

# George H. W. Bush' s Global Trade Strategy : Expanding America' s Global Engagement and Managing U.S.-Japanese Relations 1989-1990.5

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# George H. W. Bush's Global Trade Strategy :

## Expanding America's Global Engagement & Managing U.S. – Japanese Relations 1989 – 1990.5

Andrew L. Beaton

In my experience, the most successful political leaders with whom I worked were adept at more than persuasion, negotiation, relationships, building coalitions, and forging longer-term partnerships, as important as these skills are. While solving present-day problems, they tended to consider how the results might fit into a larger whole and how to plant the seeds of future opportunities.

James Baker, 1995<sup>1</sup>

### *Defining Global Engagement*

Upon assuming the presidency in January of 1989, President George H.W. Bush encountered a host of domestic and international constraints that threatened to undermine executive leadership on trade policy. Given the President's limited mandate and the inconclusive legacy of his predecessor, Ronald Reagan, the prospect of an activist trade policy appeared problematic from the outset. Yet, from early 1989 through mid-1990, Bush was able to carve out an expanded role for the executive, exceeding his mandate, through a trade policy approach that was predicated on a global vision. With the end of the Cold War, Bush realized that increasingly prosperous and independent trading partners opposed an imperious U.S. foreign policy approach. With the heightened multipolarity of the global economy together with the heightened importance of economic competition, Bush recognized that in order to promote integration and manage economic friction

America needed to adjust its style of engagement to conform to the rules and norms of the international system. Under Reagan, as Paula Stern explained, "The politicization of trade policy and the retreat to unilateral protectionism [had] diminished intellectual support [within the United States] for the rule-based multilateral system."<sup>2</sup> Accordingly, Bush sought to prepare America for a new era of global competition by improving America's competitiveness and by broadening America's participation in the global economy.

He viewed the rise of economic isolationism and protectionism as anathema to America's national interests and as a major threat to international stability. Historically, Bush believed that just as an isolationist foreign policy had contributed to militarism in Europe, the economic isolationism and protectionism of the 1920's and 1930's not only worsened the Great Depression but also hastened the outbreak of World War II.<sup>3</sup> In the late 1980's, Bush perceived the emergence of regional trading blocs as a similar threat and held firmly that international economic cooperation was the key to counteracting America's post-Cold War isolationist impulse. Thus, the Bush Administration attempted to serve as a buffer against protectionist sentiment and Congressional activism at home while playing an important role in shaping the long-term direction of U.S. trade policy. Consistent with the goal of resisting protectionism at home, Bush sought to promote further liberalization among America's trading partners and to encourage the expansion of market-oriented liberalism among the developing countries. In accordance with this broad conception of America's economic interests, Bush sought to establish with America's trading partners a new set of clearly defined and enforceable international rules for cooperative global engagement.

Bush's global engagement strategy was designed to affirm the dramatic structural changes that had taken place in the U.S. economy since the 1970's and that had gradually contributed to a political shift toward strengthened interest

group support for free trade in the United States by the late 1980's. For, as Kent Calder explained,

Rising global economic interdependence, intensifying especially rapidly across the Pacific, greatly strengthened private groups, such as distributors, agricultural exporters and multinational corporations that specialized in such activities. Interdependence gave such groups strengthened incentives to public activism in support of free trade. Interdependence conversely eroded the strength of organized labor and inland regions that politically resisted the open global economic order.<sup>4</sup>

While protectionist sentiment at home and abroad remained a potent force, the heightened interdependence of the global economy assisted Bush in quietly reasserting America's traditional leadership role in promoting the forces of global integration.

In regard to trade with Japan, the principal policy dilemma for the Bush Administration was how to reconcile the need to restore balance to economic relations with the desire to promote market-oriented liberalism. Policy-makers sought to formulate a trade policy that attempted to address the issue of "fair trade" and that also reflected Bush's philosophical preference for "free trade." In order to prepare the United States for a new era of global competition, and to increase the number of "economic opportunities" for American businesses in overseas markets, the central thrust of policy was the expansion of global engagement. Japan was viewed as a key ally in promoting stability and in encouraging the trend toward greater market liberalization at the Uruguay Round of the GATT and other multilateral and bilateral fora. At the same time, with the expansion of the Japanese market and the emergence of Japan as a global competitor, the Administration sought to press Japan to further open its markets in order to improve U.S. market access.

In this article and in a subsequent article, it will be argued that the Bush Administration's trade strategy was well conceived, consistently executed and achieved an expansion of executive authority in regard to trade. The strategy was attuned to the prevailing domestic and international realities and therefore tended to emphasize complementary policy tools with its important trading partners. While none of the employed policy tools worked exceptionally well, the mix of tools allowed the Administration to maintain a consistent overall trade policy. Initially, the Bush Administration was reasonably effective in deflecting unilateralism in the Congressionally mandated use of the Super 301 policy tool. This was accomplished mainly by providing executive leadership in the promotion of a complementary bilateral agenda and by exhibiting global leadership on trade. Initially, the Structural Impediments Initiative was arguably helpful in restoring balance to bilateral economic relations and the Administration's accomplishment was solid but the initiative lost political momentum in the latter half 1990 as the Administration focused on other regional and multilateral issues for a variety of reasons. Nevertheless, as the Administration's bilateral strategy was highly integrated with its regional initiatives; the Bush team was able to maintain a consistency of policy with regard to Japan and with its regional initiatives in Latin America and Eastern Europe and in its support for the economic integration of the USSR. Specifically, following the breakdown in the GATT negotiations in December of 1990, the Bush Administration employed a number of regional strategies in Latin America, Asia and within the emerging markets of Eastern Europe and the Soviet Union in order to encourage trade liberalization among its trading partners. Thus, despite a slight course adjustment in mid-1990, with the expansion of presidential authority in regard to trade during the period, the Bush Administration had set the stage for a complementary bilateral approach to trade with Japan that was sustainable throughout Bush's tenure.

### *Policy Constraints*

In analyzing the myriad of factors that shaped the initial formulation of the Bush Administration trade policy, the number and scope of the constraints facing the Administration was striking. The Administration contended with a changing strategic landscape, heightened global economic competition, a bleak economic outlook, and limited fiscal and monetary policy tools. Bush was further constrained by a Democratic opposition, new statutory restrictions on trade, persistently large trade deficits, competitiveness problems and the rise of revisionism in the United States. As each of these factors is critical to understanding the trade policy approach adopted by the Administration, these constraints are discussed below at length. This is followed by an account of the policy options facing the President and an overview of the policy-making structure.

The Bush Administration encountered a rapidly changing strategic environment. In the Soviet Union, rapid changes brought on by the contradictions inherent in planned socialist economies and the consequent rise of Gorbachev in promoting *perestroika* and *glasnost* marked the end of America's diametric opposition to the Soviet Union. With the end of the Cold War, despite the "many dangers and uncertainties" stemming from Soviet military capabilities, the strategic goal of containment of Soviet expansionism was simply no longer relevant. In May 1989, during a major foreign policy address regarding the Soviet Union at Texas A&M University, Bush declared, "it is time to move beyond containment."<sup>5</sup> Rather, the principle challenge for the Administration in regard to U.S.-Soviet relations was how to incorporate the Soviet Union into the international system. Thus, Bush stated, "In sum, the United States now has as its goal much more than simply containing Soviet expansionism. We seek the integration of the Soviet

Union into the community of nations.”<sup>6</sup> To be sure, because of the important strategic implications, Bush’s NSC advisor Brent Scowcroft, urged the Administration to proceed cautiously in responding to Gorbachev’s radical arms control proposals. Regarding Gorbachev, Scowcroft would later write, “I was suspicious of his motives and sceptical of his prospects.”<sup>7</sup> Nevertheless, the major thrust of policy was to promote Soviet integration, regional cooperation and arms control while encouraging the institutionalization of *glasnost*.<sup>8</sup> Given the dire economic conditions in the Soviet Union and the instrumental role that Gorbachev played as a proponent of reform Bush came to view Gorbachev as an important ally in that process. Bush would later write, “I felt I could trust him...I like the personal contact with him. I like him.”<sup>9</sup> In fact, Bush maintained such personal loyalty to Gorbachev that even after Gorbachev swung to the right after the Gulf War and Yeltsin emerged as a clearer advocate of reform, Bush continued to support him.<sup>10</sup> While the diminished Soviet threat was a positive development, the Administration struggled with the destabilizing effects of the decline and collapse of the Soviet Union on the international system.

The trend toward Soviet disintegration had a destabilizing impact on the former satellite countries of Eastern Europe, the Baltics and Western Europe. In Eastern Europe, due to the Soviet Union’s traditional interests in the region, Bush sought to promote “positive incremental change” while cautiously avoiding actions that might have “invited Soviet retaliation.”<sup>11</sup> During his trips to Poland and Hungary, he sought to support democratic pluralism and to encourage steps toward market-oriented liberalism through economic aid.<sup>12</sup> In Western Europe, following the collapse of the Berlin Wall, the Administration sought to encourage the trend toward German reunification and toward eastern and western European integration. In an address at Boston University with French President Mitterand in attendance, Bush affirmed America’s commitment to “economic integration,” “the Atlantic

Alliance,” and “a strong united Europe.”<sup>13</sup> Given German and French solidarity regarding rapid European integration, the Administration chose to actively support the process, seeking quietly to mollify British and Soviet reservations about German reunification by ensuring that Germany was firmly anchored in NATO. In a speech at Mainz, West Germany, on May 31, Bush recognized the centrality of Germany in this process and asserted that the United States and Germany were “partners in leadership” of the Western alliance.<sup>14</sup>

The emergence of China as a strong power coupled with its ostracism in the aftermath of Tiananmen Square implied a diminished stabilizing role in the region. Because of China's strategic importance, and its ability to play a “spoiler role” in Asia, Bush wanted to insure that China was not once again internationally isolated and thus opted to maintain “a policy of engagement.”<sup>15</sup> Thus, for example, within a short period of a few months, Bush sent NSC advisor Brent Scowcroft and Deputy Undersecretary Lawrence Eagleburger to China to maintain high-level bilateral contact. One State Department official summarized U.S. China policy as an attempt to “balance our outrage with the repression with our national interests in sustaining our engagement.”<sup>16</sup> But, the suppression of human rights in China provoked such a strong moral outcry in the United States that the Bush Administration encountered strong domestic resistance to its China policy. In fact, even Secretary of State Jim Baker had advised against sending the presidential envoys to China fearing the domestic political repercussions. But, Bush, a former chief of the U.S. Liaison Office to the P.R.C. (1974-1975), tended to guide China policy himself, and with the key role of Eagleburger, ignored such objections. In the long run, the Bush Administration believed that constructive engagement with China promoted global balance, regional stability, and bilateral commercial ties.<sup>17</sup> Thus, despite the backlash from Congressional Democrats and the domestic volatility of the issue, the Bush Administration maintained a policy that sought to



promote stability and to serve long-term U.S. interests.

Despite the emergence of new sources of instability in the international environment, the diminished Soviet threat and the loosening of the importance of maintaining a cooperative security framework had decreased the importance of the U.S. security role and the U.S. faced new challenges in promoting cooperation among its allies. For, the end of the Cold War also implied a rapid acceleration of the trend toward more independent foreign policy approaches, resulting in heightened divergence among America's allies. As a result, regional security threats such as those presented by North Korea and Iraq could threaten to disrupt the tenuously forged global equilibrium. The reemergence of ethnic nationalism, territorial and political disputes that had been muted during the Cold War years further threatened global instability. Thus, for example, in September of 1989, Bush warned in a speech at the United Nations,

We have not entered into an era of perpetual peace. The threats to peace that nations face may today be changing, but they've not vanished. In fact, in a number of regions around the world, a dangerous combination is now emerging - regimes armed with old and unappeasable animosities - and modern weapons of mass destruction. This development will raise the stakes whenever war breaks out. Regional conflict may well threaten world peace as never before.<sup>18</sup>

Indeed, the Administration encountered a combination of heightened global instability, diminished U.S. capacity and rising regional threats.

Against this backdrop of global strategic change, the role of Japan as a key ally in promoting regional and global stability had grown increasingly vital. At the Toronto Summit in June 1988, Prime Minister Takeshita had pledged \$50 billion in ODA over a five-year period and Japan had emerged as the world's largest donor of ODA.<sup>19</sup> The Bush Administration was largely satisfied with Japan's increasing defense contribution that, in 1989, represented a 5.9 percent increase

over the previous year, totaling \$31 billion.<sup>20</sup> The Japanese government was thus contributing 40 percent of the total cost of stationing U.S. forces in Japan.<sup>21</sup> The Administration continued to urge Japan to increase its role in global affairs. As Secretary Baker later explained, "Japan's strategic engagement is an essential counterbalance to ensuring that China and North Korea do not yield to the temptation of regional adventurism."<sup>22</sup> Given the trend toward heightened multipolarity in Asia and the emergence of Japan, China and India as global and regional actors, Japan played an increasingly important role in helping to resolve regional issues such as in Cambodia, North Korea, China and the Philippines.<sup>23</sup> For example, Japan's support for the Philippines through the Multilateral Assistance Initiative (MAI) and its role in promoting democracy there following the coup attempt against the Aquino government in December 1989 reinforced the importance of Japan's stabilizing role.

