

**U.S. POLICY RESPONSE TOWARDS  
JAPANESE CHALLENGES IN TRADE :  
AN APPRAISAL OF THE REAGAN  
YEARS (1981-88)**

*Dissertation submitted to the Jawaharlal Nehru University  
in partial fulfilment of the requirements  
for the award of the Degree of*

**MASTER OF PHILOSOPHY**

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**INDIA**

**1995**



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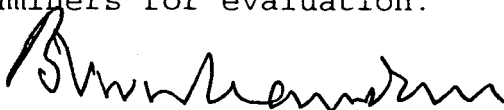
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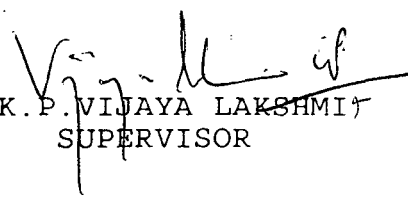
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Certified that the dissertation entitled "U.S. POLICY RESPONSE TOWARDS JAPANESE CHALLENGES IN TRADE: AN APPRAISAL OF THE REAGAN YEARS (1981-88)" by Ms. Parama Sen in partial fulfilment for the award of the Degree of Master of Philosophy has not been previously submitted for any other degree of this or any other University. To the best of our knowledge this is a bonafide work.

We recommend that this dissertation be placed before the examiners for evaluation.

  
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## PREFACE

Japan's status as America's biggest economic competitor was to a large extent America's own creation. The American technology transfers gave Japan the boost into consumer electronics and the American defence umbrella for over forty years allowed Japan to concentrate its resources into developing its economy. These factors, coupled with a great deal of industriousness and ingenuity on the part of the Japanese resulted in its stupendous economic transformation, making it the world's largest exporter of capital as well as the largest creditor nation.

Japan's economic success was largely acceptable to the US until the early 1980s, when the US economic decline in several key industries along with the trade deficits with Japan soared to a high level. Thus, starting from the seventies, Japanese exports had started surpassing its imports, and thereafter the balance remained continuously in Japan's favour. Almost inevitably, trade frictions began to characterise US-Japan relations starting with a focus on textiles and steel and moving on to electronics and automobiles.

From being the beneficent patron, the US now found itself becoming defensive about its own performance in

trade and industry. Much of the anger was targeted against Japan. American manifestations of concern thus began to specifically aim at Japan. The domestic constraints of facing an adverse balance of trade in an era of declining economic growth, governed the Reagan administration's policy responses towards Japan's trade advantages vis-a-vis the US. Thus, by 1980s, many Americans believed that Japan as a surplus country had a responsibility to open its markets to US imports which it had failed to do. The resultant US response to all these fears was the imposition of retaliatory measures such as the Trade Acts of 1984 and the "Super 301" provision of the Trade and Competitiveness Act of 1988.

The study proposes to examine the causes and factors that brought about the changed perceptions in the US policy responses towards Japanese trade challenges in the 1980s.

The first chapter deals with the history and origin of the conflict. An attempt has been made to trace the trade relations between US and Japan from the post World War II period till the late 1960s.

In the second chapter, an effort has been made to study the dynamics of the policy making processes involving the Presidency, the US Congress, the United States Trade

Representative and an attempt has also been made to trace the source of conflict by studying the tension areas or the several trade disputes between the US and Japan from early seventies and throughout the Reagan administration.

The third chapter deals with the impact of labour, business groups media and public opinion on US trade policy making processes vis-a-vis Japan in the 1980s.

The subsequent chapter deals with the negotiations and settlements reached in the different cases of trade disputes, the obstacles faced therein and the lessons learnt. In the concluding chapter, an overall assessment of President Reagan's trade policies vis-a-vis Japan has been attempted.

### **ACKNOWLEDGEMENTS**

I wish to sincerely thank my supervisor, Dr.K.P.Vijayalakshmi for guiding and inspiring me through this dissertation. She has constantly provided me with the impetus and momentum to work perfectly and improve on all handicaps. Her comments and suggestions have gone on to give this dissertation its present shape.

