiations focused primarily on the number of additional large-scale public works projects in which U.S. construction firms would be eligible to participate. In preliminary negotiations in January, the Commerce Department's request to bid on 24 additional projects was rebuffed by the Construction Ministry.[102] On April 26, USTR Hills, in an effort to encourage the Construction Ministry to adopt a more conciliatory position, threatened to impose sanctions that would prevent Japanese firms from bidding on $21 billion worth of U.S. public works projects. In early May, The EPC had voted unanimously to approve a unanimous subcabinet recommendation that, "If Japan failed to meet U.S. terms, the U.S. government should undertake sanctions under Section 301 of the Trade Act."[103] The Japanese government responded in kind by threatening to suspend the 1988 Major Projects Agreement if sanctions were imposed.

Intransigence on both sides continued throughout the final round of negotiations in late May. Undersecretary of Commerce Farren repeated his demand that the U.S. should be allowed to participate in at least 24 additional projects, and again the Japanese side rejected this proposal.[104] In a counterproposal, the Construction Ministry offered to open the bidding to 12 firms. But, the US rejected this proposal as insufficient and the final round of yearlong negotiations ended in a deadlock. Just prior to the threatened imposition of U.S. sanctions on May 31, Kaifu, fearful of a deterioration in U.S.-Japanese relations, personally intervened, softening Japan's position. U.S. negotiators agreed to a new compromise proposal that allowed U.S. firms to bid on 17 additional projects and overall agreement was reached in Tokyo late in the evening of June 1.[105]

The difficulties in resolving these sectoral disputes reflected the heightened pressure both governments faced in avoiding one-sided trade concessions during a global slowdown. Nevertheless, both of these major access issues were firmly tackled without requiring the use of unilateral policy tools. Moreover, the Japanese government's responsiveness to U.S. pressure related to Japan's Persian Gulf contribution, together with cooperative steps at the macro-economic level helped to dampen protectionist sentiment in the United States. As a result, despite a slight deterioration in U.S. trade figures in the second half of 1991, the Bush Administration's overall pressure on Japan was still somewhat muted and U.S.-Japanese relations remained relatively harmonious throughout the year.

Nevertheless, with the sluggish economy the central focus of U.S. media attention toward the end of the year, the Administration needed to continue to guard against Democrats in the Congress that sought to undermine presidential leadership on trade. Evidence of the trend toward renewed Congressional activism on trade resulted with the introduction of several Super 301 revival bills (HR 3702, HR 787, HR 1115) in the fall of 1991. As each of the bills was an attempt to reintroduce protectionist legislation that had been part of the original Gephardt amendment or had been cut from the Trade Act 1988, none of the bills generated widespread support.[106] But, the Market Opportunity and Reciprocal Enforcement Act of 1991 (HR 3702) proposed by Majority Leader Richard Gephardt (D.-Missouri) and Congressmen Sander Levin (D.-Michigan) constituted the most serious threat to the Administration's trade policy approach. In addition to reviving the Super 301 provision, the bill required mandatory initiation of a USTR led investigation against countries that maintained large trade surpluses with the U.S. One of the tougher provisions stipulated that once "interested parties" had initiated a petition seeking the USTR's assistance, the USTR was required to initiate an investigation into a foreign country's trade practices. If the USTR determined that certain "sectoral priority practices" unfairly burden United States commerce, the President was required to either "direct the USTR to implement" the USTR's proposed corrective plan or submit its own alternative plan.[107] In announcing its formal introduction in early November Gephardt stated, "Our bill not only extends Super 301, it gives it teeth."[108]

The Administration virulently opposed the Gephardt-Levin bill for a number of reasons. First, from an economic standpoint, the Administration rejected the idea that the presence of a bilateral trade surplus constituted the most critical variable in determining the need for initiating an investigation into a country's trade practices.

For, the Administration maintained that the goal of trade policy was to seek to reduce trade barriers, not simply achieve a bilateral trade balance. The USTR maintained, "the use of bilateral trade deficits to guide our efforts to dismantle foreign trade barriers would divert our efforts away from countries where many of the most egregious trade barriers exist, simply because we have a trade surplus with them."[109] On the other hand, The USTR recognized that a policy based on such a premise would appear confusing and contradictory to its trading partners. The USTR's Office wrote,

> Indeed the existence of a bilateral trade surplus does not necessarily mean the country with the surplus has a closed market. The United States has one of the most open markets in the world, and yet we also enjoy a considerable trade surplus with the European Community. We certainly would not want the trade surplus test reciprocally applied to us by the EC or any of our trading partners.[110]

Thus, the Administration viewed the maintenance of a trade surplus with the U.S. as an "arbitrary and unreliable barometer" for determining the use of Super 301.[111] The USTR also noted that a trade deficit in a particular sector does not necessarily imply that the deficit stems from the maintenance of unfair trade practices by the surplus country.

Second, the Administration was concerned about the diminished role of the executive in making a determination regarding the initiation of a Super 301 investigation. The Administration was particularly concerned that the mandatory retaliation against surplus countries would reduce or eliminate the discretionary authority of the President in regard to trade policy. Administration officials objected to the fact that legislators were attempting to mandate the use of a policy tool that was essentially "rigid, automatic and non-discretionary."[112] According to Roger Porter, economic advisor to the President, "The principal flaw of the latest Gephardt amendment is not its objective of opening new markets, but instead the mistaken belief that leadership consists of eliminating judgment."[113] Since it already provided sufficient assistance to petitioners of trade disputes, the USTR also objected to the attempt to broaden the parties to a dispute that included any "interested persons." For, the USTR noted that a mandatory approach with such a broad definition of interest parties would foster the impression abroad that such investigations were largely political, thereby undercutting its practical utility. Third, according to Stephen Rademaker, Associate Counsel to the President, requiring mandatory initiation of investigation against surplus countries would "unconstitutionally infringe" on the President's discretion in determining whether or not a Super 301 investigation was necessary.[114] For these reasons, the Administration viewed the legislation both as an attempt to infringe upon executive authority and as a broader challenge to the overall direction of the Administration's trade and economic policies.

Despite the Administration's strong objections, Gephardt formally introduced the bill in early November. Chairman Rostenkowski, a supporter of a strong executive branch, was quite sympathetic to the Administration's position that the Gephardt-Levin bill all but eliminated an important degree of executive discretion. Also, as the bill gave the House Ways and Means Committee the power to launch Section 301 investigations, the provision stripped his committee of important insulation from domestic industries seeking trade relief. Rostenkowski therefore quietly blocked the controversial provisions in the bill related to mandatory retaliation for countries with trade surpluses and those provisions did not resurface when Gephardt introduced another protectionist trade bill in 1992 (HR 5100).[115] Similarly, despite strong bipartisan opposition within the Congress against the renewal of most-favored-nation (MFN) status for China, the threat of a presidential veto successfully blocked a Senate bill introduced in May of 1991.

Against the backdrop of steadily declining domestic support for the President's economic policy, the Administration increasingly struggled to defend its policy of global engagement against a broad chorus of domestic opposition. The attempts by the Congress to pass a strengthened Super 301 bill reflected a larger movement in the United States toward economic isolationism and protectionism. Bush was philosophically opposed to the revival of an outdated isolationist foreign policy and protectionist economic nationalism. Franklin D. Roosevelt and his advisors believed that both the rise of fascism in Europe and militarism in Japan had stemmed from the collapse of international economic cooperation during the Great Depression.[116] Similarly, Bush maintained that, "The protectionist wars of the twenties and the thirties deepened the Great Depression and set in motion conflicts that hastened the Second World War."[117] As a participant in World War II, Bush held strong convictions that the "old-flat earth theories of protectionism and isolationism" were a threat to both the international economic order and the international system.[118] Bush viewed America's flirtation with economic nationalism as inconsistent with global realities and urged Americans to recognize that the United States had no other realistic alternative but to embrace globalization. In a November speech before the Asia Society in New York, Bush declared,

> The notion that we can separate domestic and foreign policy rests upon a stubborn fantasy that we can live as an isolated island surrounded by a changing and developing world. We tried isolationism and we ended up fighting two bloody World Wars. We tried economic isolationism, protectionism, and we helped set off a worldwide depression.[119]

During his tenure, Bush made more than 110 references to protectionism in at least 85 speeches, constantly warning of the need to "fight," "resist," "oppose," "combat," "avoid" and "reject" protectionism.[120] He repeatedly described protectionism in disparaging tones, referring to it using such terms as "a real threat," "a siren's song," "an evil vice," "a fatal blow to world trade," "fool's gold," a "bankrupt notion," a "disastrous experience," a "smoke screen" and an "escape from economic reality."[121] The Bush Administration's opposition to protectionism was thoroughly grounded in economic realism, as the domestic economic benefits of international trade were increasingly critical to sustaining America's future economic vitality. According to Bush, by 1991, the export of an extra one billion dollars in manufactured goods from the United States implied that in additional 20,000 jobs had been created.[122] In fact, during a period of sluggish economic growth in 1990, Bush and his trade officials repeatedly noted that total gross exports had accounted for nearly all of America's economic growth.[123] By the 1990's, with heightened global economic interdependence and the global proliferation of market-orientated economies, the Administration viewed the economic isolationist philosophy embodied in the domestic Gephardt-Levin bill as inconsistent with these broader global trends. As Roger Porter, economic advisor to the President explained, "While these new proposals reflect the tensions generated by economic change, the shift toward a global economy means that economic isolationism has become increasingly untenable as a national strategy."[124] Yet, although this long-term outlook was firmly grounded historically, Bush and his advisors had no little difficulty in generating widespread appeal for their message as America's economic outlook continued to worsen.