Recognizing that a complementary approach would stem from the perception of mutual benefit, Bush sought to emphasize bilateral cooperation and respect for Japan from the beginning of his tenure. As National Security Advisor Brent Scowcroft later explained, "While we never developed a full-blown strategy for the management of Japan...always the Japanese were one of the first ones we consulted on any problems."<sup>24</sup> In late January, the new Administration clearly sought, "To set a positive tone for the U.S.-Japan relationship," beginning with Prime Minister Takeshita's visit in early February of 1989.<sup>25</sup> In a friendly bilateral meeting with Takeshita, Bush affirmed "continuity" in bilateral relations, confirmed the security treaty as "the foundation of our relationship," and pledged, "frequent consultation at all levels on economic issues."<sup>26</sup> Bush urged that Japan accept "greater responsibilities" in global affairs and Takeshita responded, pledging to make further increases in ODA and to support democracy.<sup>27</sup> The two leaders also agreed on the importance of a successful conclusion to the Uruguay Round of

the GATT talks. Having affirmed the importance of bilateral relations, Bush also noted the need to bring the two economies into "better balance" and obtained Takeshita's affirmation of the need for structural adjustments. Following the demise of the Emperor, despite military service in the Pacific during World War II, Bush personally attended the services. During his visit to Tokyo, Bush described Japan as "a friend...an ally...a nation with whom we have a constructive relationship."<sup>28</sup>

While Bush had settled the broad outline of foreign policy toward Japan, the State Department continued to shape its direction throughout 1989. Following Bush's visit, recognizing that "a period of fluidity" in the international environment gave rise to Japanese concerns about America's continuing presence in the region, the Administration repeatedly sought to reaffirm America's commitment to Asia.<sup>29</sup> For example, in June, in a speech to the Heritage Foundation on Asia policy, Vice President Dan Quayle stated, "Let me conclude these remarks by reaffirming this Administration's determination to remain engaged in Asia - engaged for peace, for freedom, and for democracy."<sup>30</sup>

At the same time, recognizing the limits of American power, the Bush Administration sought to encourage regional actors to make contributions to regional stability commensurate with that emerging power. For example, in a speech to Asian Society of New York in June of 1989, Baker called on Japan to play "a broader international role with increased responsibility."<sup>31</sup> Similarly, Secretary Baker took an active interest in encouraging regional economic integration in Asia as a means of enhancing regional stability through institutionalizing common interests. In June of 1989, Secretary Baker attended the first APEC Ministerial meeting in Canberra in order to lay the groundwork for support for new regional arrangements there. Prior to his departure, Baker stated, "The purpose of my trip is to establish the framework for a new Pacific

partnership.”<sup>32</sup> Given the importance of APEC to the Administration's Asia policy, Baker looked to Japan for leadership and cooperation in sustaining the APEC process and also relied on Japan's critical support for America's continued participation.

The Bush Administration also faced a new set of global economic realities. To be sure, the expansion of the world economy and the increased importance of world trade encouraged greater economic mutual interdependence not only among the advanced industrialized countries, the developing countries and the NIES but also among the communist countries of China and Eastern Europe.<sup>33</sup> But, the globalization of economic competition together with the emergence of regional trading blocs and the increasing use of quotas, also encouraged protectionist sentiment and economic nationalism abroad. Moreover, the decreased importance of the U.S. security role gave the U.S. less leverage to cope with increasingly independent and prosperous trading partners on controversial economic issues. Diminished leverage coupled with the long-term decline of America's relative economic position in the global economy had weakened America's global economic leadership on trade. Thus, with the heightened multipolarity of the global economy acting as a centrifugal force, the Bush Administration sought to establish a trade policy that provided incentives for the maintenance of cooperative trade relations.

The Administration's efforts were hampered by a sluggish domestic economy. In 1988, due to a number of temporary factors, real GNP growth of the U.S. economy reached 3.5 percent. But, during 1989, the U.S. economy began to experience a more “moderate growth” trend, as real GNP was only 1.8 percent.<sup>34</sup> In 1990, with growth slowing sharply in the second half of the year, the growth of real GNP was nearly flat at 0.3 percent.<sup>35</sup> America's relative sluggish economy contrasted sharply with Japan's surprising 5 percent growth in GNP in 1989,

reigniting fears of America's diminished competitiveness and fueling a rise in anti-Japanese sentiment in the United States. By 1989, Japan had become both the largest creditor nation and the second largest economy in the world with a GNP of nearly \$3 trillion.<sup>36</sup>

The Bush Administration also struggled with fiscal constraints. As the United States had emerged as the world's largest debtor nation, the Administration attempted to reduce the growth in government spending. Nevertheless, the budget negotiations in 1989 were protracted, contentious and time-consuming. To solidify support among conservatives for his candidacy during the 1988 campaign, Bush had pledged, "Read my lips. No new taxes." His budget strategy was to refuse to raise taxes and at the same time avoid difficult choices, forcing the Congress to either cut expenditures or to defend revenue increases.<sup>37</sup> The passage of the Gramm Rudman Hollings Act (The Budget and Emergency Deficit Control Act of 1985) as amended by the Balanced Budget and Emergency Deficit Control Reaffirmation Act of 1987 set deficit reduction targets for fiscal year 1990 through 1993. The Bush Administration's budget proposal sought to reduce the growth of federal spending to comply with the statutory requirements of the GRH Act. If the Congress failed to legislate reductions in federal spending in line with those targets this would trigger a "sequester" that would lead the Administration to make automatic reductions in selected programs in accordance with a reduction formula. On April 14, in order to meet the fiscal year 1990 baseline target of \$100 billion, the President and Congress announced a bipartisan budget agreement plan that was estimated to reduce the fiscal year 1990 deficit by approximately \$64 billion to \$99.4 billion.<sup>38</sup> This compromise was achieved when Congressional leaders basically accepted the revenue level initially proposed by Bush in February, including \$299.2 billion in defense outlays (\$300.6 billion requested) and \$17 billion in outlays for international affairs (\$17.3 billion requested).<sup>39</sup> Congressmen

Leon Panetta explained, "The compromise is essentially we've accepted the President's number on revenues, and they've moved towards the Congress on the spending side."<sup>40</sup>

Yet, despite passage of the 1989 Budget Reconciliation Act, by fall, Congress had delayed implementing many of the tougher provisions of the reconciliation legislation. Accordingly, on August 21, the OMB Director Richard Darman in issuing his initial sequester report estimated that the fiscal year 1990 deficit would exceed the \$100 billion deficit target by \$16.2 billion and it appeared the President would have to order a sequester.<sup>41</sup> In fact, on August 25, the President signed an Initial Sequestration Order that required government agencies to temporarily refrain from spending the \$16.2 billion until the release of the final Sequester Report on October 16.<sup>42</sup> As the threat of sequestration implied a 40 percent cut across the board in domestic programs and a 25 percent cut across the board in all defense programs, Congressional leaders began to show greater flexibility as the October deadline neared, successfully avoiding the final sequester trigger by agreeing to reduce spending to meet the targets. As a result of these belt-tightening measures, neither the executive nor the legislative branch could initiate supplemental expenditure except in the case of dire emergency.<sup>43</sup>

While the partisan battle over the 1989 budget had been protracted, it was but a prelude to a much more divisive budget battle in 1990. With the relative strength of the U.S. economy in 1989, the Administration could have pressed for more radical deficit reduction. But, because of Bush's "No-new-tax" pledge and the desire to pursue reconciliation with the Congress, the Administration limited its role to cutting the growth in spending, in effect, choosing to maintain the status quo. But, the fiscal year 1991 targets were even more difficult to meet. As Congressman Panetta noted as early April of 1989 in regard the 1991 targets, "We've got a long way to go. "We've got to get this deficit down from the \$99.4

billion Gramm-Rudman-Hollings targets in 1991. So we've got to bring it down another \$30 billion, and the choices are going to get much tougher from here on out."<sup>44</sup> In 1990, the economic outlook steadily worsened with growth remaining flat in the first 7 months of 1990 and weakening thereafter, and the federal budget deficit as a percentage of GNP rose from 2.5 percent to 2.9 percent. Under these conditions and with members facing Congressional elections meeting the targets grew increasingly problematic.

Bush also contended with monetary constraints. During 1988, the Federal Reserve had tightened interest rates in response to concerns about inflationary pressures. By 1989, the shift in interest rates led to decreases in real estate values and banks reduced their lending, and credit markets tightened. As the Administration had failed to produce a credible long-term plan for reducing the budget deficit, the Federal Reserve was compelled to maintain tight monetary policies even while economic growth was slowing. Thus, America's huge federal budget deficit and the need to attract foreign capital to finance it hampered the Bush Administration's efforts to use either fiscal or monetary policy to help jumpstart the economy.<sup>45</sup>

The Bush Administration also encountered a host of political constraints. Bush faced Democratic majorities in both the House and Senate and those numbers declined further in the Congressional elections of 1990.<sup>46</sup> In fact, Republican representation in the Congress was lower for Bush than for any other Republican president this century. His presidency coincided with growing solidarity within the Democratic Party and an increasingly fractious division within the Republican Party. He encountered particularly strong opposition among Rustbelt Democrats who favored more comprehensive economic and trade policies. Bush's support among House Republican was also tentative as the division between conservatives, so-called Reaganites and moderates resulted in a split

among its leadership. More generally, as Bush noted in his Inaugural Address, there was "a certain divisiveness" in the Congress and partisanship tended to promote "gridlock."<sup>47</sup>

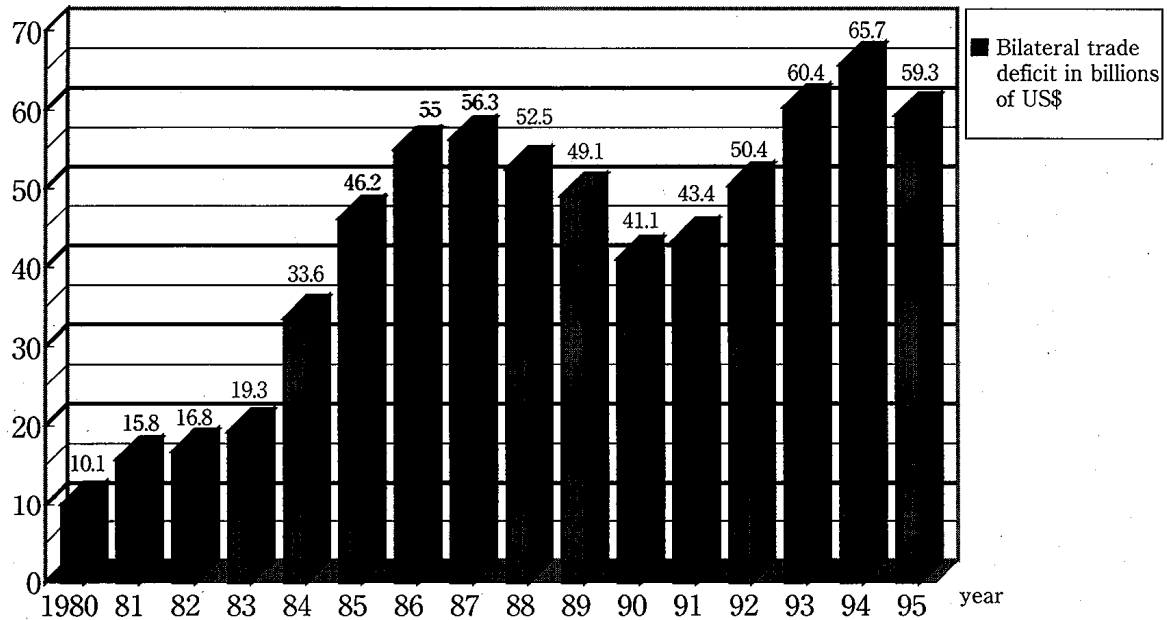
In addition to the Democratically controlled Congress, the Bush Administration contended with new restrictions on trade policies. Growing Congressional impatience with the Reagan Administration's reluctance to back away from purely free trade policy prescriptions had led to the passage of Super 301 of the Omnibus Trade and Competitiveness Act of 1988 (PL 100-418). Super 301 required the U.S. trade representative to identify "priority countries" found guilty of maintaining unfair trade barriers, and to negotiate for their removal under the threat of retaliatory sanction. Given the unprecedented degree of Congressional oversight embodied in the legislation, the President's de facto authority to initiate or maintain a coherent comprehensive trade policy was somewhat constrained. To some extent, in contrast to the increasingly political and partisan formulation of U.S. trade policy during the Reagan years, the passage of Super 301, Congressman Gephardt's failed presidential bid and the Bush victory signaled greater moderation in Congress. But, having witnessed the deterioration in Congressional and executive relations over trade during his tenure as vice president, Bush was well aware of the need to maintain cooperative relations with the Congress on trade issues to avoid further encroachment of executive authority.