The immense love and encouragement provided by my Parents and my grandmother enabled me to carry myself in good spirits through this dissertation.

I have been touched by the love and concern shown specially by Manila and my other remarkable friends.

I am thankful to the staff of the JNU library, the American Centre Library and the Institute of Defense Studies, and Analysis, specially Mr.Arvind Kumar and Mr. T.M.Varghese who has typed my dissertation for their kind help and cooperation.

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## CHAPTER I

### INTRODUCTION: OVERVIEW OF US-JAPAN TRADE RELATIONS BETWEEN 1960 AND 1980

After the Pacific War (1941-45) the United States established itself for the first time as the pre-eminent power in the Asia Pacific region. In the 1930s, despite an idealized self-image and public rhetoric, the US failed to act like an Asian-Pacific power. Militarily, economically and diplomatically, it remained passive in the face of Japanese imperialist penetration into Manchuria and China.<sup>1</sup> However, Japan's surprise attack on Pearl Harbour and ensuing Pacific War altered the United States' traditional attitude that Europe was the first priority. These events led to the emergence of the United States as a legitimate, credible, and dominant influence in the Pacific.<sup>2</sup>

#### US-JAPAN RELATIONS - EARLY YEARS

Although the new US involvement in Asia developed more as a reaction to external circumstances than as a consciously adopted policy initiative by the winter of 1944-45 US policy had developed a "fairly clear notion" of postwar policy in Asia. As stated in a US Government document entitled "United

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1 Akira Iriye, "The United States as an Asian-Pacific Power", in Gene T.Hsiao, ed., *Sino-American Detente and Its Policy Implications* (New York: Praeger, 1974), pp.3-21.

2 Dorothy Borg and Shumpei O Kamoto, ed., *Pearl Harbour as History: Japanese-American Relations, 1931-1941* (New York: Columbia University Press, 1973), pp.7-16.



States Initial Post-Surrender Policy for Japan", the fundamental objectives of US policy in Japan were: to insure that Japan will not again become a menace to the United States or to the peace and security of the world; to bring about the eventual establishment of a peaceful and responsible government which will respect the rights of other states and will support the objectives of the United States as reflected in the ideals and principles of the UN Charter.<sup>3</sup>

In promoting Japan's democratization and socio-economic reform, the approach was a "mix of dominance and tutelage", which sometimes adopted and sometimes only suggested various measures. In the political area, democratization strategies embraced universal suffrage and free elections, constitutional revision, bureaucratic reorganization, and local self-government. Socio-economic measures included the breakup of monopolistic industries, land reform, progressive taxation, unionization, textbook and curriculum revision, and religious freedom. The occupation period also undertook a costly relief and economic rehabilitation programme that addressed the wartime economic million repatriates. Between September 1945 and December 1951, US economic aid to Japan amounted to \$2.1 billion.<sup>4</sup> With the onset of the Cold War in 1947, the US

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3 See, for further details, Joshua D.Katz and Jilly C.Friedman-Lichstein, *Japan's New World Role* (Boulder and London: Westview Press, 1985), p.65.

4 Yoshikazu Mryazaki, "Debtor America and Creditor Japan: Will There be a Hegemony Change", in *Japanese Economic Studies* (Tokyo), vol.15, no.3, Spring 1987, p.11.

began the task of converting Japan from a liability to an economic asset for the free world through various economic stabilization policies and through financial aid and loans, which allowed Japan to import needed foodstuffs and raw materials from the United States.

An important part of the US loan programme was directed to the rebuilding of Japan's textile industry. In 1947, the Supreme Commander of the Allied Powers (SCAP) created a \$500 million industrial loan fund and a separate \$100 million revolving cotton credit fund to facilitate cotton purchases. Japanese sources financed the reequipping of the factories.<sup>5</sup> By 1948, the US had abandoned its efforts to strengthen China at Japan's expense, to deliver Japanese industrial facilities to China as reparations, and to slow the postwar reconstruction of Japan's heavy industry like automobiles and steel. In fact, by 1948, US policy was altered in favour of "the restoration of Japan's prewar position as the 'workshop of Asia' and the preservation of her economy as far as possible from socialist encroachments."<sup>6</sup> Japan remained under US's dominant influence through out the seven year occupation. Evidence indicated that deliberate US efforts to assure itself of continuous influence over an independent Japan were well underway.