Despite the breakdown in the GATT talks, the disruptions of the Gulf War, the recession, heightened political resistance and rising protectionist and isolationist sentiment, the Bush Administration refused to abandon its policy of emphasizing its multilateral approach to trade. By actively defending its policy of global economic engagement, the Administration had thus far emerged victorious in its major battles over trade policy with the Congress. With regard to Fast-Track, the Administration had launched a vigorous campaign to prevent the loss of presidential authority and to preserve the main elements of its global trade strategy. In defeating the Gephardt-Levin bill, Bush confirmed that Presidential leadership in defense of free trade and a strategy of placating the Democratic leadership could stave off the revival of the unilateral approaches to trade with Japan and other trading partners even during a recession.

### *Combating Protectionism : Bush's Last Stand*

During 1991-1992, despite a host of challenges, the Administration continued its defense of global economic engagement. The victory on Fast-Track ensured that the Administration would continue to play the central role in determining the direction of trade policy. But, as economic dislocation caused by developments in the Gulf contributed to a domestic and global slowdown that weakened the attractiveness of the Administration's long term vision, it strengthened the forces of protectionism both at home and abroad. At the same time, the end of both the Cold War and the Gulf War and the collapse of the Soviet Union provided the backdrop for a rise in neo-isolationist sentiment in the United States. As an internationalist, Bush viewed the rise of economic nationalism as anathema to America's long-term economic and political interests. For example, Bush stated in a speech in January of 1992, "Everyone agrees that political rivalry and military adventurism threaten international stability. But no one should doubt that economic isolationism, and protectionism, can be at least as threatening to the world order."[125] Nevertheless, in contending with the forces of neo-isolationist protectionism, Bush struggled to consistently maintain a fully non-protectionist posture.

At first glance, it appears that Bush, like Reagan, employed the tactic of maintaining a rhetorical commitment to free trade while slowly caving in to heightened domestic protectionist pressure. In truth, given the political reality, Bush's rhetorical commitment to free trade exceeded the substance of his policy in contending with the forces of economic nationalism. Consequently, as with the use of Super 301 in 1989, the Administration opted to take a number of conciliatory steps in order to accommodate Congressional pressure. But, unlike Reagan, Bush had a clearly defined, if inadequately articulated, multi-dimensional strategy for promoting and defending the expansion of global trade. In accordance with an internationalist conception of the liberal trading order, Bush refused to embrace protectionism and sought to prevent the adoption of radical solutions to trade policy preferred by the Congress. Despite the upcoming presidential election and the absence of economic recovery, Bush stood by his policy of engagement at both the rhetorical and substantive levels.

Ironically, Bush's refusal to retreat on trade became a rallying cry for both political opponents and the proponents of protectionism. Under intense political pressure, the Administration experienced greater difficulty in effectively executing its trade policy approach due to a confluence of political, economic and structural problems that multiplied in the fall of 1991 and that culminated in Bush's ill-fated trip to Tokyo in January of 1992. Bush's illness in Tokyo fostered the impression that, like the President himself, the Administration's trade and economic policies were weak and feeble. The public relations debacle fueled Congressional criticism that the Administration's policies had indeed done too little too late. But, in the midst of "a global slowdown" and with the Japanese economy moving toward recession, the Administration recognized the limitations of adopting an aggressive unilateral approach to trade.[126] In fact, Japanese bureaucrats were growing increasingly concerned that the Administration's defense against protectionism was faltering. Thus, in contending with a rising tide of domestic and international protectionist pressure, the Administration's decision to stand in opposition to these centrifugal forces and in support of cooperative bilateral relations with Japan constituted a more prudent policy than Bush's critics allowed.

*The Auto Issue*

It is in this context that the auto issue with Japan, which came to attract high-level political attention within the Administration as early as March of 1991, represented a dilemma for US policy-makers. For, while the Administration recognized the importance of the auto industry to the U.S. economy, officials also knew that assisting the auto industry in the middle of a recession risked engendering a new wave of protectionism from other disaffected industries pressing for relief. At the same time, governmental intervention in the auto sector would confirm fears abroad that the Bush Administration had begun to cave in to rising domestic pressure. Yet, because of the presidential elections of 1992, Bush could scarcely afford to ignore such a large and politically powerful interest group as that of the auto industry. Accordingly, as with Fast-Track, the Administration sought to fashion a policy response that was consistent with its trade policy approach and that placated trade moderates within the Congress.

The difficulties of the American auto industry at this time are well known. The recession and the restructuring that followed generally undermined consumer confidence. But, a combination of factors resulting from the economic downturn had a particularly recessionary effect on the automobile industry relative to other sectors for a number of reasons. The combination of high interest rates and the "credit crunch" left consumers less inclined to purchase large consumer durables on credit. The rise in oil prices following the Gulf Crisis/War also dampened the sale of more profitable large car and truck sales. Third, regulatory compliance with the environmental regulations embodied in the Clean Air Act and concerns about tighter

CAFE (Corporate Average Fuel Economy) standards created additional difficulties for the industry. The U.S. auto industry also struggled to compete with Japanese auto manufacturers. In response to earlier rounds of trade friction, the Japanese auto manufacturers had dramatically increased their plant and equipment investment into transplant facilities in the United States. From 1985 to 1991, given their technological lead and access to cheap capital, Japanese auto manufacturers increased their U.S. market share even while raising average retail prices at twice the rate of US manufacturers.[127] As a result, U.S. manufacturers experienced negative cash-flow problems in the latter half of 1990, and losses of $2.1 billion by end of the fourth quarter of 1990.[128] During the first quarter of 1991, the auto executives were predicting a loss of nearly $3 billion.[129]

In the first half of 1991, despite serious problems, the Administration was reluctant to grant special treatment to the auto industry. In light of the multiple problems facing the U.S. auto industry, the Japanese government had already announced in early January that it would again extend its Voluntary Restraint Agreement (VRA) on Japanese exports to the United States. Ambassador Murata informed Porter that Japan would limit Japanese exports of autos to the United States to below 2,300,000 vehicles.[130] The auto executives sought to present their case for further governmental intervention in the U.S. auto sector. Given the industry's political clout, the auto executives were provided an unusual degree of access to high-level officials including the President. But, in the end, the Administration refused to grant additional protection.

At the end of February, the Big Three auto executives, including CEO Lee Iacocca of Chrysler, CEO Bob Stempel of General Motors, and CEO Harold "Red" Polling of Ford Motors, made an unusual joint visit to Washington to make their case about the plight of the U.S. auto industry. The Executives met with Sununu, Commerce Secretary Mosbacher and Treasury Secretary Brady among others. During their visit the auto executives described the "grim" conditions and dismal prospects facing the auto industry. On March 6, following their highly publicized visit, CEO Lee Iacocca, wrote to the President, requesting that Bush develop an "Economic Battle Plan" to end the recession. Iacocca explained that in their various meetings in Washington, the three auto executives had emphasized three points,

1. The domestic auto industry has been severely weakened by a combination of recession and the war.
2. Retiming certain provisions of the Clean Air Act and the Administration's continued support in opposing unreasonable CAFE legislation will help us to recover.
3. There would be an immediate boost to the industry and to the economy if Japan would temporarily back off from their relentless pursuit of increased U.S. market share.[131]

In 1990, Japanese automakers controlled approximately 31 percent of the U.S. market share. With the recession worsening and Japanese market share continuing to expand, Iacocca predicted that Japan's market share could increase to as much as 40 percent. He stressed that, "I can tell you Mr. President, at a Japanese share of 40 percent in a depressed industry, Chrysler is gone and Ford could be mortally wounded from a competitive standpoint."[132] Iacocca proposed that Bush request from Kaifu "a temporary market share standstill" that would allow the U.S. auto industry time to recover. Specifically, Bush should,

> Suggest to the Prime Minister that it will take 12 to 18 months for the domestic companies to regain their footing and during that time it would be extremely helpful if the Japanese Government would intervene and **temporarily** hold Japanese market share for all vehicles during this period to 1990 levels.[133]

In effect, the auto executives were calling for Japan to reduce the projected increase of its exports by 500,000 vehicles.