The Administration struggled to reduce a persistent bilateral trade imbalance that had widened considerably during the Reagan years. To be sure, the trade imbalance improved slightly from a \$59, 825 billion deficit in 1987 to a \$55, 436 billion deficit in 1988.<sup>48</sup> Yet, despite a positive combination of economic factors in the U.S., and the effects of Japan's seven market opening packages a major correction in the bilateral trade balance predicted by many economists had not resulted by the beginning of 1989 (See Figure A on the next page). While the



Figure A

**U.S. Merchandise Trade Deficit with Japan**



SOURCE: Department of Commerce as cited in *Congressional Quarterly* Vol. 48, No.13, March 13, 1990 and the USTR's Office as cited in the *National Trade Barriers Estimate Reports 1990-96*.

improvement reflected a new pattern of Japanese growth based increasingly on domestic demand as was promised, the sizable bilateral trade remained. In contrast to the slight decline in the bilateral deficit with Japan, bilateral deficits with other major trading partners had decreased more rapidly. As a result of increased U.S. exports to the EC, the U.S. trade deficit with the EC fell from \$20.7 billion in 1987 to 9.1 billion, a dramatic 43 percent drop. In fact, with the exception of West Germany, the U.S. had begun to run a surplus with the EC countries.<sup>49</sup> With an expansion of exports to Asia, the U.S. trade deficit with the NIE's fell nearly 17 percent or \$5.8 billion.<sup>50</sup> Moreover, America's global trade deficit had declined markedly from its peak of \$152.1 billion in 1987 to 119.8 billion in 1988 and fell an additional 9.3 percent to \$108.6 billion in 1989.<sup>51</sup> These dramatic shifts contrasted sharply with the comparatively minor shift that had occurred in Japan,

contributing to the perception in the United States that the bilateral imbalance was a Japanese problem. Thus, the bilateral deficit plagued Bush throughout his tenure.

In responding to a host of new competitive challenges brought on by the globalization of trade, the Bush Administration also struggled to reverse the long-term decline in America's international competitiveness position. In 1988, the Council on Competitiveness stated, "Since 1972, increases in America's standard of living, trade, productivity and investment have not kept pace with the performance of our major foreign competitors."<sup>52</sup> Indeed, the Council of Competitiveness attributed the failure to reduce the trade deficit as symptomatic of larger problems that included relatively low levels of national saving, large federal budget deficits, and the emergence of the United States as a debtor country.<sup>53</sup> Specifically, America's inadequate savings and domestic investment rates had led it to rely excessively on foreign capital and foreign imports, resulting in relatively weak export growth. In this context, the trade deficit was emblematic of the larger economic problems facing the United States. Thus, for example, Senator Patrick Moynihan (D.-NY) stated, "It seems to me the trade deficit has created anxieties about our capacity as a nation."<sup>54</sup> The Council of Competitiveness concluded, "Although the United States is beginning to recognize the extent of the competitive challenge, we have yet to implement many of the policies necessary to meet it."<sup>55</sup> Against this backdrop, the Administration struggled to formulate economic and trade policies that reversed the prevalent perception of America's economic malaise.

The rise of revisionism, in offering a plausible theoretical explanation for America's economic and trade problems, also threatened to influence the Administration's formulation of trade policy. Professor Chalmers Johnson of U.C. Berkeley, writer James Fallows, former U.S. trade official Clyde Prestowitz, and Dutch author Karel Van Wolferen represented the revisionist school. Revisionist

theory held that Japan practiced a variant form of capitalism that did not truly embrace the principles of free trade. Thus, in addition to the Western and communist types of political economy, Chalmers Johnson identified a new category of political economy called “Capitalist developmental states” that included Japan.<sup>56</sup> In light of the differences in their stages of development, revisionists claimed that the U.S. and Japan maintained two types of political economy that were fundamentally different.

According to Van Wolferen, in contrast to the promotion of free trade, as a “capitalist development state,” Japan maintained, “the paramount aim of industrial expansion.”<sup>57</sup> Another revisionist, Steven Schlossstein, author of *The End of the American Century* published in 1990 contended, “The Japanese system is so aggressive and so ruthless in its overseas market-penetration tactics, and so aggressive in its predatory pricing and external marketing strategies, that it needs to be blunted.”<sup>58</sup> Revisionists would further claim that Japan’s economic expansion was not only “one-sided” and “destructive” but its policies constituted a “double standard” that threatened to undermine the liberal trading system.<sup>59</sup>

In order to contend with Japan’s “mercantilist trade practices,” the revisionists argued that the United States should acknowledge these fundamental differences, abandon policies that seek to change Japan to be more like the United States and seek the only realistic alternative to combating the Japanese challenge which was “managed trade.” According to Fallows, the assumption that Japanese and American interests do not clash was simply wrong. In an article in the *Atlantic* entitled “Containing Japan”, he stated, “There is a basic conflict between Japanese and American interest-notwithstanding that the two countries need each other as friends-and it would be better to face it directly than to pretend that it doesn’t exist.”<sup>60</sup> In advocating “managed trade,” Fallows argued,

The major threat to the free-trade system does not come from American protectionism. It comes from the example set by Japan. Japan and its acolytes, such as Taiwan and Korea, have demonstrated that [fact] in head-on industrial competition between free-trading societies and capitalist developmental states.”<sup>61</sup>

In providing a theoretical underpinning that explained both Japan's economic ascendance and America's economic difficulties, revisionist arguments influenced both popular perceptions and elite conception of the emergence of the so-called “Japanese threat” and were echoed by prominent Congressmen.

Despite the panoply of domestic and international policy constraints, the Administration still possessed a surprising number of divergent policy options with regard to trade with Japan. To be sure, the “Laissez faire” brand of free trade promoted during the early Reagan years was no longer a tenable national strategy. America's relative economic sluggishness, the persistent trade deficit and lingering concerns about America's international competitiveness encouraged the rise of economic nationalism, revisionism, “managed trade” and protectionism. Yet, policy-makers sought to formulate a trade policy that contended with these centrifugal forces that threatened to undermine complementary bilateral relations. Accordingly, the Administration dismissed a number of protectionist trade policy options despite their obvious political appeal.

The Bush Administration rejected “managed trade” as a solution to address the bilateral trade imbalance. Administration officials clearly preferred a trade policy that operated in accordance with market mechanisms. One reason was that the American government lacked experience in managing trade and in most cases in which the government had engineered “managed trade” solutions, they tended to benefit America's trading partners.<sup>62</sup> USTR Carla Hills explained the Administration's philosophical objections,

Managed trade means that someone is managing it, and we have found that there is a greater growth of trade pushed by market force than by a bureaucratic hand. We are willing to look at setting goals for the market, but basically, we would like to have access to markets and let markets work ; to remove barriers to free markets, and that is our basic goal.<sup>63</sup>

Thus, given its faith in market forces, the Administration's first preference, in principle, was to achieve free market access and eliminate barriers to trade without resorting to "managed trade."<sup>64</sup> In his press conference following bilateral meetings with Prime Minister Toshiki Kaifu in Palm Springs, Bush summarized his approach, "Make no mistake about it : I want to see that deficit come down, not by restricting our markets or managing trade but by further increasing our exports to Japan."<sup>65</sup>

The Administration even rejected the option presented by its own private sector Advisory Committee on Trade Policy and Negotiation (ACTPN) headed by American Express Co. chairman James D. Robinson 3d.<sup>66</sup> The ACTPN group had recommended that the Administration abandon an essentially free trade approach in favor of a targeted or managed trade approach with Japan in order to reduce the trade imbalance. The idea was originally proposed by former Secretaries of State Cyrus Vance and Henry Kissinger in a joint article in *Foreign Affairs* in which they advocated reducing the bilateral trade imbalance in stages over a period of years by setting specific benchmarks as target ranges at each stage. Similarly, they proposed that the Administration adopt specific targets for deficit reduction and negotiate the removal of Japan's formal and informal barriers. During the negotiations, the ACTPN group recommended that Japan not be designated as an "unfair" trader under Super 301 for a period of one year.<sup>67</sup> On February 16, Bush reviewed this report. Shortly thereafter, the Administration's reacted coolly to the prospect of utilizing this report as the basis for its trade strategy with Japan.

USTR Hills indicated in Congressional testimony on February 28 that, "while there are many good suggestions" in the report the Administration's approach was "a complicated question," that would be reviewed and decided by an interagency taskforce, the Trade Policy Review Group.<sup>68</sup> In completing this review, Hills noted that consultations with policy advisors concerned with other Asian trading partners would also be an important part of this process.<sup>69</sup> Following this review, during Congressional testimony in March, Hills indicated,

There is an accumulation of frustration in dealing with Japan. There is no question that this administration prefers to approach trade problems with the goal of opening markets and mutually agreeing to reduce barriers to entry. But where that is not possible, these reports suggest that there may have to be a choice between managed trade, which I think, and this administration thinks, produces less positive results than open trade, and a targeted course urged by the ACTPN group.<sup>70</sup>

In rejecting the bulk of the recommendations of the ACTPN group and other forms of "managed trade," policy-makers were apparently searching for an approach to pressing Japan's market opening that did not contradict the principles of free trade. In support of this approach to market opening Bush maintained, "There's a role for government; sometimes political leadership is needed, for example, to keep international trade free and fair. But, I will tell you that this government will not confuse involvement with interference."<sup>71</sup> Thus, for example, although popular with some members of the bureaucracy within the USTR and the Commerce Department, the Bush Administration refused to engage in sectoral targeting as the concept of "sectoral reciprocity" similarly contradicted Bush's economic ideology.<sup>72</sup> The Administration therefore never ranked sectors according to their competitiveness and consistently opposed any form of sectoral targeting.

In jettisoning these various approaches, the Administration sought to

formulate a trade policy that reinforced the centripetal forces and combated the centrifugal forces that threatened the global trading system. Reflecting Bush's strong commitment to the expansion of global trade and the rejection of protectionism, the Administration's central objective was trade liberalization. Bush stated at the swearing-in ceremony of USTR Carla Hills, "The goal of this administration's trade policy, simply put is to open markets, not to close them ; to fight protectionism, not to give in to it."<sup>73</sup> Bush disavowed, "misguided notions of economic nationalism that will tell us to close off our economies to foreign competition, just when the global marketplace has become a fact of life."<sup>74</sup> The rejection of economic nationalism was based on Bush's firm belief that its rise in the United States would hasten the emergence of regional trading blocs. Bush aligned U.S. policies with the trend toward globalization in order to encourage America's fuller economic participation through the expansion of U.S. exports.

In this regard, the Administration consistently maintained that its top priority was the promotion of the successful conclusion of the Uruguay Round of the GATT talks. Bush sought to provide executive leadership within both multilateral and bilateral fora to promote the liberal trading system, devoting considerable high-level attention to breaking down resistance to protectionism from America's trading partners. At the same time, the Administration pursued regional market-opening strategies such as NAFTA (North American Free Trade Agreement), APEC (Asia Pacific Economic Cooperation) and the EAI (Enterprise for the Americas Initiative) in Latin America. These regional strategies were designed to complement the Administration's global trade strategy by encouraging competition in accordance with market-oriented principles and by promoting regional integration in order to strengthen the forces within these regions favoring liberalization. The Administration also sought to discourage exclusive regional trade groupings that might encourage the emergence of trading blocs. Consistent

with this objective of trade liberalization, the Administration also sought to reduce and eliminate trade barriers with its trading partners through bilateral negotiations in order to improve U.S. market access.<sup>75</sup> The Administration also “selectively” utilized unilateral policy tools to enforce America’s trade laws.

In regard to trade with Japan, the Administration attempted to formulate a trade policy approach that was consistent with its larger multilateral objectives. The Administration pursued trade and economic policies vis a vis Japan and other trading partners that in principle sought to affirm the centripetal forces while simultaneously combating the centrifugal forces affecting bilateral relations. The Administration adopted a three-pronged trade strategy, which employed multilateral policies at the GATT, NAFTA and APEC fora, bilateral, and unilateral policies through SII meetings, access issues and the use of Super 301. Free-traders would criticize the Administration for its “selective” use of unilateral policy tools. Protectionist leaning Congressmen condemned the Administration for refusing to adopt “managed trade” solutions and retaliatory trade policies. But, the Administration had intended that its three-pronged trade strategy would be “mutual reinforcing,” reflecting a shift away from ideological trade policies toward greater realism.<sup>76</sup>

Initially, the Administration wrestled with the dilemma as to the relative weight of bilateral versus multilateral initiatives. In formulating its global trade strategy, the Administration assigned top priority to the promotion of a successful conclusion to the Uruguay Round of the GATT talks. At the same time, during his nomination hearing, Secretary Baker had testified to the importance of bilateral trade agreements such as the U.S.-Canada Free Trade Agreement. In regard to the agreement Baker stated, “It shows that an active, internationalist free trade policy can catalyze a bipartisan domestic coalition and can turn back the forces of protectionism.”<sup>77</sup> Chief of Staff John Sununu had been helpful in ensuring that



USTR Hills played a role in those negotiations. Hills was quite pleased with the resultant agreement, writing in a letter to Sununu that, "The Canadian trip was a home-run for us."<sup>78</sup> The success of the bilateral trade agreement suggested that free trade agreements with Japan and the EC was a possible next step and that the Administration might make such bilateral agreements the central priority of its trade policy.