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5 E.J.Lewe Van Aduard, *Japan: From Surrender to Peace* (The Hague: Martinus Nijhoff, 1953), pp.75-82.

6 Martin Brofenbrenner, "The American Occupation of Japan: Economic Retrospect," in Grant K.Goodman, ed., *The American Occupation of Japan: A Retrospective View* (Kansas: Centre for East Asian Studies, 1968), p.14.

## BILATERAL RELATIONS: I PHASE - 1945-1965

From the late 1940s until the early 1960s, American interests vis-a-vis the Japanese were defined largely by the Cold War and America's policy of containment. The early American goals of the occupation, the reform and democratization of the Japanese economic system, had by 1949 been replaced by policies aimed at simply reconstructing and strengthening Japan's economy. A fully recovered Japan was seen as one of the vital blocks in the newly envisioned American East Asian security system. To this end, American policy makers were prepared to accord Japan special treatment in the American sponsored postwar economic system. Japan was allowed to severely restrict imports in order to improve its balance of payments position and, at the same time to retain the access to American market.

During the 1950s, strenuous efforts were made by the US to encourage Western Europe to accept commercial and financial policies consistent with a liberal international system. No comparable pressure was exerted on Japan at that time, partially because it was recognized that Japan was relatively less developed.<sup>7</sup> Thus, Japan was allowed to be "laggard" in assuming the responsibilities of participation in the economic system, while receiving many of the benefits which accrued to fully responsible participants. At the same time the Japanese

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7 William J. Barnds, *Japan and the United States: Challenges and Opportunities* (New York: NY University Press, 1979), pp.17-22.

government was using the economic controls inherited from the Pacific war and the subsequent American occupation to screen out all but essential, non competitive imports and virtually all foreign investment; Japanese businessmen were allowed free access to the enormous American market, with the important exception of cotton textiles.<sup>8</sup> The relatively inactive textile industry during the first nine post-war years reaped the benefits of artificial economic dominance the War had provided to the US. But in 1955, suffering a depressed market at home and resurgent sales from across the Pacific, the textile industry plunged into the debate over reciprocal trade renewal. For instance letters poured in on the Congressmen from textile districts. The Georgia and Alabama delegation who were long-time mainstays of Free Trade argument turned protectionist. The Agricultural Act of 1956 was given section 204 by which the Congress authorized the President to negotiate bilateral export agreements with foreign governments on "textiles or textile products".<sup>9</sup> However, it was clear that due to the primacy of American political goals, Japan was given total freedom from economic responsibilities. During the 1950s and into the 1960s, the Japanese economy was neither large enough nor sufficiently technologically sophisticated to be of

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8     ibid, pp.24-25.

9     For an extended treatment of US textile policy especially vis-a-vis Japan, see I.M.Destler, Haruhiro Fukui and Hideo Sato, *The Textile Wrangle: Conflict in Japanese-American Relations, 1969-71* (Ithaca, New York: Cornell University Press, 1979), pp.75-79.

interest to American policy maker and businessmen, since it was not a large market for American goods and did not seriously threaten the viability of large sectors of American industry. With the Japanese entry into the General Agreement on Tariffs and Trade (GATT), under American sponsorship in 1955, Europe and other nations invoked Article 35 under which special restrictions on imports from Japan could be maintained. This was because European policy makers were reluctant to allow unrestrained Japanese participation in the international economic system for the latter was technologically superior to the Europeans and that Europe's resource endowments were rather similar to Japan's and European foreign policy interests in Japan were minimal.<sup>10</sup>

By 1960s, Japan witnessed phenomenal increases in national production and trade. Between 1960 and 1970, its real GNP rose an average of more than 11 percent a year. Its mechanised exports grew even faster by 17.2 percent annually in the 1960s, and by 8.5 percent between 1970 and 1982. Shortly thereafter, Japan's increasing competitiveness came to be reflected in substantial balance of payments surpluses. For instance, in 1960, per capita income in Japan stood at just 30 percent of the US level in terms of purchasing power - about equal to that of Mexico and a bit below than that of Spain.<sup>11</sup> Japan's

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10 I.M.Destler, *American Trade Politics*, 2nd edn. (New York: Twentieth Century Fund, May 1992), p.50.