On March 12, 1991, Bush received Iacocca's letter and, following consultation with Sununu, agreed to meet with the auto executives.[134] In response to Iacocca's letter, Bush wrote, "I, too, worry about the economy, although I remain hopeful we will see a turnaround soon."[135] Bush also requested consultation memoranda from Treasury Secretary Brady, Commerce Secretary Mosbacher, USTR Hills, CEA Chairman Boskin, and the State Department concerning Iacocca's suggestions and the need for governmental intervention in the U.S. auto market.[136] On March 21, Bush and Sununu met with the Big Three auto executives for a one-hour meeting. The discussion focused on the economy, efforts at deregulation and the specific problems facing the auto industry. The previous week in Brussels, MITI officials had agreed to the request by EC officials that Japanese automakers restrict their exports to the EC below their 1990 level.[137] In a follow-up letter to Sununu, Iacocca noted that the EC had urged Japan's restraint. In fact, Iacocca enclosed an article from the *Japan Economic Journal* that detailed the EC's request and that noted MITI's desire to avoid actions that heightened protectionism in Europe. With regard to the EC's actions, Iacocca had written at the top of the article, "they asked."[138]

The Administration quietly rejected many of the prescriptions proffered by Iacocca and the other auto executives. While the contents of the memos to the President remain classified, it appeared that top economic officials such as Boskin and Brady who were predicting an economic turnaround in the latter part of the year, continued to advocated free market principles and the interests of consumers in rejecting Iacocca's request.[139] Iacocca's calculation of Japan's rising market share included the production within transplants, that is, Japanese owned companies that manufactured American cars in the United States. In fact, an analysis of both passenger car and light truck imports from Japan indicated that Japan's U.S. market share had fallen slightly from 1988 to 1991.[140]

Reflecting the globalization of the U.S. economy, interest group pressure to avoid the protectionist prescriptions of the domestic auto industry may have played a part in influencing the Administration's decision to avoid restraints. For example, in a letter to Bush on April 5, Chairman, John E. Reilly of the Association of International Automobile Manufacturers (AIAM) criticized Iacocca's depiction of the auto industry. Reilly disputed Iacocca's forecast that Japan's market share would continue to rise, noting that "imports from Japan are actually declining, Mr. Iacocca is really asking that competition among domestic products be curtailed."[141] He also noted that the last time the Chrysler Corporation requested a "temporary" standstill in market share, the result was a VRA in Japanese auto exports that lasted 10 years. As economists in the Administration were clearly opposed to introducing new VRA's and vigorously sought to limit or shorten VRA's in most cases, they tended to agree with Reilly's analysis on these issues. As a result, in responding to Iacocca's requests, the Administration was cordial, concerned, but basically unconvinced that restraints were necessary.

Nevertheless, institutional division between the Commerce Department and the free-traders within Treasury and State emerged on the issue. Commerce Secretary Mosbacher, together with Sununu, adopted a tougher position on trade with Japan.[142] In early April while in Tokyo, Mosbacher met with a Japanese trade delegation headed by MITI Minister Eiichi Nakao.[143] While Mosbacher denied making a specific request for restraints on Japanese exports to the U.S., he made a number of references to the difficulties facing the U.S. auto industry and apparently suggested that the U.S. government would welcome further restraints by Japanese automakers.[144] But, given the Administration's position opposing "managed trade," Mosbacher made no formal request to restrict Japanese exports. Rather, Mosbacher sought to demonstrate the Administration's concern in order to satisfy his domestic constituents without exceeding the bounds of the Administration policy that opposed the curtailment of Japanese exports. Nevertheless, facing heightened Congressional pressure on automobiles, and desiring to expand its jurisdictional authority, the Commerce Department pressed vigorously for tougher policies toward Japan.

In Tokyo, Mosbacher's visit fostered the impression that the Administration had begun to cave in to protectionist pressure. In March, as part of his promotion of Fast -Track authority, Bush had vigorously promoted NAFTA, resulting in a speech that had a confusing reference to a "North American Free Trade Zone."[145] Japanese officials apparently grew concerned (mistakenly) that NAFTA might lead to an exclusive North American trading bloc. With the U.S. in recession, with the failure to achieve a breakthrough in the GATT negotiations, with political division in the United States rising as the debate over Fast-Track signaled, Japanese trade officials worried about rising protectionism in America and feared deterioration in bilateral economic relations. As MITI Vice Minister Naomichi Suzuki noted privately, Japan's somewhat inadequate response to the Gulf crisis and its failure to play a constructive role in achieving a breakthrough in the GATT negotiations, had contributed to concerns in Tokyo about a potential weakening of bilateral ties.[146] Bush's decision to postpone his visit to Japan because of the Gulf War, his preoccupation with developments in the Gulf and the Middle East, and the high-level attention to Soviet and European issues all fostered the impression that the United States was neglecting Japan. Japanese officials strongly desired to avoid deterioration in bilateral economic relations, fearing that it might weaken the foundation for cooperative bilateral relations.

*Managing Bilateral Relations*

In Washington, institutional division regarding the Administration's Japan policy was increasingly evident. As Mosbacher's hard-line stance on autos indicated, America's economic downturn and dissatisfaction within some parts of the bureaucracy with the pace of progress within the SII follow-up meetings and other sectoral issues had gradually strengthened the market-opening faction within the administration. Japan's position on rice within the GATT negotiations had been an additional source of frustration within the bureaucracy. In fact, even Bush grew irritated in March with the Japanese government's refusal to allow U.S. rice farmers to give out samples of their products at a trade show in Japan.[147] Reflecting the desire to reinvigorate the GATT negotiations, trade officials had called on Bush to raise the rice issue once again in his bilateral meetings with Kaifu in Newport Beach, California. In contrast, the diplomatic faction within the Administration was principally concerned about promoting "global partnership" and resolving questions related to Japan's Gulf contribution and supplemental aid to the Kurdish rebels. Thus, for example, in a memorandum to Bush just prior to Foreign Minister Nakayama's preparatory visit in March, Scowcroft warned, "Washington is perceived to be cold shouldering Japan," recommending to Bush that, "Prime Minister Kaifu and the U.S.-Japanese relationship badly needs an injection of Presidential praise."[148] Free traders within the Administration also believed that a hard-line approach on bilateral issues would further undermine the Japanese government's support for economic cooperation in 1992 and beyond. Thus, for example, Roger Porter, economic advisor to the President, wrote in memorandum on April 2 that the bilateral meeting was a good opportunity for the President, "to restore momentum to the U.S. economic agenda by emphasizing a long-term view of our bilateral economic relationship."[149] In Porter's view, U.S. support was critical for providing "fresh momentum" for future cooperation on trade issues with Japan.[150] He optimistically concluded,

Last year, your discussions with Prime Minister Kaifu were vital to resolving differences regarding Super 301 and the Structural Impediments Initiative (SII). Since Japan hopes to use the summit to demonstrate that bilateral economic relations remain strong, it should be possible this time to make similar progress on SII implementation and the Uruguay Round.[151]

In the end, Japan's concerns about a dramatic shift in policy were excessive. Bush clearly sided with the moderates who had advocated a cooperative approach to bilateral economic relations and a diplomatic approach to bilateral relations. At the same time, to satisfy his trade officials, Bush agreed to have "a full discussion" with Kaifu on the rice issue.[152] Given the symbolic and political importance of the rice issue among Americans and given the importance moderates attached to concluding the Uruguay Round, Bush's decision was far less than a compromise.

On April 4, at the bilateral Summit meeting in Newport Beach, Bush "reaffirmed" America's commitment to free and fair trade, calling on both the United States and Japan to "assume strong leadership roles in knocking down barriers to free trade in all areas, including agriculture."[153] But, as Kaifu was reluctant to allow the rice issue to become the subject of bilateral negotiation, he was careful to point out that the issue was discussed, "in the context of the Uruguay Round."[154] Apparently, given the intransigence on the issue within the Ministry of Agriculture, Forestry and Fisheries, his weakening political position, and the worsening recession in Japan, Kaifu was simply unable to deliver.

Bush remained most centrally concerned about preserving the overall relationship. Scowcroft explained, "My overall philosophy towards the Japanese was they are a strong ally, our whole relationship was not trade. Don't be so hard on them," a view, he noted, Bush shared.[155] A second reason stemmed from Japan's recent sizable contribution to America's efforts in the Persian Gulf. In fact, Scowcroft stated, "I think actually we were pretty grateful to the Japanese on their contribution to the Gulf War and we didn't want to seem ungrateful by just turning around and beating up on them."[156] This reflected the view within the Administration that Japan played an important role in encouraging stability in Asia and that preserving the overall relationship took precedence over specific trade issues. For these reasons, despite highly divergent positions on the rice issue, Bush chose not to allow the issue to have too large of a detrimental impact on bilateral economic relations.

Nevertheless, with regard to automobiles, Bush needed to accommodate his trade officials to a limited degree by clarifying the Administration's position. Institutional division within the Administration on auto issue reflected somewhat divided interest group pressure. For example, Chrysler chairman Lee Iacocca had suggested in his letter to Sununu that the summit meeting presented, "a unique opportunity for the Japanese to be informed of the seriousness of the auto industry's situation."[157] At the same time, Walter Huizenga, president of AIADA (American International Automobile Dealers Association) wrote to the President, "We urge you to show the world that the U.S. remains a leader on the international economic front by reiterating your commitment to free trade at that meeting."[158] Despite these divisions, Bush still faced Congressional pressure on the issue and could have responded by adopting a harder-line. But, as the Administration had hoped for a breakthrough by pressing Kaifu to liberalize Japan's rice market, it would have been inconsistent from the standpoint of strategy for Bush to then press Kaifu to adopt some form of "managed trade" on autos during the same meeting.[159] Thus, Bush opted not to raise the auto issue with Kaifu directly in their bilateral meetings.[160] Rather, Bush chose to address the issue in a Presidential Statement on U.S.-Japanese relations that was released following their meeting. In the Statement, Bush was careful to emphasize the broader themes of bilateral relations, reaffirming "global partnership," noting cooperation in the Gulf and "real progress" in resolving structural and sectoral disputes since their meeting in Palm Springs. At the Press Conference following the Summit, Bush also pointed out that the U.S. and Japan "see eye to eye on almost every problem around the world," concluding that bilateral relations were "fundamentally sound."[161] Having placed this economic dispute within the broad framework of bilateral relations, Bush chose to refer to the auto issue elliptically through his Presidential Statement. In the Statement, Bush indicated, "We need to move ahead now in construction services, autos and auto parts, semiconductors and other areas."[162] Thus, while Bush provided important leadership in opposition to introducing new domestic restrictions, he had also committed himself to addressing the auto issue in some fashion.