The issue of the importance of bilateral free trade agreements arose within the Administration in the context of USTR Carla Hills swearing-in ceremony. Although Bush had approved an earlier draft of the remarks on February 2, his economic advisor, Roger Porter objected to language that suggested that such bilateral agreements might be the primary focus of U.S. policy.<sup>79</sup> Porter wrote to the Chief of Staff's office, "Crucial to U.S. trade policy over the next two years is the question of whether we are going to signal that we want to engage in further bilateral treaties or have our major energies focused on the multilateral round."<sup>80</sup> An earlier draft of the remarks for the ceremony read, "This agreement can serve as a model for developing new, constructive reciprocal trade agreement within this hemisphere and across the two great oceans."<sup>81</sup> During Hills confirmation hearings in January, Senator Max Baucus (D.-Montana) and others had spoken favorably about the prospect of a U.S.-Japan free trade agreement but USTR Hills chose not endorse the idea. By February, Hills would respond coolly in Congressional testimony to the prospects of a free trade agreement with Japan, citing cultural differences and the problem of policing because of Japan's "invisible barriers."<sup>82</sup> Noting the USTR's lack of interest in free trade agreements with Japan and the EC, Porter, while approving of the praise for the U.S.-Canada Free Trade Agreement, warned that, "we should take great care in any language suggesting it as a model."<sup>83</sup> Following a discussion with Porter, and agreement with the NSC, Deputy Chief of Staff Jim Cicconi amended the draft, deleting the references to

specific free trade agreements in order to resolve “the bilateral vs. multilateral problem.”<sup>84</sup> As a result, at the swearing-in ceremony of USTR Hills on February 6, Bush remarked, “There is also a new international impetus for trade expansion created by the Canada-U.S. Free Trade Agreement. This agreement can serve as a model, and it proves that freer trade between nations is the wave of the future.”<sup>85</sup> Thus, the Administration demonstrated from the outset that its primary focus would be on its multilateral agenda.

A primary reason was the fact that the Bush Administration contended with the possible emergence of global trading blocs. In Europe, the European Community (EC) and the European Free Trade Association (EFTA) began formal negotiations toward economic integration in the first half of 1990 that would culminate in the Maastricht Treaty.<sup>86</sup> U.S. and Japanese policy-makers shared concerns about the possible emergence of a “Fortress Europe” that might result from an overly internal focus on economic and trade policies among the 18 member countries. In particular, the U.S. objected to the way in which the EC sought to utilize the principle of “strict reciprocity” thereby subjecting imports to the same rigorous regulations and standards that were applied to firms located within the EC. U.S. trade officials wanted the EC to amend its proposal to accord with a weaker principle of “national treatment.”<sup>87</sup> Because of concerns about a sudden potential drop in exports to the huge EC market, US officials carefully monitored the steps toward EC integration. Moreover, the United States and Japan shared an interest in developing a counterweight to the EC’s emerging power through the promotion of free trade in Asia.<sup>88</sup>

In Asia, the possibility of an Asian trading bloc also surfaced. Australian Prime Minister Bob Hawke had originally proposed an East Asian grouping, and after the Administration pressed him, the United States and Canada were included as members. The Administration attended the APEC summit in Canberra in

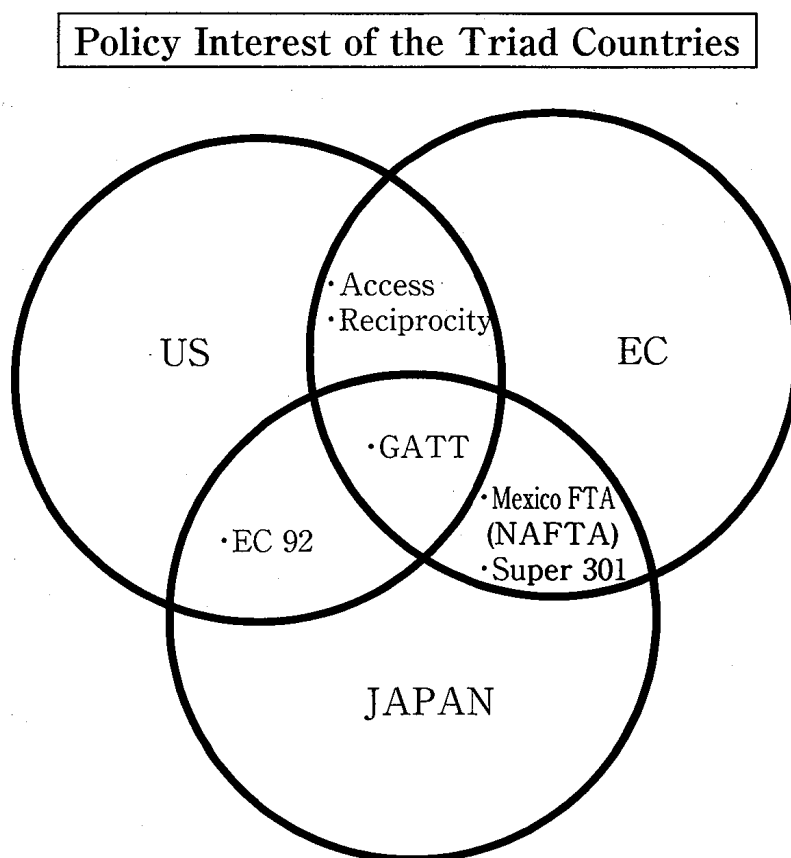
November, 1989 and the process toward greater regional trade liberalization had begun. Japan had played an important role in encouraging the inclusion of the United States and Canada into this regional trade group. But, Malaysian Prime Minister Mahathir bin Mohamad had proposed the East Asian Economic Group (EAEG) that excluded the United States. The Administration maintained a vital interest in ensuring continued access to the economic dynamism of the region. The Administration assigned a high priority to the maintenance of bilateral relations with Japan as Japan played a key role in assisting the U.S. to maintain access to Asian markets. Regarding the importance of U.S.-Japanese relations in this process, Baker wrote that, "If the partnership held, then freer trade and investment through APEC was not only possible but likely. But, if it fractured, an East Asian trading bloc was a virtual certainty."<sup>89</sup>

Similarly, concerns in Japan and the EC regarding the possibility of an American bloc comprising the United States, Canada and other countries in the Western Hemisphere surfaced with the rise in protectionism in the Congress that had led to the passage of Super 301. At the same time, Japan and the EC regarded the movement toward regional free trade agreements with Canada, and Mexico (later NAFTA) and the EAI (Enterprise for the Americas Initiative) in Latin America as a possible prelude to an exclusionary trading bloc detrimental to their commercial interests. In this tripolar context, the Administration faced an unusual degree of pressure to maintain consistency in its policy with its major trading partners in order to ensure that its trading partners did not adopt policies that would lead to trading blocs (See Figure B on the next page).

The difficulty of implementing the Administration's trade policy in a consistent fashion was compounded by a somewhat diffuse policy-making structure. On April 6, in speech on trade, Senate Finance Trade Subcommittee Chairman Max Baucus (D.-Mont.) proposed that the Administration create a new

structure within the White House called the "Economic Security Council."<sup>90</sup> Its purpose would be to shape economic and trade policies in the same way that the National Security Council fashioned national security policy. But, the Bush Administration chose to continue the modified cabinet council system that had been established by Reagan. A former Harvard professor, Roger B. Porter, who had served as executive secretary of Reagan's Cabinet Council on Economic Policy and who had helped formally establish the council system in the early Reagan years, was supposed to play an important role. According to Porter, the council system was designed to avoid tying up the entire Cabinet by allowing interagency working groups to hammer out the details of policy.<sup>91</sup> In announcing the continuation of these structures Bush wrote, "I will use the Economic Policy

Figure B



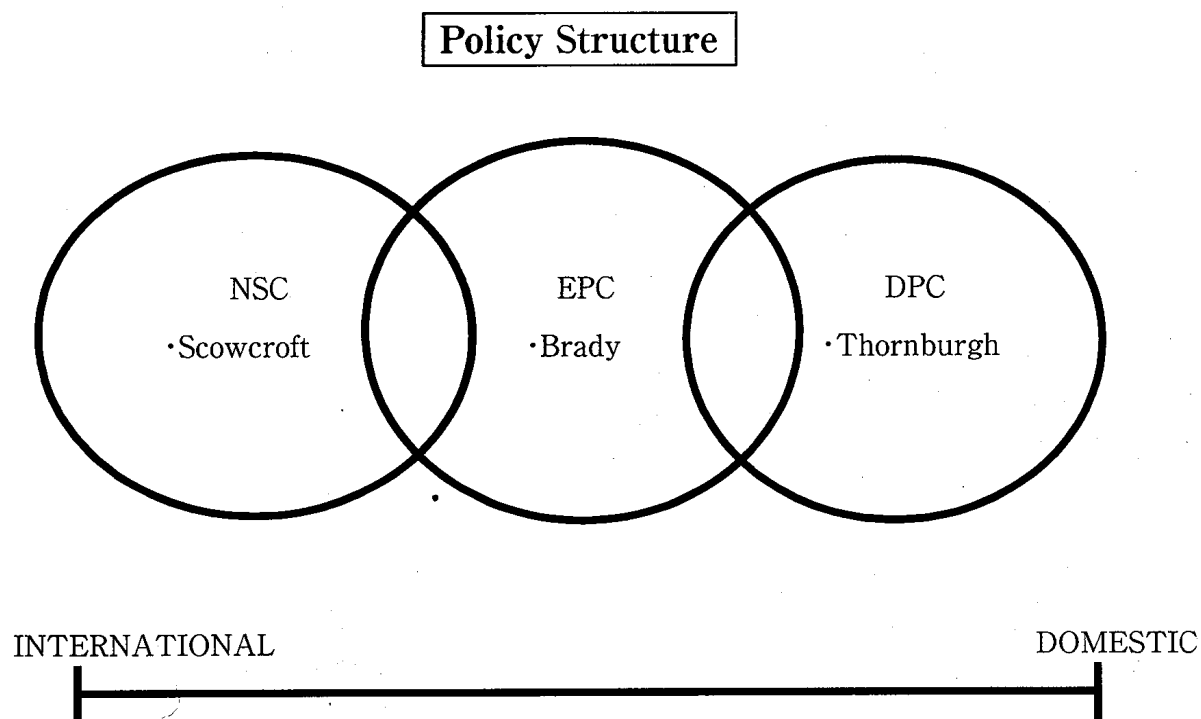
Council and the Domestic Policy Council to advise me in the formulation, coordination, and implementation of economic and domestic policy.”<sup>92</sup> The Domestic Policy Council (DPC) and the Economic Policy Council (EPC) together with the National Security Council (NSC) were the three councils through which domestic and international policy issues were managed.

Given the changing international environment, foreign policy was a central concern for the Administration, an area where Bush had the greatest expertise and focused his greatest attention. National Security Advisor, General Brent Scowcroft with whom Bush enjoyed an exceptionally close relationship acted as an “honest broker” in presenting a variety of views to the President. Bush relied heavily on Scowcroft and his NSC Deputy Advisor Robert Gates who together dominated the NSC. Scowcroft and Gates together with Secretaries Baker, and Cheney acted as senior advisors on a broad array of security and defense issues. As the group tended to emphasize, “cooperation and a strong desire to maintain close relations,” Bush tended to follow that consensus.<sup>93</sup> Although decisions reached within this small group were sometimes the product of vigorous debate, the group tended to abide by that consensus and information rarely leaked to the White House staff or the press.<sup>94</sup> The experience, solidarity and “collegial” approach of the team resulted in a highly effective national security apparatus. Herbert Parmet wrote, “With the creation of a strong working relationship between Foggy Bottom and the NSC, and Dick Cheney in place at Defense, a powerful national security team was in place. Their departure from the animosities and inexperience of the recent past was striking.”<sup>95</sup> Baker would later write, “I firmly believe that one of the foremost accomplishments of the Bush presidency was that we made the national security apparatus work the way it was supposed to.”<sup>96</sup> As national security was broadly interpreted, the NSC, State and even on occasion Defense would become involved in international economic issues.

The efficiency of the national security team contrasted sharply with that of the Domestic Policy Council. The DPC was clearly the least effective of the councils as the absence of a clear economic agenda, weak leadership on domestic issues, ideological division and fiscal restraints made policy coordination difficult. The DPC was nominally chaired by Attorney General Richard Thornburgh, Bush, Quayle and Sununu acted as ex officio members, and its other members included the secretaries of interior, health and human services, housing and urban development, energy, education and veterans affairs, the budget director and the Environmental Protection Agency administrator. It was responsible for tackling domestic economic issues on an interagency basis. Assistant to the President for economic and domestic affairs, Roger Porter, a former Harvard Professor, was supposed to play a leading role in shaping consensus. But, in fact, "most of the important issues were dealt with by small group of insiders led by OMB Richard Darman and Chief of Staff John Sununu.<sup>97</sup> Once the broad lines of policy were established, Porter was relegated to fashioning the details of domestic policy. Consequently, as the economy worsened and Sununu's political support within the Administration weakened, the DPC's effectiveness also waned.