11 *ibid*, p.51.

gradual improvement in its global balance of payments was also reflected in its bilateral economic relationship. US, frustration with the loss of its traditionally large multilateral trade surplus led to the passage of protectionist trade legislations in 1970 and 1971. The difficulty that the US and Japan faced was in coordinating their policies on trade with China. In fact it was the beginning of economic frictions that the two allies were to experience in the 1960s. Until 1965, the US had a persistent, though diminishing, trade surplus with Japan. Thereafter the pattern was reversed, and Japan's trade and current account surpluses with the United States became a structural feature of the Japanese balance of payments.<sup>12</sup> During 1953, Japan had a trade deficit of \$424.9 million with the US and by the end of 1960, the Japanese deficit with the US was down to \$298.4 million, which was again reduced to \$241.2 million in 1964. However, by 1965, Japan recorded a trade surplus of \$333.7 million over the US for the first time in post-war history which reached to \$1223.3 million in 1970 and \$4123.1 million in 1972.<sup>13</sup>

In the early part of the 1960s, there was an air of hope and optimism in both countries as each welcomed a new political leader. Japan continued its high rate of economic growth, and

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12 Robert J. Samuleson, "US-Japan Find Old Relationships have Unravalled", *Nation* (Canada: Ottawa), vol.14, no.16, June 30, 1979, pp.1152-1154.

13 Ohmae Ken 'ichi, "The Fictitious Japan-US Imbalance", in *Japan Echo* (Tokyo), vol.13, no.2, 1986, pp.7-12.

this trend was given further impetus by the "income-doubling plan" espoused by Ikeda Hayato, who became prime minister in 1960 in the wake of the bilateral crisis over the revision of the mutual security treaty. The then new US President John F. Kennedy, accepted Japan as an "equal partner" in the alliance and instituted a system of regular bilateral cabinet-level consultations on economic affairs.<sup>14</sup> The US continued to champion the cause of free trade in the free world and allowed Japan to steadily increase its exports to US markets. Yet, some scholars have pointed out that the US frustration with the disappearance of its traditionally large multilateral trade surplus almost caused the passage of protectionist trade legislation in 1970 and 1971. The US was perhaps beginning to contemplate a shift away from its long-standing commitment to a liberal trading order.<sup>15</sup>

At the same time, however, the US government began to make concessions to protectionist pressures in specific domestic industries threatened by growing imports. The tension between trade liberalism and protectionism was reflected in the fact that the administration negotiated a multilateral, cotton textile, import-control arrangement in 1961-62, while pushing the Trade Expansion Act that initiated the Kennedy Round for

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14 Diane Tasca ed., *US-Japanese Economic Relations - Cooperation Competition and Confrontation* (New York: Pergamon Press, 1980), pp.10-17.

15 *ibid*, p.22.

across the board tariff reductions.<sup>16</sup> The protectionist trend became even more evident in the latter half of the 1960s when the US economy began to have its own serious difficulties (exacerbated by its heavy financial burden of continuing a war in Vietnam) and the United States came to face increasing trade competition from abroad, particularly from Japan. Moreover, as the Cold War tension subsided towards the end of the decade, the United States became less benevolent and magnanimous toward Japan (and other US allies) over bilateral economic disputes. This was especially true because Japan was rapidly emerging as a major economic power in its own right. In 1967, for instance, Japan replaced erstwhile West Germany as the second largest economic power in the non-Communist world.<sup>17</sup>

The increasing strength of the Japanese economy provoked a gradual, but sharp shift in official American attitudes: they changed from benign tolerance of Japan's special position in the postwar international economic system to an effort at encouraging and, in the early 1970s, virtually forcing Japan to align its external relations to the GATT, IMF and OECD guidelines for advanced industrialized countries, and also to assume some responsibility for adjustment in its balance of payments. The motivation for this change in policy sprang

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16 Winston B. Kahn, "Japan's Industrial Challenge to America", *Asian Survey* (Berkeley: California, University of California Press), vol.20, no.6, January 1988, pp.103-109.