The trade deficit with Japan in auto related trade constituted 70 percent of the bilateral deficit in 1990, and the Administration faced strong domestic pressure on the issue.[163] The fact that transplants relied on a high percentage of manufactured parts from Japan meant that even though total vehicles sales were decreasing, the bilateral deficit in autos and auto parts continued to rise (See Figure A). In late April 1991, CEO Red Poling of Ford Motor Company sent a letter to Sununu in which he compared the progress in reducing America's overall trade imbalance with the "agonizingly slow" trade deficit with Japan.[164] Poling advocated that the Administration should reduce the trade imbalance in the automobile sector by setting deficit reduction targets with Japan. Specifically, Poling wrote, "I would suggest a $5 -10 billion deficit with Japan would be a good interim target," a figure comparable to America's trade deficit with Canada at that time.[165] Again, the Administration opposed reducing the bilateral deficit by means of sectoral targeting. On May 23, after consultation with the USTR, Commerce, and the Office of the Vice President, Roger Porter, economic advisor to the President, drafted a response to the Polings suggestion,

The administration, however, will continue to strongly oppose proposals to address bilateral trade imbalances through protectionism or managed trade. Last year, our bilateral deficit with Japan fell by approximately $10 billion. This improvement was achieved by increasing U.S. exports to

Japan, not by restricting imports or artificially managing trade flows. Our policy is to open markets, not close them.[166]

Surprisingly, this remarkably clear statement of the Administration's policy was never sent to Polings. Although Sununu had requested that Porter prepare the draft, Sununu probably disagreed with the free-trade leaning tone vis a vis Japan and probably feared that Polings would have felt snubbed by the Administration's response and thus chose not to send the letter. A further reason that the Administration opted to tone down its response to the auto executive may have stemmed from rising concern about deterioration in bilateral economic relations.

Figure A

1981-1990 JAPANESE CAR AND TRUCK UNIT SALES IN THE US

| | a/ VRA/VER (000) | b/ Car & Truck Volume Shipped From Japan (000) | U.S. Transplant Car & Truck Production (000) | Total Japanese Car & Truck Sales (000) |
|---|---|---|---|---|
| 1981 | 1,763 | 2.304 | 0 | 2,304 |
| 1982 | 1,763 | 2,106 | 0 | 2,106 |
| 1983 | 1,763 | 2,234 | 67 | 2,301 |
| 1984 | 1,941 | 2,579 | 229 | 2,808 |
| 1985 | 2,300 | 3,132 | 332 | 3,464 |
| 1986 | 2,300 | 3,434 | 563 | 3,997 |
| 1987 | 2,300 | 3,085 | 697 | 3,792 |
| 1988 | 2,300 | 2,696 | 903 | 3,599 |
| 1989 | 2,300 | 2,430 | 1,265 | 3,695 |
| 1990 | 2,300 | 2,237 | 1,478 | 3,715 |

-Combined Japanese car and truck volume exported to the United States generally has exceeded the Japanese voluntary export restraints—Restraints which the Japanese have described as applying only to passenger cars.

-The difference between their reported shipments under the VRA/VER and actual shipments are vehicles that have been identified as "trucks."

-The addition of the Japanese transplant units, which have high levels of Japanese content, further aggravates the trade imbalance between the two countries.

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a/ VER/VRA is based on a Japanese fiscal year (April 1-March 31) and includes the "Category B" VER for four-wheel drive vehicles, station wagons, sport utilities, buses and vans

b/ Includes light vehicles identified as "trucks" which the Japanese have chosen not to include in VRA/VER.

Data Sources : JAMA and JEI Reports

Having quietly rejected import restrictions, the central thrust of the Administration's policy on the auto issue was to focus on improving U.S. access to the Japanese auto and auto parts market. In its official response to Iacocca, the Administration encouraged the auto executives to cooperate with its Council on Competitiveness headed by Vice President Quayle.[167] Following Mosbacher contentious trip, at the behest of the State Department, Quayle was dispatched to Tokyo to quell concerns in Tokyo that protectionist pressure might lead to a trade war. According to Quayle, the Administration had engaged in a "good-cop/bad cop strategy" in which, following the tough talk of trade officials, Quayle was sent "to do a bit of soothing."[168] Because of developments in the Gulf, Bush had canceled his visit to Japan in the spring of 1991 and part of the Vice President's mission was to reaffirm cooperative bilateral relations and reassure Japan of America's continuing interest in the region. Avoiding strident comments, Quayle's positive tone was once again well received by his Japanese hosts. According to one Japanese official, "Japanese find Mr. Quayle very likable. He gets his points across without being stiff but without being light either. He is getting to know Japan very well."[169] On May 20, Quayle held a series of separate meetings with Kaifu, Finance Minister Hashimoto, Foreign Minister Nakayama, MITI Minister Nagao and Agriculture and Forestry Minister Kondo and also managed to pay a courtesy call on the emperor. During his meetings, Quayle specifically discussed the bilateral automotive trade deficit for the first time at such a high level.[170] Quayle formally requested that the Japanese government take a number of steps to encourage the imports of U.S. auto parts and to increase the number of American vehicles sold through Japanese dealerships.[171] Thus, while his visit was short, Quayle had garnered support for the Administration's market opening approach and had helped to lay the groundwork for bilateral cooperation on the auto issue.

By summer, in the absence of the predicted economic turnaround, the U.S. auto industry continued to experience losses and the outlook grew bleaker. In particular, the outlook for the Chrysler Corporation was absolutely dismal. On May 30, Iacocca had called Sununu to explain Chrysler's critical cash-flow problems as a result of the "severe recession" in the auto industry. Without sufficient cash, the Chrysler Corporation would not be able to continue the necessary investment in research and development to ensure that future models remain competitive, thereby undermining its long-term viability. In a "confidential" letter to Sununu the next day, Chrysler Vice President B.A. Perkins detailed a new plan for securing capital funding that required the assistance of the Pension Benefit Guaranty Corporation (PBGC) and the cooperation of the government.[172] Because of Chrysler's cash-flow problem, the PBGC had threatened to terminate the Chrysler pension plans that would have led to the bankruptcy of Chrysler. While the Administration opposed the PBGC's proposed termination, the Labor Department vigorously contested the funding plan on the grounds that it might jeopardize pension benefits to employees. Perkins wrote to explain to Sununu that in order to ensure it's "ongoing viability," Chrysler needed the U.S. government to waive certain capital reserve requirements to allow the deal to go through.[173] Assuring Sununu that Chrysler was at the "last coins," Perkins welcomed Sununu to discuss the grim capital market situation with Chrysler's investment bankers.[174]

Against this backdrop, the Administration faced rising domestic pressure. The Administration acknowledged that there was a legitimate role for government in assisting distressed domestic industries that were in genuine need.[175] Given Chrysler's financial position and given the recognition that governmental policies had contributed to problems in the industry, administration officials began to take a heightened interest in the plight of the automobile industry. On June 17, in the *New York Times*, the U.S. Custom Service reported that, in an investigation into the content of the parts used by American Honda Motor Company, the company had overstated the U.S. content of its components. These revelations contributed to the perception in Washington that Japanese automakers were engaging in anti-competitive trade practices.

As the Congress was in the process of preparing a National Energy Strategy bill that included CAFE standards legislation, the conditions within the domestic automobile sector were clearly on the domestic political agenda. In late July, following an uneventful negotiation between MITI and the Commerce Department on the auto parts issue, the Auto Parts Advisory Committee (APAC) issued a report that documented the large disparity in access to the U.S. and Japanese auto parts market, attracting widespread Congressional attention.[176] The APAC report described Japanese dumping as "rampant," recommending that the Administration prepare an anti-dumping and section 301 investigation against Japanese manufacturers. Specifically, in citing a University of Michigan study that projected the $10 billion bilateral trade deficit in auto parts in 1990 would reach $22 billion by 1994, the APAC had emboldened the Congress to press for legislative remedies.[177] On June 26, in a joint letter to the President, Senators Robert Kasten and Carl Levin urged that the Administration adopt the recommendations advocated in the APAC report.[178] Attributing the problems in the U.S. auto industry to Japan's "concerted strategy," the Senators called on the President to initiate a "counterstrategy," warning that failure to act would lead to "extreme deterioration in the U.S. automotive trade balance."[179] Heightened Congressional pressure on the auto and auto parts issued reflected the growing political dissatisfaction with the President's domestic policy agenda. Commerce Secretary Mosbacher maintained his hard-line stance and continued to press Bush to address the issue. For example, in a memorandum to Scowcroft, Mosbacher, noting that "the current primary bilateral trade issue" is market access for U.S. auto and auto-parts, warned that the issue is "politically volatile and needs immediate attention."[180] Accordingly, Mosbacher urged Scowcroft to have the

President raise the issue directly in his bilateral meetings with Kaifu at Kennebunkport. Yet, according to Scowcroft, Bush, "felt that on these narrow and technical issues, it was OK to discuss them, but we shouldn't risk the relationship for what were after all not issues of overriding significance."[181] Thus, while the auto issue had begun to generate a troubling degree of political attention, high-level policy-makers, preoccupied with preparation for the London Summit, chose not to waffle in the face of heightened domestic pressure.