While The Economic Policy Council (EPC), chaired by Treasury Secretary Nicholas Brady, was more effective than the DPC, it suffered from many of the same structural difficulties on a lesser scale. In addition to Bush, Quayle and Sununu who acted as ex officio members, the EPC membership included the secretaries of state, treasury, agriculture, commerce, labor and transportation, the OMB director, the USTR, and chairman of the Council of Economic Advisors. The EPC was responsible for handling both domestic and international economic issues on an interagency basis (See Figure C on the next page). Policy emanation often began with Treasury Secretary Brady, USTR Hills or Commerce Secretary Mosbacher. Generally, following the initial staff work and analysis, and

Figure C

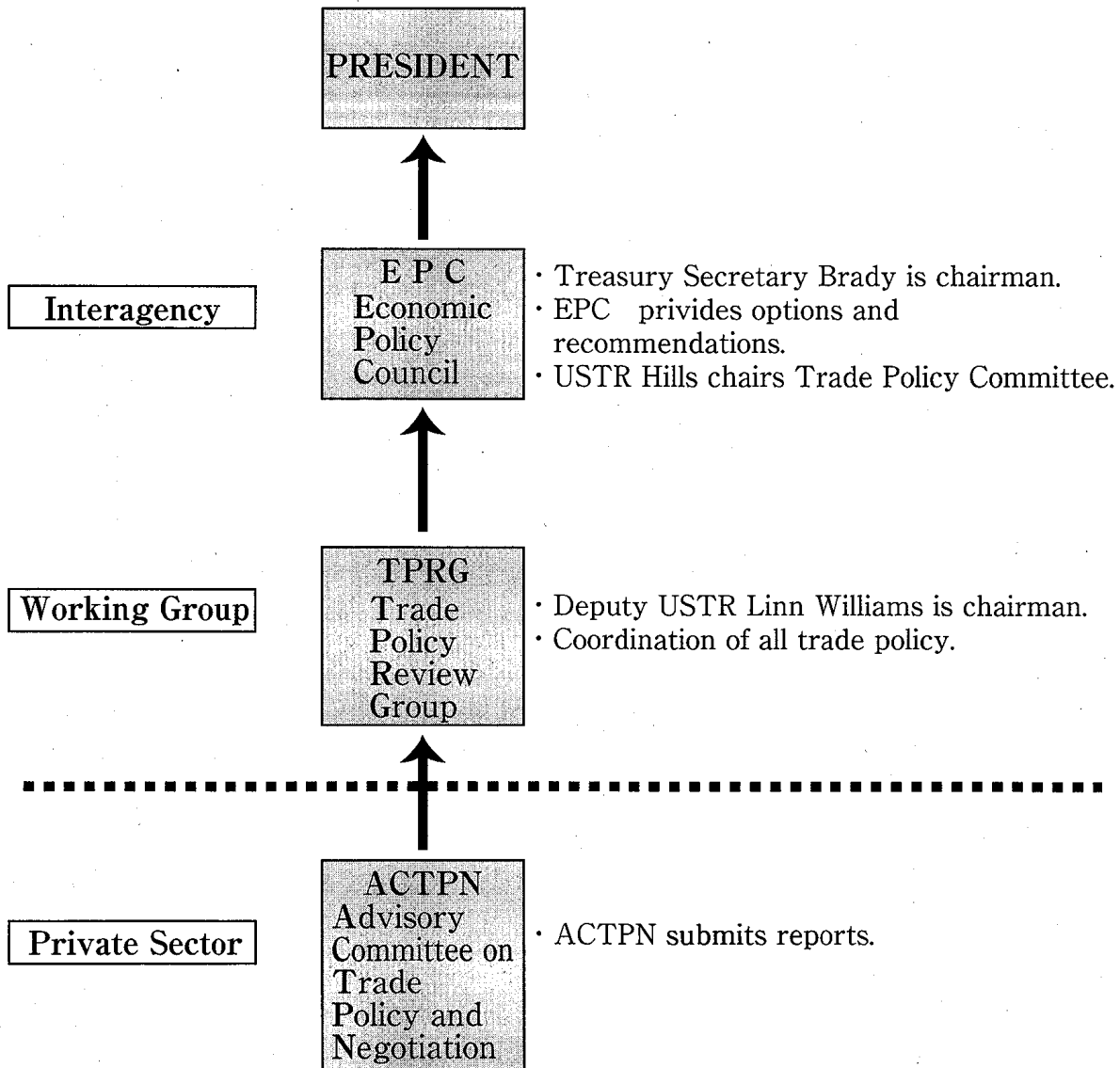


consultation with private sector advisory groups such as the Advisory Committee on Trade Policy & Negotiation (ACTPN) preliminary recommendations or options were developed within the Trade Policy Review Group (TPRG).<sup>98</sup> Once interagency groups or working groups or both worked to tackle the preliminary policy issues, these tentative options and recommendations were forwarded to the EPC. During its first meetings, the EPC conducted a preliminary review and debate, formulating final policy options. If the issue were sufficiently important or controversial, the President might attend the final meeting in which the final policy options were reviewed and decided (See Figure D on the next page).

In contrast to the huge ideological divisions within the Reagan Administration over trade policy, the cases of division within the Bush Administration were fewer, less severe and were confined to a fairly narrow range of topics. Nevertheless, on controversial issues related to trade, OMB Director Darman, CEA chairman Boskin, and Treasury Secretary Brady tended to espouse

Figure D

**Formal Trade Policy Structure of the U.S. Government**





freer-trade while Commerce Secretary Mosbacher, Chief of Staff Sununu, Agricultural Secretary Yeutter, Labor Secretary Dole and to a lesser extent the USTR favored a harder line with Japan. When faced with institutional division, despite his preference for free-trade, Bush tended to favor moderate solutions that were often compromises. Again, Bush's economic advisor, who also served as the Director of the Office of Planning, Roger Porter, played an important supportive role in soliciting the views of Cabinet members and in crafting the details of policy once decisions had been made. Nevertheless, it appears that on occasion the President may have circumvented the EPC structure.

The White House staff was organized in a hierarchical fashion with Bush at the top followed by his Chief of Staff John Sununu who acted as a filter, and also played an important coordinating role. Bush's "inner circle" included Scowcroft, Darman, Sununu, Baker, Brady, Mosbacher and Boskin. With the possible exception of this inner circle, the Cabinet heads tended to report to the President through Sununu who acted as a "funnel through which everything is poured."<sup>99</sup> Many policies were thus shaped in executive agencies and then coordinated by the White House. Bush was not averse to interacting with his Cabinet, and frequently met with Cabinet members for dinner or golf or on other informal occasions. At the same time, the Bush management philosophy was to allow the Cabinet heads a degree of autonomy in formulating policy. This loose hierarchical structure tended to produce good interagency coordination within the Administration. There were instances of division among Cabinet members but, in contrast to the Reagan years, the Bush cabinet was often able to present a "unified front" on trade issues. The theme of interagency coordination was evident from the beginning. For example, in mid-January, prior to her formal appointment in an informal meeting in her office, Bush had requested that Hills recommend "one thing" to obtain from Prime Minister Takeshita in regard to trade during his visit in February.<sup>100</sup> Hills sent the

recommendation to the President but she forwarded it through Chief of Staff Sununu, attaching an additional memo. Hills wrote, "I have drafted a response which is attached. But, I am mindful of the prerogatives of my Cabinet colleagues. Perhaps you would decide, in light of the informality of the request, whether and how this should be coordinated interagency."<sup>101</sup> On trade policy with Japan interagency coordination was the norm.

Under these conditions, USTR Carla Hills played a pivotal in shaping trade policy during the Bush Administration. Officially, the USTR acted as the President's chief advisor on international trade, chief negotiator of international trade agreements, and also nominally chaired the Trade Policy Review Group (Cabinet level) in addition to serving as a member of the EPC (Cabinet level). More importantly, Hills and Bush enjoyed a friendly working relationship. Hills had served as the Housing and Urban Development Director during the Reagan Administration and Bush had come to respect her skills as a tough negotiator. Bush also recognized that the USTR was "a position of great importance" to the future of the United States.<sup>102</sup> It appears that Hills sought to forge a closer working relationship with Bush mainly by promoting his policies. Thus, for example, following Bush's attendance of Hills swearing-in ceremony, Hills wrote a hand-written note to the President,

Dear Mr. President,

Thank you for your note and thank you from the bottom of my heart for your wonderful participation in my swearing-in ceremony. Your thoughtfulness is enormous and your presence galvanized the personnel at USTR. Believe me, I and they will climb the highest mountain on your behalf. All good wishes, Carla<sup>103</sup>

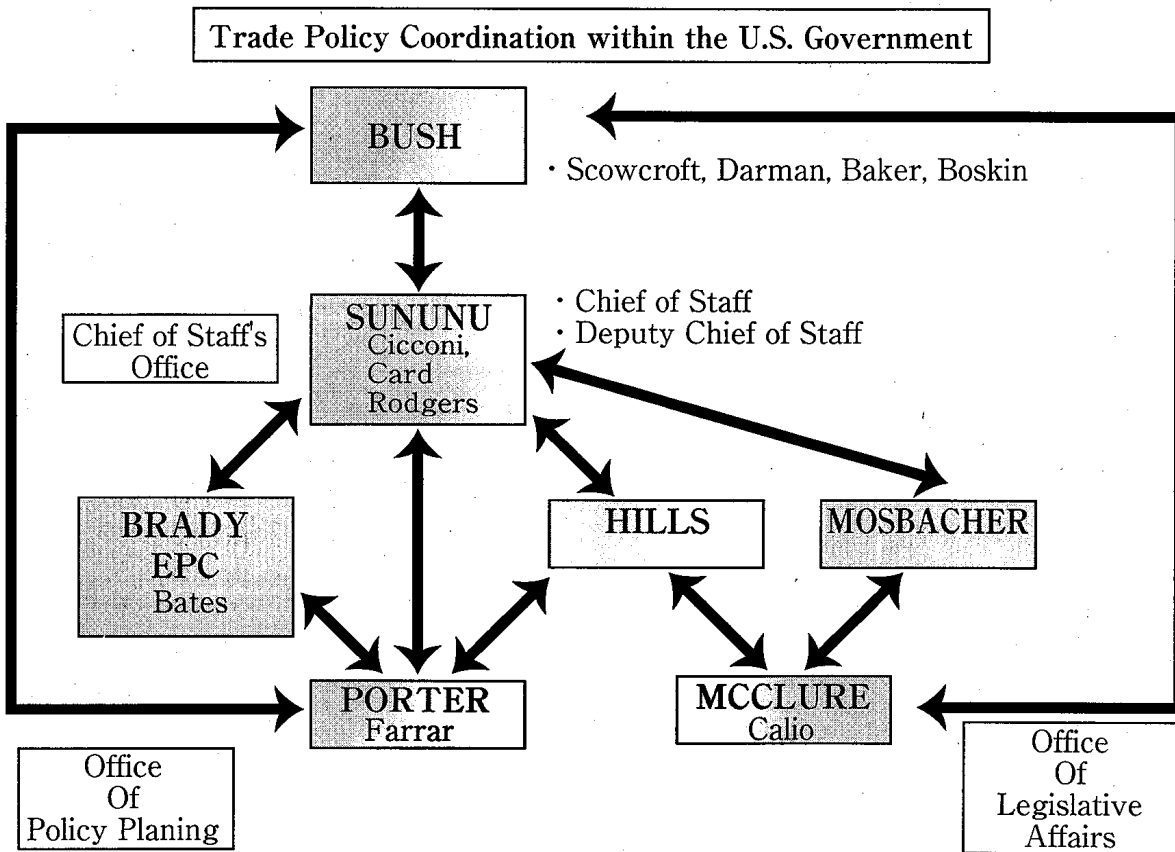
Bush was clearly pleased with Hill's hard work and dedication to her job and with that of the USTR office. For example, after reviewing a favorable article

in *The Business World* in June of 1990 entitled, "A Crowbar for Carla Hills," Bush wrote in a personal note to Hills, "Carla, a good story! Keep it up. GB."<sup>104</sup> Yet, despite a fairly positive relationship, USTR Hills did not enjoy easy access to the President. While no Cabinet member enjoys unfettered access, because of the "brokering role" of the USTR's office with Democratically controlled Congress, policy-makers were concerned about Congressional encroachment on executive authority and probably advised Bush to maintain a certain distance from the USTR. The heavy demands of his foreign policy agenda and the desire to insure interagency policy coordination easily afforded Bush that opportunity. Moreover, as Bush thought of a good trade negotiation as "one where both sides feel like they have succeeded," he grew "frustrated" with Hills who at times was, "more of a litigator than a negotiator."<sup>105</sup> As a consequence, much of Hills correspondence with Bush was first forwarded through the Chief of Staff's office.