17 Hisahiko Okazaki, "The Restructuring of the US Japan Alliance", in *Japan Review of International Affairs*, (Tokyo) vol.2, no.2, Fall/Winter 1988, pp.123-142.



partially from America's interest in preserving the legitimacy of the postwar international economic system.

Perhaps more important was the increasingly widespread belief in the United States that the continuation of special treatment for Japan within the world economic system directly threatened the health of American multinational corporations. American concern was not limited to the direct loss of sales suffered by American industry as a result of the protectionist commercial and investment policies pursued by Japan. An intimate connection was seen between the inaccessibility of the Japanese domestic market and the highly strenuous Japanese competition in the American home market.<sup>18</sup>

Actually the "spectre" of intense Japanese export competition in American markets had been raised from the mid 1950s (and even in the 1930s) in cotton textiles from "gray goods" to "dollar blouses".<sup>19</sup> The political power of the American textile industry was mobilized in Washington to force upon Japan "voluntary export quotas" in lieu of higher American tariffs or outright import quotas. This formula was to haunt Japan thereafter, since "voluntary export quotas" were expanded to include a wider range of textiles, table flatware, and eventually steel, among other product categories. These, however, were not macro problems, but problems of specific

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18 See, Destler, Haruhiro and Hideo Sato, n.7, pp.69-73.

19 Robert Scalapino, *American-Japanese Relations in a Changing Era*, (New York, The Library Press, 1970), p.103.

American industries which were losing their comparative advantage at a time when effective competition from the Japanese were expanding rapidly.<sup>20</sup> In the 1960s, the US consumer electronics such as radios, monochrome television sets and eventually even colour television sets were hard hit by Japanese competition. As long as both American and Japanese global balance of payments were in equilibrium, these specific industry problems were regarded as the inevitable consequence of evolving comparative advantage while there were certainly problems of adjustment in declining American industries as well as associated social costs; nonetheless, the issues were seen in narrow terms.<sup>21</sup>

As Japan's bilateral trade surplus with the US grew rapidly in the late 1960s (\$1100.1 million and \$1398.5 million in 1968 and 1969 respectively) and the early 1970s (\$3204.0 million and \$4123.1 million in 1971 and 1972 respectively),<sup>22</sup> Japanese competition was increasingly seen by many as forcing both the pace and degree of structural adjustment in a number of American industries well beyond that considered socially

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20 John B., Shoven ed., *Government Policy Towards Industry in the United States and Japan* (Cambridge: Cambridge University Press, 1988), pp.121-126.

21 Takafusa Nakamura, *The Postwar Japanese Economy*, (Tokyo: University of Tokyo Press, 1982), p.68.

22 Toshikazu Maeda, "Japanese Perception of America: Evolution from Dependency to Maturity", in *U.S.-Japan Relations in the 1980s: Towards Burden Sharing* (Cambridge, Massachusetts: Harvard University Centre for International Affairs, 1982), pp.24-26.

desirable. Labour and capital were being forced out of older, established American manufacturing industries by newly competitive Japanese industries.<sup>23</sup> The smooth adjustment of these resources in line with America's working comparative advantage was seriously hampered by the lack of reciprocal trade and investment opportunities for American industry in Japan.<sup>24</sup> American managerial resources could not move from industries declining at home into comparable but expanding industries in Japan through foreign direct investment.<sup>25</sup> Moreover, certain American industries, such as automobiles, could not protect themselves from aggressive Japanese marketing in the United States, by threatening to retaliate through investment and production in or export to the Japanese home market.<sup>26</sup>

The continuing American concern about Japan's investment and import controls, also emphasized the worry over Japan's overall balance of payments policies. Japan's policy of high tariffs, quotas, subsidies, licenses, and other regulations in its foreign sectors masked a weak economy and a greatly overvalued exchange rate, the growing Japanese trade surplus,

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23 W. Diebold, Jr, *Industrial Policy as an International Issue*, (New York: Mc Graw Hill Book Co., 1980), pp.79-87.