By July, the Administration had grown increasingly defensive about its economic and trade policies. With the U.S and Japanese economies in recession, Bush himself had acknowledged that anti-Japanese sentiment was rising in the United States and that elements of anti-American sentiment existed in Japan. With the Uruguay Round of GATT negotiations unresolved, with Japan continuing to resist liberalizing its rice market, and with the controversy surrounding Japan's contribution to the Gulf, the Administration struggled to counter criticism of the benefits of its liberal policies. For example, in a memorandum to the President, USTR Hills wrote that, "Japan has managed to hide behind the EC."[182] Reflecting growing dissatisfaction within the USTR over Japan's position on rice, Hills noted, "Japan has never taken a leadership role in the Uruguay Round. If the Round is to succeed, we need Japan's <u>active</u> support for agreements that expand market access..."[183]

Yet, despite the objections of his trade officials, Bush, together with Scowcroft, was determined to "preserve the overall relationship" which "was more important than whether we won that particular point."[184] Thus, on July 11, in order to reaffirm bilateral relations and to prepare for the G-7 Summit, Bush invited Kaifu to his summer home in Kennebunkport. Prior to their meeting, Bush stressed to reporters that he looked forward to this type of informal "one-on-one session" with Kaifu, stating, "We are going to treat him like family."[185] This setting allowed the "George-

Toshiki" relationship, not to mention the "Barbara-Sachiko" relationship, to fully blossom into a solid friendship, underscoring the Administration's cooperative approach with Japan. At a joint news conference, Kaifu was practically giddy while Bush was friendly and joking. In his statement, Bush stressed the importance of cooperative bilateral relations, emphasizing the positive dimension of bilateral economic relations. He stated,

> I think Japan has been a good partner in many many ways. And we have a strong bilateral relationship that I believe this visit will enhance even further...this relationship is broad, its strong. It transcends any one issue or another. And I salute the Prime Minister for his part in strengthening this bilateral relationship that I feel so strongly about. It is critical.[186]

Noting the numerous areas of global and regional cooperation on issues related to the former Soviet Union, Eastern Europe, Latin America and Asia, Kaifu reinforced Bush's message, stating that, "When it comes to Japan-U.S. relations, we believe that instead of bashing each other we should be basking together."[187] Kaifu also provided important support for the Administration's promotion of the "New World Order" at the London Summit in July.

Despite bilateral and multilateral cooperation between the U.S. and Japanese governments, due to the deteriorating economic conditions in both countries, support for the Administration's trade and economic policies continued to wane. Against this backdrop, the auto and auto parts issue resurfaced on the Administration's agenda following the announcement of an EC-Japan Accord. In early August, Japan and the EC reached an agreement to limit Japanese auto exports to 1.23 million units beginning in 1993 until the year 2000. Reflecting the increased political importance of the auto issue, upon receiving the news, Bush took the rare step of sending a note to his economic advisor Roger Porter asking, "How does [this news] affect our auto market??? GB."[188] The EC-Japan deal coupled with rising domestic protectionist pressure weakened the hand of the free-traders within the Administration that had opposed targeting Japan. By the fall, the perception of the imbalance in market access to the U.S. and Japanese auto markets increasingly became a political liability for the President as Mosbacher had predicted. The auto and auto parts issues had been handled by the Commerce Department as it had jurisdiction over the follow-up negotiation of the MOSS (Market Orientated Sector Specific) talks that began in 1986. Accordingly, the Commerce Department was assigned the task of reviewing the recommendations of the APAC report and this became one of its highest priorities.[189]

*Political Problems*

With the recession and a deteriorating trade picture, Bush's political difficulties also began to multiply. The Democratic Party grew increasingly unified in their opposition to the President's domestic policies. At the same time, the Republican Party was divided as the right wing led by Housing Secretary Jack Kemp, House Minority Whip Newt Gingrich (Georgia) and Senator Phil Gramm (Texas) favored tax-cuts to jump-start the stalled economy.[190] Moderate Republicans such as Bob Dole (Kansas) and senior members of the Senate Budget Committee were worried that tax-cuts would disrupt financial markets and widen the budget deficit. Given the division within his party, and given the fact that Darman, Boskin and Brady all sided with the moderates, Bush decided that it would be politically expedient to postpone his push for a new economic package until his State of the Union speech in January of 1992. In an interview in the *Wall Street Journal*, Darman explained the Administration's position, "I don't resist the idea of such a package. The practical question is, when you don't control either branch of Congress, how do you ensure that when you start this process, it develops in a way which produces responsible policy."[191]

Nevertheless, Bush's decision allowed the Democrats to exploit the fact that Bush appeared to be unable or uninterested in proposing legislation to tackle the recession. It also appeared that Bush was exhibiting weak leadership on economic policies and relying too heavily on his economic advisors. Bush's approval ratings continued to fall and Bush relied increasingly on his political advisors to help shore up his image. Tony Snow, Bush's leading speechwriter at the time, sent a memo to his staff that illustrated the depth of the problems Bush faced in November. Snow wrote,

> I know many of you have been wondering just how we ought to handle upcoming speeches on the economy. We generally have three goals : First, to reassure people that the President knows what's happening ; Second, that he cares ; third, that he has a plan for getting changes enacted ; and fourth, in the interim he will do whatever he can unilaterally to prod the economy.[192]

He further reminded his staff that the goal of Bush's speeches was, "to reassert leadership over the domestic agenda and especially the economy."[193] Departing Attorney General Richard Thornburgh's (R.) failed senatorial bid in Pennsylvania underscored the dramatic deterioration in the popularity of Bush's economic policies.

The combination of eroding political support and continued policy paralysis within the Administration led to the collapse of tight control over Bush's limited domestic agenda by Sununu and Darman. In September, Bush took steps to improve "coordination of economic policy," appointing Secretary Brady as Chairman and "chief economic spokesman" for the Administration while Darman became the Vice-Chairman.[194] In a memorandum explaining his decision, Bush urged greater cooperation between the various key administration officials in coordinating international and domestic economic policy, noting that the EPC and DPC will need to "work closely."[195] While Sununu's coordinating role had allowed the efficient resolution of policy issues within Bush's inner circle, the Administration had never effectively resolved the divisions within the Domestic Policy Council (DPC). According to departing Attorney General Richard Thornburgh, Bush had failed to provide the leadership to resolve those divisions, the DPC was "underutilized" and new policy initiatives were stifled.[196]

Sununu's aggressive and abrasive style was unpopular with officials outside the inner circle, the Congress and the press. Following revelations in *the Washington Post* in April that Sununu had used military aircraft for personal and Republican fund-raising, Democratic Congressmen pressed the General Accounting Office to probe into Sununu's use of public funds. In truth, Sununu was required to fly in military aircraft as a matter of administration policy and when flying for personal or political reasons, fully reimbursed the government for the cost of travel.[197] But, even though the allegations were unsubstantiated, his initial refusal to cooperate with the press had contributed to the impression that Sununu was arrogantly misusing his office. Prior to the scandal, Sununu had been the object of criticism for failing to provide Bush with a viable political strategy on domestic policy issues.[198] Sununu's hard-line stance toward trade with Japan was a source of irritation to Bush and the "diplomatic faction" that favored a more cooperative approach to resolving trade issues with Japan. His failure to effectively manage this politic attack underscored his ineffectiveness in mounting and sustaining political support for the Administration's policies. Under attack from the Left for blocking its agenda and the Right for clumsy execution of domestic strategy, Sununu increasingly became a political liability for the President.

When Bush called for Sununu's immediate resignation in December, he asked Quayle to inform Sununu of his decision. According to Quayle, Sununu was particularly concerned about the timing of his departure and became "visibly upset and wanted to talk directly to the President."[199] Following a conversation with Sununu, Bush meekly agreed to allow Sununu to stay on until early March of 1992 as special counsel to the President. Sununu's continued presence in the White House added to the difficulties of the new Chief of Staff, former Secretary of Transportation Samuel Skinner. Although he had set about to reorganize the White House in order to reinvigorate the policy-making process, Skinner proved to be far less effective than Sununu in formulating a coherent political strategy. In a number of statements to the press, Skinner publicly complained that Darman had dominated the policy-making apparatus. For example, on December 15, Skinner was quoted in the *New York Times*, "Dick Darman is a smart guy and will be one of-and I stress one of-the President's close advisors."[200] Following a number of unflattering statements to the press, Darman was so outraged he phoned Skinner's office, listed off the comments and threatened to resign, stating, "I am not going to allow my reputation to be destroyed."[201] According to Quayle,

> Skinner ended up squandering precious time trying to dilute Darman's power and influence around the White House. The two of them clashed from the beginning and never developed the working relationship that Darman and Sununu had managed.[202]

In accordance with Skinner's recommendation, Bush appointed Clayton Yeutter as domestic policy advisor to act as a counterweight to Darman. But, as Yeutter proved no match for Darman, Republicans continued to press Bush to replace Skinner with Secretary Baker as Chief of Staff.[203] According to Quayle, during the first months of 1992, Skinner's ineffectiveness implied that Bush "was more or less serving as his own chief of staff doing everything from scheduling to making foreign policy decisions."[204]