Lesser trade policy issues generally took one of four paths. An issue that arose and was handled within one of the Executive agencies such as the USTR's office and was typically forwarded to the Chief of Staff's office. Generally, it was first reviewed by assistants Andrew Card and Edward Rodgers or by Deputy Chief of Staff James Cicconi, and then forwarded to Sununu who then passed it on to the President.<sup>106</sup> Bush might choose to consult with Boskin on economic issues related to Japan, with Scowcroft on issues involving international trade and national security such as machine tools, with Darman on domestic economic policy and Baker on political strategy and foreign policy implications. A second route for dealing with specific trade policy issues was for the Cabinet heads to go through Bush's economic advisor, Roger Porter who might either forward the matter to the Chief of Staff's office or more rarely send a memorandum to directly to Bush. In those instances, although Porter primarily focused on domestic issues, he played an important role on certain key international trade related issues such

as GATT, SII and Super 301. Occasionally, Bush would initiate an inquiry by contacting Porter or other officials directly himself. On trade issues that involved domestic political strategy Porter coordinated with Assistant to the President for Legislative Affairs, Fred McClure or members of his office. On such occasions, McClure might communicate with the Chief of Staff's office or the President directly (See Figure E below).

Figure E



In sum, the Administration confronted a host of strategic, economic, political and structural constraints in formulating and implementing its global trade policy as well as its trade policy vis a vis Japan. It was noted that against the backdrop of a rapidly changing strategic context, the Administration encountered

economic difficulties brought on by truly global trade, a sluggish economy, large budget and trade deficits, limited fiscal and monetary policy tools and competitiveness problems. The Administration also contended with stiff political opposition in the Congress, statutory restrictions on trade, and the rise of revisionism. Despite these constraints, the Administration chose to reject “managed trade” solutions and other forms of retaliatory and protectionist trade policies in order to promote the expansion of global engagement in accordance with a three-pronged trade policy approach. The Administration opted to attach the greatest importance to its multilateral initiatives, particularly the successful conclusion of the Uruguay Round of the GATT negotiations. This reflected the Administration’s objective of promoting the centripetal forces in the global trading system in favor of free trade and its concomitant desire to combat the emerging trend toward regional trading blocs. In thus emphasizing the multilateral element of its trade policy approach, the Administration sought to relegate the bilateral and unilateral elements to lesser priorities. To be sure, while Bush contended with a diffuse policy-making structure, the President was adept at resisting Congressional pressure and reducing America’s reliance on heavy-handed unilateralism.

While the Administration maintained an essentially multilateral approach, the perception in Japan of Bush’s trade policies was markedly different. For, as the Bush administration initially chose to designate Japan as an “unfair trader” under the controversial Super 301 provision, most Japanese viewed the Administration as maintaining highly protectionist policies that relied heavily on such unilateral policy-tools. Yet, as the following case study serves to illustrate, the Administration’s decisions regarding the use of Super 301 in 1989 and 1990 were far more measured and their impact more limited than Japanese press accounts suggested at the time. The remainder of this article will examine those decisions in order to gauge the administration’s enthusiasm for such initiatives. It is argued that

within the context of the numerous constraints outlined above, the Bush Administration engaged in a series of highly dexterous diplomatic and political maneuvers in order to minimize the impact of the use of Super 301 in 1989-1990 during a difficult juncture in the bilateral relations with Japan while successfully resisting encroachment of executive authority.

### ***Dodging Unilateralism : The Dilution & Disuse of Super 301***

Henry Kissinger wrote that, "The public life of every political figure is a continual struggle to rescue an element of choice from the pressure of circumstance."<sup>107</sup> In the spring of 1989, the Bush Administration faced the policy dilemma of the promotion of cooperative relations with its trading partners versus placating Congressional demands. The perception in Japan was that the Bush Administration was abandoning free trade in favor of protectionism while in the United States members of Congress were criticizing the President for failing to fully implement the provisions of the Trade Act of 1988. In light of these competing domestic and international pressures, the Bush Administration struggled to carve out and preserve sufficient latitude in the implementation of Super 301 to maintain executive leadership on trade. The Administration employed an ingenious strategy of diluting the implementation of the unilateral policy tool while maintaining *de jure* compliance with Super 301 provisions. This dilution preserved the integrity of the Bush Administration's policy while simultaneously placating Congressional moderates and assuaging the worst fears of the Japanese government. By the spring of 1990, as the Administration's room for maneuver had expanded, the President decided to abandon the use of Super 301 altogether. In truth, The Bush Administration never adopted the unilateral approach embodied in the Super 301 provision as the linchpin of its trade policy with Japan. Rather, the Administration

was able to relegate Super 301 to a tertiary priority, to ensure the success of critical bilateral and multilateral elements of its broader trade strategy. This approach to the use of Super 301 allowed the Administration to maintain a greater consistency in its overall trade strategy.

The Super 301 provision required that the USTR publish in April, 1989 *The National Trade Estimate Report on Foreign Trade Barriers*, the premier document from which foreign trade barriers were identified. By the end of May, following an interagency review process that included the solicitation of advice from the private sector, the Congress and in consultation with U.S. trading partners, the USTR had to utilize the list to identify "priority practices" that were inhibiting U.S. exports.<sup>108</sup> Then, contingent upon "the number and pervasiveness of significant barriers to U.S. exports," the USTR had to identify "priority countries."<sup>109</sup> By June 20, the USTR was required to self-initiate separate 301 investigations on all of the "priority practices" of "priority countries."<sup>110</sup> Once an investigation into the "priority practices" of "priority countries" was launched the USTR had a period of 12 to 18 months in which to negotiate the removal of those barriers. In the event of an unsuccessful negotiation, unilateral retaliatory sanctions were mandated.

As the passage of the Trade Act of 1988 was the product of broad compromise between the two Houses, Congress maintained an institutional interest in ensuring that its provisions, particularly the Super 301 provision, were stringently enforced. Congress viewed the Super 301 provision as an essential tool that provided the executive with critical leverage in opening foreign markets. Yet, according to Destler, "There were two important things the bill did not do : it did not impose statutory protectionism, and it did not impose direct congressional control over trade. Rather, it passed the policy ball back to the statutorily enhanced USTR's agenda, stiffening its spine."<sup>111</sup> Through its supervisory role of

the strengthened USTR, the Congress clearly intended a prominent, if indirect, role in shaping the trade policies of the fledgling Administration. While bipartisan consensus regarding the passage of the 1988 Trade Act was eventually to defuse much of the tension that had been building between the executive and legislative branches over trade policy, in 1989 the Bush Administration's policy was still subject to a remarkable degree of Congressional scrutiny. The Bush Administration was thus under considerable pressure to accommodate the Democratic controlled Congress by designating Japan as a country which maintained "unfair" trading practices in accordance with Super 301.

The implementation of the Super 301 provision was thus a central focus of political attention in regard to trade policy with Japan in 1989. Defying the Congressional consensus risked provoking a Congressional backlash that threatened to produce further encroachment of executive authority on trade. Yet, despite Congressional pressure, reflecting the importance administration officials attached to cooperative bilateral relations with Japan, the Administration was initially divided concerning the decision to specifically designate Japan as a "priority country" for Super 301 retaliatory action. In April, in accordance with Super 301, the USTR released *the 1989 National Trade Estimate Report on Foreign Trade Barriers* from which U.S. trade liberalization priorities were selected. The USTR later explained that in identifying "priority practices" it utilized the following criteria :

- The potential to increase U.S. exports if these practices are eliminated ;
- The precedential effect of seeking their elimination
- The likelihood that 301 investigations would advance U.S. efforts to eliminate these practices
- The compatibility with U.S. objectives in the Uruguay Round ; and
- The number and pervasiveness of significant barriers to U.S. exports.<sup>112</sup>



As the designation of certain "priority countries" also depended on the extent and number of trade restrictions, the fact that Japan was cited for 31 barriers by the USTR suggested that it would undoubtedly appear on the list.<sup>113</sup> In fact, when USTR Carla Hills gave testimony before the Senate Finance Committee in May, she was repeatedly warned that failure to include Japan would violate the intention of the Trade Act. Senator John Danforth (R.-MO), one of the co-sponsors of Super 301, acknowledged, "But while we did not have just Japan in mind, we had no less than Japan in mind."<sup>114</sup> Reflecting the view of most of the panel, Senator Riegle (D.-Michigan) commented, "If Japan is not on the list, it seems to me, the Trade Bill has sort of been dropped in the ash can, and I don't think we can afford to let that happen."<sup>115</sup> Senator Bentsen and House Democrats were particularly virulent in applying pressure on the USTR to ensure that Japan would be mentioned. In fact, every industry expert that testified before the Senate Finance Committee concluded that Japan should be designated.<sup>116</sup>

As the May 30 deadline for the initiation of investigations approached, the USTR Office narrowed the list of candidates for retaliation against Japan to rice, supercomputers, satellites, soda ash, wood products, automotive parts, semiconductors, and the distribution system. Again, the Administration was divided on whether to adopt a soft or hard-line approach toward Japan.

Concerned about the negative impact that a possible trade war might have on U.S. national security and fearing greater difficulty financing the budget deficit, a group within the Cabinet wished to avoid accusations of reflexive "Japan-bashing." Thus, National Security Advisor Brent Scowcroft, Secretary of State James Baker, Defense Secretary Richard Cheney, OMB Director Richard Darman, and Michael Boskin, chairman of the President's Council of Economic Advisors, opposed specifically naming Japan.<sup>117</sup> Citing the likelihood of a backlash in Congress, Commerce Secretary Robert Mosbacher, Agriculture Secretary Clayton

Yeutter, and USTR Carla Hills advocated targeting Japan for intense negotiations backed by the threat of punitive sanctions under Super 301.<sup>118</sup>

After three high level cabinet meetings of the Economic Policy Council, the President, attending the final meeting, essentially adopted the latter position. Thus, on May 27, USTR Hills charged Japan with three specific barriers: its restrictions on government purchases of satellites and supercomputers, "which bar foreign suppliers" and its "technical barriers" to sales of products, "which impose unnecessary obstacles to imports."<sup>119</sup>

Reflecting the need to placate the Congress without unnecessarily damaging relations with Japan, the USTR took steps to assuage the concerns of both sides. On the one hand, according to Hills, the unfair practices cited did not constitute a comprehensive list of all major trade barriers but "they are among the most important."<sup>120</sup> At the same time, although Japan was specifically designated, along with India and Brazil, this was downplayed intentionally in the White House press release.

Moreover, despite considerable Congressional pressure, the Bush Administration was reluctant to include systemic trade barriers in the list of Super 301 priority trade practices. Rather, in deciding to designate satellites, supercomputers, and forest products under Super 301, the USTR sensibly chose issues in sectors which, through changes in government procurement and technical regulations, the Japanese government could most easily resolve. The USTR ruled out negotiating changes in Japan's vast distribution system or such politically sensitive sectors as Japan's rice market under the threat of retaliatory sanctions. For, not only were such areas inherently more difficult to negotiate, the USTR anticipated that Japan would be unlikely to be cooperative under such conditions. Thus, for example, during a press briefing Hills explained that the Administration would pursue the rice issue with Japan in a multilateral context as "an important

objective in the Uruguay Round agricultural negotiations.”<sup>121</sup> Moreover, in agreeing to bow to Congressional demands in specifically designating Japan, the Administration carefully forged a compromise with Congressional leaders in order to begin a new round of bilateral negotiations, the Structural Impediments Initiative, aimed at eliminating Japan’s systemic barriers. Essentially, the Bush strategy, aside from Super 301 investigations, was to focus on Japan’s “structural impediments” which were said to act as invisible market barriers to trade. This “Structural Impediments Initiative” (SII) was believed to have the potential to act as a catalyst for a discussion on a broad range of systemic trade barriers, and was thought to have the greatest impact on improving access to Japanese markets.

Despite the Administration’s attempts to cushion the impact of designation under Super 301, the Japanese reaction to the Super 301 initiative was severe. Japanese officials responded angrily at the U.S. decision even though they were forewarned of Japan’s imminent inclusion on the list of priority countries. Foreign Minister Uno denied that the cited practices constituted trade barriers, and indicated that Japan reserved the right to initiate a GATT investigation. At a press conference in Tokyo, Prime Minister Uno stated,

The Japanese market has now become a widely open market. None of the identified ‘Priority Practices’ can be considered to constitute barriers. I strongly regret the lack of fairness because the U.S. has unilaterally made such a decision on the trade practices of other countries including Japan, despite the fact that the U.S. itself maintains import restrictive practices to a considerable degree.<sup>122</sup>

Japanese officials also voiced concern about the long-term implications of a drawn out Super 301 process under the threat of retaliation. Former Vice Minister of MITI Makoto Kuroda lamented, “The U.S. decision throws cold water on the steady mood of cooperation between the nations trade authorities.”<sup>123</sup> The Japanese

Ambassador, Nobuo Matsunaga, predicted a "domestic backlash in Japan, which will make the resolution of the various (economic) problems even more difficult."<sup>124</sup> Vice Minister of Finance Toyoo Gyohten warned that the potential branding of Japan as an unfair trader could significantly impair efforts toward bilateral economic coordination.<sup>125</sup> Still others were offended that, despite Japan's efforts to dramatically open its market, the U.S. appeared to be diverting attention away from the U.S. budget and trade deficits and inadequate macro-economic policies such as its tax structure, investment priorities and excessive consumer spending rate.

The USTR's decision to brand Japan as an "unfair trader" came at a particularly difficult juncture in the life of the LDP, Japan's perpetual ruling party. The revelation that pre-flotation shares of stocks from the Recruit Cosmos Corporation had been quietly contributed to the staff of influential LDP members once again tainted the party with charges of corruption, influence peddling, and money politics. As the scandal unfolded in the spring of 1989 prominent LDP members, such as former Finance Minister Miyazawa, and former Prime Minister Nakasone, were practically forced to resign to take responsibility.

In spite of the fact that Prime Minister Takeshita was also implicated in the scandal, he vowed to remain in office to lead the fight for political reform. To make matters worse, the LDP had fought for and succeeded in enacting an extremely unpopular consumption tax that was railroaded through the Diet with the protesting opposition parties noticeable absent. The combination of the tax and the scandal reduced the popularity of the Takeshita cabinet to a record low favorability rating of 8 percent in early May. Earlier trade concessions by the Takeshita Administration on beef and citrus imports from the U.S. also hurt LDP popularity in the countryside.

Takeshita's decision to step down in May only intensified the confusion

within the LDP as a desperate search for a successor failed to produce a suitable and willing candidate. Surprisingly, Takeshita was required to enter into the fray to help choose his own replacement. Although Foreign Minister Sosuke Uno was not the leader of any faction and therefore lacked a significant domestic power base within the LDP, he took the reigns of power of the crumbling LDP on May 30, three days after the U.S. designated Japan as an unfair trader under Super 301.

Prime Minister Uno's lack of clout, and his fear of alienating any significant domestic interests, severely restricted his ability to make major trade concessions. Moreover, the dwindling support for the LDP included two of the pillars of its support base—farmers and small retailers. Ironically, American pressure on Japan to reduce its rice subsidies succeeded in blocking the LDP's annual increases in 1989 and in alienating farmers from the party. American calls for the revamping of the Japanese distribution system encouraged LDP members to support the removal of laws that blocked the establishment of large retailers. These measures alienated small shop-owners that were already infuriated by the difficulties in implementing the new tax.

The revelation that Prime Minister Uno had engaged in "Geisha asobi" (Geisha play) with at least two women further discredited the LDP, particularly among women voters. In one election after another (the Tokyo Metropolitan Assembly election), a bye election to a Niigata Prefecture House of Councillor's seat, and the July 23, 1989 House of Councillor national election the LDP suffered overwhelming losses at the polls, receiving lower support than the opposition Japan Socialist Party. In the House of Councillor national election, the LDP retained only 36 seats of a total of 69 seats, relinquishing its long-standing majority in the Upper House.

In short, the U.S. decision to target Japan for retaliatory sanctions at the height of Japan's domestic crisis was not only insensitive but gave the impression

that the Bush Administration was taking advantage of Japan's domestic situation. Since the Japanese government does not necessarily distinguish readily between what constitutes unreasonable foreign interference and what is an internal domestic issue, the leadership vacuum in the LDP had limited its ability to work toward compromises. Fortunately, despite the harshness with which the Japanese government rebuked U.S. unilateralism, the crisis in the Japanese government probably diluted the severity of their response.<sup>126</sup>

In addition to Japan, a broad chorus of voices from the advanced industrialized nations condemned the Administration's first use of this policy tool. Although the maintenance of a free trade environment was conducive to America's long-term interests, Super 301 of the Trade Act of 1988 stipulated that the USTR must identify, investigate and retaliate against foreign governments that carry out "unfair" trading practices. Thus, the Administration found it increasingly difficult to encourage foreign governments to follow the principles of free trade when the U.S. policy itself was far from exemplary. For, a policy, like Super 301, which arbitrarily established the United States as both judge and jury in the determination of fairness was not warmly received by trading partners.<sup>127</sup> In fact, Congressional testimony that clearly indicated the intention of law-makers to specifically designate Japan even prior to investigations by the Administration suggests that the actual criteria, which were used, were at least partly political. For example, Senator Max Baucus, (D-Mont.) testified that, "Japan maintains more non-trade barriers than any other developed nation."<sup>128</sup> But, according to the calculations of the World Bank, between 1981-1986 Japan's non-trade barriers decreased slightly while EC and U.S. barriers rose by 20 and 25 percent, respectively.<sup>129</sup>

The timing of the USTR's announcement, naming India, Brazil, and Japan as "Priority Foreign Countries" was particularly damaging to the credibility of the

seriousness of the charges. It came at the same time that an annual EC report citing the United States for a variety of trading practices inconsistent with GATT provisions was released, thereby underscoring the hypocrisy of the U.S.'s branding foreign governments for "unfair trading." In fact, the same month, an investigation into U.S. quotas placed on foreign imports of sugar found such quotas to be inconsistent with GATT provisions. In addition, the Foreign Ministers of both Brazil and India resolutely condemned the one-sided nature of the American action. And European government leaders and EC officials were completely disenchanted with the unilateral trade assault. In short, international indignation over the use of Super 301 process was more severe than even Bush administration officials had expected.

In spite of the strong Japanese and international reaction to U.S. unilateralism, having bowed to Congressional pressure, the Administration needed to demonstrate progress in the three sectors of supercomputers, satellites and wood products. Given Japan's understandable resistance to U.S. unilateralism, Japanese government officials initially refused to negotiate under the threat of unilateral sanctions. They maintained that any negotiations would have to occur outside of that process and that Japan was not subject to U.S. trade laws. But, given the political reality in Washington, Japan agreed to work to negotiate over its alleged trade barriers even though the Administration maintained that these negotiations were part of the Super 301 process. Having initially chosen softer targets in which the Japanese government's role was prominent, the USTR's office, facing a statutory deadline of May 1990 to eliminate Japan's trade barriers, took a tough position in each of these sectoral issues. In each case, the goal of the Administration was to improve market access to Japan.

In the case of supercomputers, The USTR had initially charged that, "The Government of Japan has engaged in a variety of exclusionary practices that have

the effect of thwarting the open procurement process, in order to ensure purchase of supercomputers by indigenous producers.”<sup>130</sup> But, the Administration designated Japan knowing that the Japanese government had already begun to take steps to expand its imports and to review its discounting practices.<sup>131</sup> The supercomputer issue had initially been raised in 1987 when U.S. negotiators noted that “excessive” academic discounts by Japanese supercomputer makers had blocked U.S. companies from the public sector computer market.<sup>132</sup> According to the procurement agreement reached in August 1987, the Japanese government had agreed to transparent and nondiscriminatory procurement process but by 1989 no purchases from foreign companies had taken place.<sup>133</sup> The USTR explained that U.S. suppliers were excluded from serious consideration because of “nonperformance specifications favoring incumbent Japanese suppliers” and “extraordinarily low Japanese government supercomputer budgets that effectively require massive discounts of up to 80 percent off list price.”<sup>134</sup> In preliminary negotiations in October and November of 1989, Japanese negotiators acknowledged that the Japanese computer budget was too small, but were reluctant to concede that Japan had violated the 1987 procurement agreement. In March of 1990, with the deadline nearing, Japanese negotiators from MITI agreed to eliminate academic discounts and the other nonperformance specifications as part of their prebidding requirements.<sup>135</sup> As a result, between April 1990 and the end of 1992, the Japanese government had procured 3 supercomputers from the United States out of 11 that were purchased in that period.<sup>136</sup>

In the case of satellites, the issue was decidedly more contentious. The USTR maintained that Japan's public sector procurement policies were limiting foreign sales by unfairly subsidizing domestic producers. As part of its “Long Range Vision for Space Development” the Japanese government had maintained a policy since 1983 of promoting the development of its own satellite and launch



service industry.<sup>137</sup> The Ministry of Post and Telecommunications (MPT) applied restrictions on foreign suppliers by interpreting this law to include both NTT and NHK, quasi-governmental agencies. The Ministry had in effect restricted U.S. access to the private satellite sector, not allowing foreign firms to bid on CS-4, a new communications satellite system. The USTR rejected the view that these should be classified as “research” satellites because of the fact that all the capacity would be leased to NTT.<sup>138</sup> Accordingly, in announcing its decision to designate Japan, the USTR explained,

As part of a “long range vision on space development” Japan prohibits the procurement of foreign satellites by government entities if such a purchase interferes with “indigenous development objectives.”<sup>139</sup>

With the MPT rigidly holding to an “infant industry” defense, the negotiations between the U.S. and Japanese negotiators that took place in January, February and March, 1990 yielded very little movement. On March 16, Kaifu intervened and pressed the MPT to adopt a more flexible position in the negotiations. On April 3, following a week of negotiations between Deputy USTR Linn Williams and Sadayuki Hayashi, the Director General of Foreign Ministry’s Economic Affairs Bureau, the two sides reached a tentative accord that laid new procedures for governmental entities. Given the initial distance in the positions of the two sides, the Administration had thus resolved the most difficult of the Super 301 sectoral disputes. In Congressional testimony, USTR Hills expressed satisfaction that the Japanese government had agreed to “an open and competitive procurement process.”<sup>140</sup>

In the case of forest products, the USTR had cited Japan for “technical barriers” that were dampening U.S. sales. The forest products sector had been the

subject of negotiation during the MOSS talks but a number of important issues was left unresolved. Powerful Congressional leaders of lumber states such as Senators Max Baucus (D.) of Montana and Bob Packwood (R.) of Oregon applied heightened pressure on the USTR to target Japan under Super 301.<sup>141</sup> While U.S. exports had increased to Japan following the 1987 agreement, roughly 88 percent of U.S. exports to Japan remained non-value added exports such as unprocessed logs and wood chips.<sup>142</sup> The USTR attributed the volume of value-added exports to a number of technical barriers in Japan such as restrictive standards, overly burdensome testing and certifications requirements, building codes etc....that collectively restricted sales.<sup>143</sup> The Japanese side defended these regulations, citing health and safety concerns. After negotiators met in September 1989 and identified the issues for negotiation, they laid out their basic positions in November during preliminary talks and agreed to hold technical discussions in December. Because of political developments in Japan, the USTR's office made virtually no progress in January and February of 1990.

In March, Senator Baucus wrote a letter to USTR Hills indicating his intention to introduce retaliatory legislation aimed at Japan. Hills had written to Senator Baucus to "respectfully request that you refrain from pursuing legislation," after noting that "negotiations on this matter are going into their final stage."<sup>144</sup> With assurances from Hills that U.S. negotiators would give wood products great emphasis in ongoing negotiations, Baucus was persuaded to hold off on offering his measure. In mid-March, U.S. and Japanese negotiators began to make forward progress in eliminating unnecessary restrictions. The USTR therefore decided to extend its April deadline to mid-June to allow negotiations to continue. Following negotiations in Tokyo in mid-April, the two sides agreed to measures that helped improve U.S. access to Japan's value-added forest products market. On April 25, in Congressional testimony, Hills made the surprise announcement that, "We have

achieved an agreement in the forest products area.”<sup>145</sup> With the agreement on forest products, the USTR’s office, in cooperation with the Japanese government, had successfully resolved each of the three sectoral issues. The timing of Hills announcement, occurring on the eve of the decision by the Administration whether to utilize Super 301 in 1990, had an important impact on further diffusing protectionist pressure within the Congress.

### *The Disuse of Super 301 in 1990*

In the spring of 1990, the Administration again faced the decision regarding the use of Super 301. The statutory deadline for designating “priority countries” under the 1989 Trade Act was April 30.<sup>146</sup> As the deadline neared, the U.S. press began to report that administration officials were again divided over whether to designate Japan for a second time.<sup>147</sup> But, contrary to these reports, it does not appear that the President was involved in a vexing policy dilemma among deeply divided Cabinet members. For, perhaps unknown to these officials, Bush appeared to have weighed in on the issue in some less formal manner within his inner circle at an earlier date, perhaps even before mid-April. Thus, the decision to designate Japan under Super 301 in 1990 was much less divisive among senior administration officials than had been the case in 1989.

In early April, negotiators in the Structural Impediments Initiative had hammered out an agreement that ensured ongoing progress in the bilateral talks. Bush and other administration officials had praised Kaifu effusively for his pivotal role in bringing about a breakthrough in those talks. Bush aides were reporting that the President desired to reward the Prime Minister for his indispensable contribution in resolving the Super 301 cases and in ensuring forward momentum in the SII talks. In reality, designating Japan under Super 301 a second time

threatened to weaken Kaifu politically, in turn, undermining the Prime Minister's ability to implement the pledges made in the SII Interim Report and to achieve further market opening.