*The Tokyo Summit*

Against the backdrop of dramatic bureaucratic turf battles, and a host of economic, political and structural problems, the Administration struggled to tackle important issues in bilateral relations with Japan. Bush's visit to Tokyo, originally planned for late November, was suddenly canceled for domestic reasons following Thornburgh's failed senatorial bid and Bush's mounting political problems. According to Scowcroft, Sununu had, "opposed the trip completely," and had managed to persuade Bush to postpone his trip.[205] The abrupt cancellation, the fact that media reports of the cancellation had circulated before Tokyo had been officially informed, and the high-level focus on the Soviet Union and Middle East policy, fostered the impression in Tokyo that Bush had grown once again inattentive to Asia.[206] To counter this perception, Prime Minister Kiichi Miyazawa had seized the initiative. On November 1, former MITI Vice Minister Naomichi Suzuki met with Roger Porter in Washington and explained Miyazawa's desire to develop, "a long-term vision of the U.S.-Japan relationship" when Bush visited Japan.[207] Miyazawa was in the process of preparing the so-called joint Tokyo Declaration for their summit meeting when the Administration announced the postponement of his trip.[208] The Tokyo Summit was rescheduled for early January 1992 and a host of high level U.S. officials visited Tokyo prior to Bush's visit to help prepare the Tokyo Declaration.[209]

Baker's visit was among the most important. Prior to his visit to Tokyo, Baker attended an APEC meeting in Seoul where he sought to reaffirm America's continued long-term interest in the Asian region. Prior to embarking upon his Asia trip, Baker published an article in *Foreign Affairs* in which clarified America's vision of its role in Asia. Baker asserted that in the post-Cold War period, the primary rationale for U.S. security presence in Asia was, "To provide geopolitical balance, to be an honest broker, to reassure against uncertainty."[210] But, to promote stability and to complement the trend toward economic interdependence and trade liberalization, Baker believed that, "Commerce offers the most natural approach to fostering greater regional cohesion."[211] Accordingly, Baker explained, "we need a framework for economic integration that will support an open global trading system in order to sustain the region's economic dynamism and avoid regional economic fragmentation."[212] Noting the increasingly important role of Japan as a stabilizing influence, Baker affirmed the key role of Japan in promoting "Global partnership" together with the United States and encouraged Japan to play "a greater leadership role" both regionally and as a leader in the international system.[213] In Korea, Baker managed to dissuade South Korean Foreign Minister Lee Sang Ok and other Asian leaders against forming an "East Asian trading bloc" that excluded the United States.[214] Given Japan's special trading relationship with the United States and given its interests as a global exporter, the Japanese government proved supportive of U.S. efforts to discourage trading blocs. In Tokyo, the central focus of Baker's visit was thus clarifying the Administration's vision of its role in Asia as related to "global partnership" with Japan as part of the Tokyo Declaration.[215]

Consistent with these larger themes, Baker met with a number of Japanese officials in one last final effort prior to the summit to secure Japanese compliance on a number of troubling bilateral issues. But, with the fledgling Miyazawa government eager to avoid the appearance of waffling in the face of U.S. pressure, cabinet officials responded coolly to Baker's seemingly hastily prepared initiatives. On November 12, in a speech before the Asia Society in New York, Bush praised the benefits of the Structural Impediments Initiative but noted, "We need to give those talks new life, give them a kick, and create a better climate for U.S. businesses."[216] In light of Bush's further political difficulties, Miyazawa was understandably wary of embarking upon a new round of negotiations that might again lead to one-sided commitments by Japan. On the same day in Tokyo, in a meeting with Finance Minister Tsutomu Hata, Baker officially requested that the U.S. and Japan start a new round of SII talks, but Hata politely refused.[217] Baker's proposal, the Structural Coordination and Harmonization Initiative, was apparently designed to improve "structural harmonization" between the two governments, the business sectors and the research communities.[218] In separate meetings with Foreign Minister Michio Watanabe and Miyazawa, Baker also pressed unsuccessfully for the liberalization of the Japanese rice market. But, in discussions with MITI Minister Kozo Watanabe regarding the trade imbalance and the issue of auto and auto parts, Baker's proposals met with some sympathy. Reflecting support within the 'internationalist' faction of MITI for liberalization, Watanabe agreed to prepare an "action program" designed to increase Japanese imports of foreign auto and auto parts. Specifically, MITI launched the "Business Global Partnership Plan," requesting that 40 major Japanese companies submit plans to increase their imports and to increase the local content in their overseas subsidiaries.

Despite Baker's progress, in the absence of a major breakthrough, Bush faced heightened political pressure to adopt neo-isolationist and protectionist policies prior to his trip to Japan. Administration officials were worried that the neo-isolationist movement in the United States might be gathering momentum with Republican Pat Buchanan's presidential bid. In truth, 77 percent of Americans indicated in polls that they had "friendly" feelings toward Japan in early December.[219] But, with the fiftieth anniversary of the attack on Pearl Harbor on December 7, Bush sought to counter the neo-isolationist impulse and quell anti-Japanese sentiment in the United States. In his public statements, Bush defended his administration's policies, warned against "scape-goating," and pressed for continued global engagement. For example, in mid-November, Bush cautioned, Japanese bashing has become a minor sport in some places in the United States, and some in Japan have become equally scornful of the United States. Both our nations must reject those who would rather out scapegoats than tackle their own problems.[220]

Similarly, in a television interview, Bush stated, "I don't think this is a time for recrimination and anger. And you're talking to one that got shot down by the Japanese. So, I've been there, and I can speak with some perspective."[221] He thoroughly rejected an "America-first" foreign policy and countered Buchanan's seductive vision of a "Fortress America."[222]

On December 7, in one of his most heartfelt speeches, Bush delivered an emotional address to the veterans of World War II and their families in Hawaii. In reviewing the history of America's isolationist movements, Bush suggested that America's inward focus following World War I had contributed to its lack of readiness at Pearl Harbor. Similarly, following World War II, Bush noted,

Again, in 1945, some called for America's return to isolationism, as if abandoning world leadership was the prerequisite for dealing with pressing matters back home. And they were rudely awakened by the brutal reality of the Iron Curtain, the Soviet blockade of Berlin, and the Communist invasion of South Korea.[223]

Bush, the consummate realist, concluded that military and economic neo-isolationism was delusional and that continued engagement was the only viable solution.

In responding to the neo-isolationist and protectionist challenges from both the left and the right, Bush had opted to maintain a moderate middle course. But, throughout December, the U.S. economic outlook continued to weaken and even administration officials began to use the term "recession." Bush also acknowledged the worsening economic conditions, stating, "The current performance of this economy is unacceptable ; growth is too slow."[224] Having optimistically predicted an economic turnaround in both 1990 and again in the third quarter of 1991, disapproval rating of the Administration's handling of economy continued to rise while Bush's approval ratings dropped below 50 percent for the first time in his presidency.[225]

As the President's political and economic problems grew more acute, Bush began to rely increasingly on his Secretary of Commerce Mosbacher. Among the most outspoken and hawkish on trade issues with Japan, Mosbacher enjoyed solid backing from U.S. business interests that were reeling from the affects of the recession. Thus, Bush selected Mosbacher to lead the trade delegation on his trip to Tokyo. Sununu persuaded Bush to include the Big Three auto executives as well as 17 other prominent international businessmen.[226] On December 13, Press Secretary Fitzwater announced, "This trip will provide an opportunity for American business executives to exchange views freely with foreign government officials and their business counterpart and to promote and expand United States export opportunities." While the decision to include representatives of U.S. business was still somewhat rare, a business delegation had accompanied Quayle on his trip to Tokyo in 1991. In fact, a number of other countries routinely included business delegations during the visits of their heads of state.

Bush's difficulties multiplied when he provided the well-known auto executives with a high-profile platform. Bush had consulted a number of outside experts who suggested that the climate in Japan for further market opening had significantly improved.[227] The President's political advisors urged that Bush meet with the trade delegation prior to his departure for Japan in order to showcase his efforts to address America's economic and trade problems. Accordingly, on December 19, Bush and Mosbacher met with the trade delegation in the White House."[228] Apparently, this fostered the impression at home that Bush was finally going to provide substantial support for domestic industries at their time of need. It also encouraged the perception abroad that the domestic situation was forcing Bush to take a hard-line stance in dealing with Japan. A few days after the meeting, Mosbacher confirmed this view when he indicated to members of the press, "The domestic importance of this mission can't be overstated."[229]

Fearing that a domestic shift would undermine the effectiveness of the President's message abroad, Scowcroft vigorously opposed the domestic focus. Initially, according to Scowcroft,

> The President basically wanted to go to Asia on a political trip. And the political people said no you can't do that, you are being criticized for spending too much time on foreign policy, if you are going on a trip, you have got to make it a domestic trade trip.[230]

In fact, Scowcroft reported that he and Mosbacher went head to head on the decision regarding the utility of this new domestic emphasis and the two men engaged in "a couple of shouting matches" prior to Bush's trip.[231] Scowcroft was concerned that by promoting the domestic benefits of the overseas trip, it would reduce incentives for Japanese cooperation at the Summit (which it did). But, with concern about Bush's reelection mounting, Bush sided largely with his political advisors and agreed to shift the focus of the Summit to some extent.