The Administration probably also wanted to portray the decision as a difficult one for domestic political purposes. The President was under both statutory obligation and political pressure from within the Congress to designate Japan a second time. In light of the political realities, the Administration could not afford to appear callous in its disregard for the authority of legislative branch. A presidential announcement regarding the Super 301 decision prior to USTR Hills scheduled testimony before the Senate Finance Committee on April 25 would have proven politically embarrassing to the Administration. By delaying the announcement of the decision, the Administration also gained useful leverage in ongoing sectoral negotiations with Japan on wood products. In mid-April, U.S. negotiators in Tokyo reported, "significant progress, chances are good and accord will be reached" but the final outcome on those negotiations was still uncertain.<sup>148</sup> Despite progress, the administration officials reported that a decision to cite Japan under Super 301 would not be made until just before the statutory deadline of April 30. For these reasons, the Administration appeared to have put off the announcement of its final decision even though the *de facto* decision probably was made much earlier.

Perhaps, an informal decision was made even earlier than the first cabinet level discussion regarding the Super 301 decision of 1990 that took place on April 12.<sup>149</sup> For, in remarks to his Cabinet before reporters, Bush stated, "Lest any of you feel like you can totally relax, there are some outstanding issues-and I am thinking Carla [Hills] of the need to conclude the forest product...We have got to finish this agenda."<sup>150</sup> Prior to the announcement of a breakthrough on forest products, Bush's unusually clear public statement in regard to a specific trade

issue with Japan suggests that he was aware that a breakthrough by the USTR's office was at least imminent. Having achieved progress in the SII talks and on the other sectoral issues, the USTR probably concluded that, with a breakthrough in forest products, designating Japan a second time would have been counterproductive. USTR Hills' position on designating Japan was characterized in the press as "ambivalent" but this reflected Hills' desire not to disrupt progress in the ongoing forest products negotiations and not to inflame the opposition in the Congress prior to her Senate testimony. Because of Hill's position and the desire to avoid the appearance of circumventing the EPC structure, Bush refrained from announcing any formal decision on designating Japan under Super 301.

In truth, USTR Hills had been quietly siding with the free-traders in the administration. In revealing testimony before the Senate Finance Committee on April 25, Hills defended the Administration's policies, praised the Japanese government and Kaifu for his efforts in moving the negotiations forward and argued for her prerogatives in selecting policy tools. By this time, press reports indicated that Baker, Brady, Boskin and Darman were all clearly supporting Hills' position.<sup>151</sup> In the opening of her testimony, Hills announced the breakthrough on forest products in an effort to defuse Congressional pressure on the Administration to designate Japan. For example, Senator Max Baucus (D.-Mont.), Chairman of the International Trade Committee, who faced reelection in 1990, expressed satisfaction that the lumber interests in his state had welcomed the agreement with Japan. The deal also strengthened Hill's credibility among members who could point to so many instances in which the USTR's approach had achieved real market opening with Japan.

In private discussions with Congressmen and during her testimony, Hills suggested that the Administration was leaning against designating Japan a second time. The USTR indicated a number of strong reservations about the use of Super

301. As the Administration's primary objective was to achieve agreement in the Uruguay Round of the GATT talks by the end of 1990, Hills was concerned that utilizing unilateral policy tools such as Super 301 would impede progress. She noted the poor reception in 1989 of the use of Super 301. Interestingly, in reference to the EC, Hills stated,

Our international partners were quite offended. Those not named may have expressed more offense in fact than those who were named. But the device of naming parties for activities did cause some offense, and I do recall at the OECD meeting in May of last year that the participants were distracted by dealing with the 301 issue rather than dealing with our multilateral objectives.<sup>152</sup>

With another OECD meeting scheduled for May of 1990, Hills appeared concerned that a Super 301 designation would weaken her case for liberalization in talks with officials from the EC. In this context, Hills envisioned a very limited role for Super 301. She stated, "I would like...this administration to very surgically use the tool of Super 301 in a manner that is so careful and balanced that it does not cause distraction or, in fact become a permanent impediment to our achieving our multilateral goals."<sup>153</sup> In effect, she was requesting that the Congress permit her office to abandon the use of Super 301 in order to ensure the success of larger multilateral objectives.

A number of Congressmen strongly resisted this proposal to further de-emphasize unilateral policy tools. For example, Senator Baucus (D.-Montana) asked, "The present process has been working. Why change now? Why change courses in the middle of the stream? It doesn't make sense."<sup>154</sup> Similarly, reflecting the mood of those dissatisfied with the slow pace of Japan's market opening, Senator Heinz (R.-Pennsylvania) expressed concern that the Administration was sending to Japan, "an inaccurate and very dangerous message."<sup>155</sup> In response,

Hills replied, "I must be given a small amount of discretion to be able to tell members of this committee where I think the tools ought not to be used and where they should be used."<sup>156</sup> Reflecting the Administration's emphasis on realism in its trade policy, Hills further argued that even if Japan were designated it would be unlikely to achieve satisfactory results.<sup>157</sup>

As Hills testimony revealed, by the spring of 1990, the USTR had abandoned its earlier qualified endorsement of the Super 301 process and became an unmistakable advocate in favor of disuse of Super 301. The EPC met on the morning of April 26 to make the final decision with regard to designating Japan under Super 301. In the case of Japan, the final list of "priority practices" included soda ash, semiconductors and auto parts. Reflecting the fact that the latter two sectors were within the jurisdiction of the Commerce Department, Commerce Secretary Mosbacher, together with Labor Secretary Elizabeth Dole, argued that the Administration should again target Japan.<sup>158</sup> But, the other 8 officials including Hills, Baker, Brady, Boskin and Darman all favored shelving the unilateral policy tool with regard to Japan. Given concerns about the ongoing GATT negotiations, improvement in the bilateral trade deficit in the first half of 1990, and significant progress in achieving market opening, these officials believed that protectionist sentiment in the Congress was weakening. This was predicated on optimistic assessments by economic officials that U.S. economic growth would brighten in the coming months.

Against this backdrop, Bush favored the elimination of the use of Super 301 altogether. For, by eliminating undesirable statutory restrictions, Bush would be able to expand his prerogatives and enhance his ability to more consistently promote the expansion of global trade. But, as the division within the Administration had waned over the use of Super 301, Bush was not officially called upon to cast a deciding vote on the issue and did not attend the final EPC

meeting. In a Presidential Statement released on April 27, Bush affirmed that, "Promoting a vibrant, open trading relationship with Japan remains a key trade priority of the Administration."<sup>159</sup> But, Bush's personal involvement on this issue in the week prior to the decision appeared to have been rather minimal.

Roger Porter, Special Assistant and Economic Advisor to the President, wrote the draft of the Presidential Statement. The draft itself contained only the following date related information, "April--, 1990." But, White House records revealed that this draft along with an attached confidential memo were written by Porter and sent to Chief of Staff John Sununu on April 20, confirming that the draft was written on or before that date. The existence of such a draft at least a full week before the release of the Presidential Statement further suggests that the Super 301 decision was less controversial within the Administration than has been supposed. The Porter draft of the "Statement" of the President read,

After extensive discussions with Ambassador Hills, Secretary Brady, and the members of my Economic Policy Council, I have decided not to identify any priority unfair trading countries under the Super 301 provision of the Omnibus Trade and Competitiveness Act of 1988.

Instead, I have directed Ambassador Hills to give her highest priority to bringing the Uruguay Round of multilateral trade negotiations to a timely and successful conclusion in December of this year. I believe that multilateral negotiations in GATT are the most promising route for creating new opportunities for American industry and agriculture and strengthening the global trading system.<sup>160</sup>

The actual Statement by the President issued April 27 read,

After extensive discussions with Ambassador Hills, Secretary Brady, and the members of my Economic Policy Council, I have decided not to identify any priority unfair trading countries under the Super 301 provision of the Omnibus Trade and Competitiveness Act of 1988. I have



directed Ambassador Hills to give her highest priority to bringing the Uruguay Round of multilateral trade negotiations to a timely and successful conclusion in December of this year.<sup>161</sup>

In comparing the Porter draft to the final Presidential Statement, it can be recognized as essentially the same draft in a slightly abridged form.<sup>162</sup> Moreover, the use of the word “instead” in the Porter draft suggests that the decision to refrain from using Super 301 was weighed against the desire to succeed in ongoing multilateral negotiations. In the actual Presidential Statement, the juxtaposition of these contending elements of the Administration’s strategy has been effectively sanitized.

Moreover, both versions pointed to “extensive discussions” that probably never occurred. For example, in the weeks prior to the decision within the EPC there is no evidence of any meetings with or phone calls to or from USTR Hills to Bush. Nor did the President attend the final meeting of the EPC. Rather, the official decision on Super 301 was made on April 26, when Bush signed a decision memo from the EPC.<sup>163</sup> Interestingly, attached to the decision memo was a classified memo from Treasury Secretary Brady entitled, “Super 301 decision,” that may have summarized the results of that meeting.<sup>164</sup>

One aspect of the Super 301 decision in which the President appeared to have played an active role was in promoting Congressional support for its decision. This was part of the Administration’s political strategy coordinated by Deputy Chief of Staff Andrew Cicconi with oversight from Chief of Staff Sununu.<sup>165</sup> On April 27, following the release by Press Secretary Fitzwater of the Presidential Statement, USTR Hills explained the decision at a press conference. Bush worked behind the scenes to ensure key Congressional support for the Administration’s decision. In phone calls to Senators Bentsen and Danforth, Bush reportedly indicated that he felt naming Japan as a priority country under Super

301 would only jeopardize future progress in opening the Japanese market.<sup>166</sup> He also reportedly stressed that Prime Minister Kaifu and the Japanese leadership had been pushed hard and were dealing seriously with Japan's trade barriers.<sup>167</sup>

USTR Hills had also been careful to assuage concerns of many key Congressional leaders as part of a strategy intended to win over trade moderates. In a conciliatory gesture, the Administration chose to single out India as a target for retaliatory action for a second year, allowing leaders to point to the fact that the Super 301 provision was still being used when necessary. Given the breakthroughs on the sectoral issues, press reports indicated that Senator Bentsen and others on the Finance Committee were satisfied with the way Hills had enforced the provisions of the 1988 Trade Act.<sup>168</sup> For example, following the Administration's announcement that it would not target Japan, Bentsen limited his comments to expressing satisfaction that India had remained on the list.<sup>169</sup> This also reflected the fact that Senator Bentsen had a good working relationship with Carla Hills. In fact, in June, Bentsen wrote a letter to the President requesting that Hills be allowed to participate in the Houston Summit.<sup>170</sup> Hills efforts at establishing rapport with Congressional leaders, and the higher visibility of her office more generally had helped solidify Congressional support. Having achieved a breakthrough on the forest products issue in tandem with the other sectoral issues and the progress in the SII negotiations, Hills had even succeeded in mollifying key Finance Committee members such as Senators Baucus and Packwood. For example, Senator Max Baucus wrote, "I am pleased to say that international trade policy has been conducted on a generally bi-partisan basis by the Bush Administration."<sup>171</sup> Nevertheless, Congressional opposition particularly in the House to the Administration's decision remained. For example, following the Presidential Statement, 70 House members led by House Majority leader Richard Gephardt protested, demanding that the USTR reverse its decision.<sup>172</sup> But, in

emphasizing the need to shift away from confrontation with Japan and toward conciliation, the USTR had garnered a "critical mass" of support within the Congress.

### *Conclusion*

In short, as the above discussion suggests, the larger focus of the Administration's trade policy (1989-1990) was on bilateral initiatives and multilateral initiatives designed to promote the expansion of global trade. (The Bush Administration's handling of the SII and GATT negotiations will be discussed in detail in a subsequent article.) Given the support within the Congress for a unilateral approach to trade with Japan in 1989, the Administration initially adopted a conciliatory posture with the Congress and abided by the statutory restrictions, naming Japan as a "priority country." At the same time, reflecting its broader objectives, the Administration took a number of steps that diluted the importance of the unilateral policy tool in its approach toward Japan. It was noted that the Administration downplayed the designation in its press release, chose less controversial and highly negotiable sectoral targets, and introduced the SII talks, in order to supersede the unilateral approach. The strong Japanese and international reaction to U.S. unilateralism and the USTR's practical difficulties in negotiating trade agreements under Super 301 further confirmed its limited utility. By 1990, with a number of favorable shifts, the resolution of the sectoral disputes under Super 301, and the effectiveness of its dilution strategy in coopting Congressional moderates, the Administration encountered weakened political resistance toward abandoning the unilateral approach. While still controversial, Bush sought to expand his prerogatives on trade by exercising decisive leadership in eliminating Super 301 in order to more effectively pursue a complementary approach to trade with Japan. In retrospect, it is clear that President Bush's trade policy toward

Japan was less unilateral and more free-trade leaning than was understood by most Japanese at the time.

## Notes

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