Prior to the Summit, the Administration began to shift its focus away from the details of the Tokyo Declaration, concentrating on obtaining a more comprehensive "action plan" to expand U.S. auto and auto parts exports. Following Baker's visit, MITI officials had convinced the Japanese private sector to launch voluntary import expansion plans. But, in light of the change in political focus in Washington, these plans were no longer viewed as adequate, the advanced team scrambled to accommodate the new political winds. State Department Counselor Bob Zoellick was sent to Tokyo to lead this new effort. Upon his arrival, Zoellick emphasized to

Ambassador Armacost that the President's priorities were, "Auto, autos, autos."[232] On December 20, officials from the USTR, Commerce and State, including Zoellick, met with MITI officials to forge a more detailed agenda for the Tokyo Summit.[233]

Prior to his departure, Bush attempted to clarify the Administration's position on trade. But, reflecting the structural changes going on within the White House, Bush's complicated message on trade was somewhat muddled. On the one hand, the sporadic influence of his political advisors in rewriting his speeches led Bush to increasingly add politically popular phrases such as "fairer" trade and "jobs and economic growth" to increase their domestic appeal.[234] On the other hand, reflecting his philosophical preference for free trade, Bush explained, "But I am not going to turn protectionist. I just believe that we need to expand markets, not contract them. This country went through a disastrous experience with protectionism years ago, and we're not going to do it again."[235] Bush emphasized that as America's increased exports to Asia had helped sustain the U.S. economy during the economic downturn, the purpose of his trip was to "do everything we can to set the groundwork for expanded exports."[236] In effect, Bush sought to maximize opportunities for U.S. businesses by more aggressively pursuing market opening in Japan while adhering to the tenets of economic liberalism.

In his departing remarks for his Asia trip, Bush sought to subdue fears generated by America's neo-isolationist protectionist movement. Bush stated, "I'll make it very clear to each country I visit that America remains committed to the cause of freedom and democracy, that America will remain engaged in the Pacific area economically, politically, and militarily."[237] Once abroad, Bush grew much less equivocal in the espousal of his liberal trade philosophy. In Australia, Prime Minister Paul Keating affirmed Bush's long-term efforts to expand global trade, stating,

It's a matter of great comfort to us that we have an internationalist as President of the United

States, someone who has committed himself to an open trading system—a multilateral trading system too—that resisted protectionist pressures and is committed to seeing the GATT Round successfully concluded.[238]

In Singapore, Bush reaffirmed America's leadership in promoting global trade liberalization, calling the successful conclusion of the GATT Round, "The most important single step that guarantees against trading blocs."[239] Echoing Secretary Baker's call for economic integration in the Asia-Pacific, Bush vigorously supported APEC, calling it, "a powerful vehicle for sustaining free, market based trade."[240] In every public statement, Bush emphasized that America remained strongly in favor of regional and global liberalization and opposed to the creation of "economic fortresses."

In Japan, with the emergence of trading blocs an increasing threat, the Administration sought to encourage Japan's global leadership at the Uruguay Round of GATT negotiations. At the same time, with the United States in recession, the Administration placed renewed emphasis on pressing Japan to take further steps toward achieving a better balance in bilateral economic relations. In order to reduce the trade imbalance and to increase opportunities for American exporters, the Administration called for greater openness to Japanese markets. The decision to include the auto executives in Tokyo reflected the Administration's desire to symbolically demonstrate that U.S. business and the U.S. government shared common interests in promoting commercial opportunities and in fostering international competition. Throughout the two days of meetings, Bush also desired to confirm the broader aspects of bilateral relations to accord with Japanese sensitivities and in order to keep in check the protectionist forces in the United States.

Reflecting his efforts to initiate the Tokyo Declaration, Miyazawa maintained a strong interest in promoting "global partnership" and in preventing deterioration in cooperative bilateral relations. At the same time, despite his acknowledgment that the Japanese government could take a number of market opening measures, the fledgling Miyazawa administration needed to avoid the perception that Japan had become a scapegoat for America's domestic problems. Similarly, Miyazawa indicated prior to the opening of discussions that Japan did not need to be instructed on the need for responsibility in solving all of the various problems of the international economic environment.[241] In bilateral relations, as with earlier summits, the Japanese government clearly sought to portray tensions on economic issues as merely one element of bilateral economic relations and within the context the overall relationship.

Despite these differences, the atmospherics of the bilateral meetings were surprisingly good. Bush's visit to Japan at a politically difficult juncture showcased the importance he attached to Japan, his presence helped provide the impetus for resolving outstanding bilateral issues, and his decision to visit Kyoto in addition to Tokyo underscored his broader diplomatic mission. While Bush clearly demonstrated that he had a special relationship with Kaifu, relations between Bush and Miyazawa were also quite friendly. Miyazawa's long record of commitment to the promotion of cooperative U.S-Japanese relations, his previous association with many members of the U.S. government including Bush, and his facility in English were all helpful in this regard. The close association of the two leaders, described as "exceptionally cordial" by Ambassador Armacost and "very close" by Scowcroft, helped to set a positive tone among officials within both governments.[242]

On January 8, in their initial bilateral, Miyazawa and Bush discussed strategic and security issues and issues related to the promotion of "global partnership."[243] They also discussed the GATT talks with both sides agreeing to their fundamental importance. Bush reportedly stressed that Japan's interest in preventing a collapse in global trading system was probably greater than almost any other important industrialized country.[244] Yet, Bush did not openly counter Miyazawa's position that resolution of Japan's rice issue should be handled within the context of the Uruguay Round. In reviewing bilateral issues, Bush and Miyazawa also generally discussed economic issues in which Bush specifically mentioned the need to resolve the various sectoral issues, including the auto issue. Following their bilateral meeting, Bush and Miyazawa visited the ongoing meeting of the U.S. and Japanese business delegations. In his remarks, Bush emphasized the importance of maintaining a perspective that incorporates strategic concerns, that is, "the big picture" of the international situation, but also confirmed the need for "progress on the business side."[245] The two leaders and 16 officials representing State, the NSC, the two nations' ambassadors, Secretary Brady, the Chief Cabinet Secretary Koichi Kato and Deputy Chief of Staff Andrew Card attended a working luncheon. On January 9, during their bilateral meeting, Bush and Miyazawa again focused on general security and economic issues, allowing sectoral issues to be handled at the ministerial level by the State Department and MOFA.[246] Reflecting the diplomatic approach traditionally employed by these two ministries, they succeeded in hammering out the remaining details of a series of "action plans" designed to tackle the outstanding bilateral economic issues while demonstrating friendly governmental relations.

In the Tokyo Declaration, which contained a number of action plans, the two governments "reaffirmed" the importance of cooperative bilateral relations and the need for "Global Partnership," outlining a host of common interests in addressing political, security, and foreign policy as well as economic and trade issues. At the same time, in the preamble of the Tokyo Declaration, noting the "new prominence" of economic issues to bilateral relations, the U.S. and Japanese governments agreed to attach "the highest priority" to addressing the underlying causes of economic friction.[247] Within the Tokyo Declaration, in the "Global Partnership Plan of Action" (「グローバル・パートナーシップ行動計画」) related to economic and trade issues, the two governments forged a fairly comprehensive agreement that covered nearly all of the outstanding bilateral issues.[248] While there remained significant divergence related to Japan's position on rice, the two governments agreed that the Dunkel Draft provided the basis for ongoing GATT negotiations and that both governments would take the appropriate cooperative steps to ensure the successful conclusion of the Uruguay Round. The two sides also agreed to "reinvigorate" the SII process through new "policy initiatives" designed to "enhance openness and oppose protectionism."[249] The Japanese government spelled out a series of measures designed to increase imports by eliminating trade barriers. Both sides reached a number of market-opening agreements as well as a separate "action plan" for auto and auto parts.

In regard to autos, the Japanese government agreed to encourage an increase in the number of dealerships that sell foreign cars, eliminating restrictions on dealers that permit them to sell to cars from a multitude of manufacturers.[250] As for negotiations on auto parts, the U.S. and Japanese government worked out a deal that secured agreement from Japanese auto manufacturers to increase their voluntary purchases of U.S. auto parts from a level of about $9 billion in 1990 to about $19 billion by 1994.[251] Also, Japanese transplants were expected to increase their share of U.S. parts from 50 percent to 70 percent (decrease in imports from Japan from 50 to 30 percent).[252] In light of the disparity in market access on auto and auto parts, administration officials as well as Bush himself acknowledged that the degree of market opening in the agreement had not exceeded his expectations. Nevertheless, at a press conference following the announcement of the auto agreement, Secretary Brady, noting that the Administration had been actively working on the auto issues for a few short months, called the agreement "a good step forward."[253] Brady further emphasized that the agreement was consistent with the U.S. objective of moving, "to open markets, not to restrict or close U.S. markets."[254]

Given the political environment in the United States, the bulk of media attention focused on the sectoral issues. While the auto and auto parts issue received the most attention, the Bush Administration managed to reach a number of separate agreements with Japan designed to improve market access to the computer, paper products, flat glass and semiconductor markets. Specifically, the Japanese government agreed to "substantially increase" market access in flat glass and paper products and "to make further efforts for market access" in the semiconductor market.[255] In the Japanese public sector computer market, the Japanese government agreed to a series of measures that helped level the playing field for foreign companies bidding for government procurement contracts.[256] Specifically, the Japanese government agreed to take steps to provide "equal access to pre-bid information," "non-discriminatory technical specifications," "improved transparency in evaluating competing bids," and rigorous enforcement of the Antimonopoly Act.[257] In each of these cases, the USTR had identified a sizable disparity in access to the U.S. and Japanese markets for these products and the Administration sought to reduce the imbalance by inducing Japanese governmental assistance in eliminating non-competitive businesses practices.

The paper and paper products issue is illustrative of the general approach that the Administration used in seeking to improve market access in these sectors The Administration's goal was to increase opportunities for U.S. and foreign paper and paper products companies to Japan's $27 billion market.[258] Despite its status as a global leader in paper and paper products, the U.S. market share in Japan was only 1.7 percent. Deputy USTR Michael Moskow, who had replaced Linn Williams in September of 1991, negotiated a deal to eliminate barriers to market entry on behalf of the U.S. government and a joint announcement of a preliminary agreement was made at the Tokyo Summit on January 9. Follow-up consultations led to a final agreement on April 5, 1992. In a letter to USTR Hills, Ambassador Takakazu

Kuriyama explained that, "The Measures to be taken are intended to substantially increase market access in Japan for all foreign paper producers."[259] Specifically, the Japanese government agreed to implement a series of "measures" that would "encourage" Japanese paper distributors, converters, printers and major corporate users to "promote long-term relationships between buyers and suppliers" and to ensure "non-discriminatory purchasing practices."[260] The Japanese government also committed to ongoing efforts to implement the various measures during the next five years and agreed to hold regular follow-up meetings twice a year during that time.[261]

Given the monopolistic practices in the Japanese paper industry, a key objective was obtaining Japanese government acquiescence that it would "enforce effectively" its own Anti-monopoly Act. In a memorandum to Bush, Deputy USTR Moskow explained,

> With overt Japanese government barriers becoming rarer, our trade policy is beginning to focus more on the closed corporate sector of Japan. In this regard, the paper agreement will set an important precedent by establishing certain Japanese government responsibilities for the practices of corporate end users.[262]

The Japanese government role in breaking down anti-competitive practices received support from U.S. industry. Representing the U.S paper industry, John Luke of the American Paper Institute, called the agreement a "major achievement," noting that the industry, "was very pleased with the results."[263] Yet, consistent with its "two-way street" approach during the SII negotiations, U.S. negotiators also agreed that the U. S. government would play a role in facilitating U.S. access. For its part, the U.S. agreed to a series of "measures" to assist and encourage U.S. manufacturers to understand the Japanese business environment and be responsive to the requirements of Japanese suppliers, distributors and users.[264] Accordingly, in assessing the implementation of the agreement, the two sides agreed to look at the efforts of both governments, and market conditions in addition to changes in the level of imports.[265] Thus, even though the focus of the agreement was on market access in Japan, the paper agreement retained its bilateral quality, consistent with Bush's overall complementary approach to trade with Japan.

In the short-term, against the backdrop of the presidential election, Bush's decision to include the auto executives, his tin-cup diplomacy, and his bout with intestinal flu, provided the Democrats with fodder for political attacks and the media with sensationalist headlines. While the long-term impact of the Administration's approach to trade with Japan provided few exciting sound bytes, Bush's mission to reaffirm the political, security and economic relationship with Japan while pursuing market opening was largely successful.[266] Bush's presence in Tokyo, together with Miyazawa's support, unmistakably galvanized the two bureaucracies into moving rapidly forward to resolve a host of bilateral economic issues. Their cooperative efforts to level the playing field for U.S. businesses seeking entry into Japanese markets also helped deflate protectionist pressures and anti-American and anti-Japanese sentiment. Aboard Airforce One, Bush assessed the outcome of the Summit as "very positive." He explained to a reporter, "Maybe some had their sights set a little higher, like to try to have some managed trade, but that's not what we wanted."[267] Consistent with a long-term approach designed to steadily achieve a better balance in bilateral economic relations, Bush had taken a number of helpful steps to reduce the trade imbalance, not through protectionism or "managed trade," but by improving U.S. and foreign access to Japanese markets."[268] The Administration's bilateral approach was therefore largely consistent with its multilateral agenda.

Despite these achievements, cyclical factors exacerbated the Administration's efforts to maintain the direction of its policies. Throughout 1992, Japan's dismal economic performance was to contrast sharply with that of America's gradual economic resurgence following the 1990-1991 recession, resulting in a further widening of the bilateral trade imbalance. Politically, Miyazawa was plagued by a series of scandals in the early months of his tenure while the Bush Administration struggled to convince the American public that it had viable domestic policies that were helping to bring about sustainable economic recovery. With this large disparity in economic performance coupled with the political difficulties faced by the two administrations, the stage appeared set for a potentially explosive year on the trade front.

By spring, in tandem with a jump in America's bilateral deficit there was a marked rise in Congressional activism on trade related issues.[269] In response, cognizant of heightened Congressional concern and sensitive to criticism from business that its trade and economic policies were responsible for stifling the economic recovery, the Bush Administration grew more vociferous in condemning Japan's inadequate macro-economic policies. Yet, the Administration's efforts were again tempered by the priority it ascribed to securing Japan's cooperation in the successful completion of the Uruguay Round of the GATT talks and to insuring progress in the second year of SII follow-up talks. Moreover, in anticipation of the 1992 presidential election, the two governments had resolved the bulk of their outstanding trade issues at the micro-economic level during 1991. Consequently, despite a troubling widening of the bilateral trade imbalance, issues related to America's economic and trade policy vis a vis Japan remained marginal throughout the campaign and the Administration was able to avoid a decisive shift in America's trade policy.[270] Following President Bush's failed reelection bid, however, the Clinton Administration (1993-2001) quickly adopted a significantly more aggressive approach to tackling economic and trade issues vis a vis Japan.

### *Conclusion*

In short, throughout the latter half of the Bush Administration's tenure, the Administration employed a multifaceted trade policy approach with its central thrust the defense of America's global economic engagement. Given the host of impediments to the expansion of global trade during this period, the Administration primarily confined its efforts to combating the centrifugal forces that threatened to undermine its liberal approach. Contending with the breakdown in the GATT talks, the Gulf Crisis/War and a global recession, Bush stood firmly in favor of expanding global economic liberalism, promoting regional economic integration, and enhancing bilateral cooperation. In this context, the Administration's success in defending encroachment of executive authority and in blocking Congressional challenges was among its most notable achievements. While Bush struggled to expand executive authority in regard to trade policy, by exhibiting presidential leadership on trade, Bush was able to sustain the Administration's emphasis on the multilateral element of its trade strategy, minimizing the use of unilateral policy tools. Thus, in struggling against the forces of isolationist protectionism, like a Churchillian figure, Bush was "The Last Lion," the immovable object, that resisted America's rush toward economic nationalism and "managed trade" in the mid-1990s.[271]

In order to defend America's global engagement, the Administration first needed to preserve international stability in responding to developments in the Persian Gulf. Bush's exercise of global leadership in helping to establish international norms in the post-Cold War era provided the impetus for an unprecedented degree of multilateral and bilateral security cooperation. Similarly, by constructing a policy response to the Persian Gulf grounded in complementary economic interests, Bush forged economic and trade policies that allowed for heightened integration of its bilateral and multilateral objectives.

A key element in sustaining Bush's multilateral approach to trade was his approach to bilateral relations with Japan. The Administration employed a complementary approach that emphasized "global partnership" and the importance of common interests in resolving differences. Bush consciously avoided an imperious approach, exercising "personal diplomacy" that set a positive tone and thereby minimized friction and fostered long-term, sustainable, partnership with Japan. This diplomatic approach was critical in generating movement and sustaining progress in addressing the imbalance in bilateral economic relations with Japan. Through the follow-up negotiations of the SII talks, Bush, together with Japan, maintained forward momentum in addressing a host of underlying structural factors that contributed to the bilateral imbalance. Similarly, when important sectoral issues threatened to impinge upon cooperative bilateral relations, the Administration, together with Japan, tackled these issues in a calm, cooperative and pragmatic fashion to ensure that they did not embolden protectionist forces. In light of these tangible benefits, the Bush approach to trade with Japan generated sufficient domestic appeal to placate trade moderates particularly among the Democratic leadership in the Congress and to quash attempts by Congressman Gephardt and Senator Levin to revive Super 301 and other retaliatory trade measures. From this standpoint, the victory on Fast-Track extension constituted a referendum on the Administration's approach to trade that allowed it to avoid abrupt course adjustment. In fact, even as Bush's domestic economic and political problems mounted in 1991-1992, the President continued to actively manage the bilateral relationship, forging a series of compromises on autos and other sectoral issues at the Tokyo Summit. Contrary to the sensationalist headlines, Bush neither abandoned his core free trade leaning beliefs in Tokyo nor adopted "managed trade" despite the rising popularity of revisionism in the United States. Rather, in order to combat protectionism at home and abroad, Bush maintained a singular Japan policy while staunchly defending his strategy of global economic engagement. Indeed, Bush's firm commitment to a consistent Japan policy was at the heart of his defense of economic liberalism.

## Notes

1 *Public Papers of the Presidents*, George Bush, "The President's News Conference," December 26, 1991, p.1660.

2 Brent Scowcroft, Oral interview by author, February 12, 2001, Washington D.C. Scowcroft served as President Bush's National Security Advisor.

3 *Journal of Japanese Trade and Industry* No. 1, 1991, p.10.

4 *New York Times*, December 11, 1990.

5 Kent S. Calder, "Japan in 1990 : Limits to Change," Vol. XXX : No. 1 *Asian Survey*, January, 1991, p.31.

6 *Liberal Star*, Vol. 19 : No. 221, August 15, 1990, p.1.

7 朝日新聞、『湾岸戦争と日本』（朝日新聞社、1991 年）76 頁。「ブッシュ大統領は炎熱の地で二、三万人の米国の若者が命を落とすになるかもしれないという覚悟のもとに、今回の作戦を決断した。日本もカネを出すだけでは、もはや共感(Sympathy)は得られません。米議会の空気も激しくなるでしょう。」

8 *New York Times*, August 30, 1990.

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