24 *ibid*, p.89.

25 W.J. Abernathy, *The Productivity Dilemma* (Baltimore, John Hopkins University Press, 1983), pp.146-151.

26 C.V.Prestowitz, *Trading Places: How We Allowed Japan to Take the Lead* (New York: Basic Books), 1988, p.104.

after 1965, produced large surpluses in the overall balance of payments by the late 1960s; by 1970 many realized that the yen's dollar value had to be increased. The yen's overvaluation was exaggerated by the Japanese government's commercial policies.<sup>27</sup> There was fear that however socially desirable the pace of structural adjustment being imposed on the American economy by Japanese competition might be, the magnitude of this adjustment was beyond that dictated by comparative advantage.<sup>28</sup> It was felt however, that the continuing overvaluation of the yen and the refusal of the Japanese government through August 1971 to alter the dollar - yen parity was threatening the Bretton Woods international monetary system, based on the American dollar.<sup>29</sup>

#### **BILATERAL RELATIONS: II PHASE - 1965-1975**

At the onset of the postwar period, the relative strength of the American economy endowed the dollar with all the requisite attributes of an international unit of account, store of value, and medium of exchange. Evidently, the world's confidence in the American economy held that continuing deficits in the American balance of payments in the late 1940s

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27 L.B. Krause and S.Sekiguchi, *Japan and the World Economy*, (Tokyo: University of Tokyo Press, 1983), p.219.

28 *ibid*, pp.221-223.

29 George W.Noble, "The U.S. and Asia in Trade Perspective" in *The Asian Survey* (California), vol.32, no.6, December 1989, p.103.

and the 1950s, as a highly desirable means of adding desperately needed liquidity to the world economy. However, studies revealed that by the 1960s, American balance of payments deficits were no longer viewed so positively by the European participants in the Bretton Woods system, although the Japanese seemed to remain "sanguine", even "appreciative".<sup>30</sup> The deterioration of the American balance of payments position was the result of declining competitiveness in trade and strong capital outflows as well as an increasing European reluctance to finance US deficits (especially at the time of the Vietnam War). To some degree this undermining of the system was inherent in the efforts to encourage the economic growth of Europe, Japan and the lesser developed countries (LDC's).<sup>31</sup>

Some scholars have argued that the fundamental pressures upon the Bretton Woods system, with the United States at its core, resulted in President Nixon's "New Economic Policy" on August 15, 1971.<sup>32</sup> It ended the fixed exchange rate between the dollar and other currencies, severed the dollars formal peg to gold and temporarily imposed a 10 percent surcharge on imports. In addition, the Japanese government was compelled to agree to liberalize restrictions on imports and foreign

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30 *ibid*, p.107.

31 H.L. Lynn, *How Japan Innovates*, (Boulder, Colorado, Westview Press, 1982), p.162.

32 See for details Richard Nixon, *RN: The Memories of Richard Nixon* (New York: Grosset & Dunlap 1970), as mentioned in Kanji Haitani, *The Japanese Economic System* (Lexington, Massachusetts: Lexington Books, 1979), f.n.178, p.273.

investment for the benefit of American industry. Meanwhile, during 1967-68, the US "haggled" with Japan over steel imports as well. Trade war was further launched in 1969, when the Nixon administration pressed Japan to limit synthetic and wool textile exports to the US markets.<sup>33</sup> The Japanese "increasingly proud and self-assertive", but still expecting US benevolence, adamantly resisted. According to one analyst, the great textile dispute of 1969-1971 was the "first major second-guessing by post war Japan of a US trade initiative. Neither the Japanese government nor the Japanese textile industry was intimidated by a firm US economic demand."<sup>34</sup> Despite personal involvement of top leadership in both countries the efforts seemed futile in producing mutually acceptable compromises.

The Executive branch's slant toward protectionism was complemented by an even stronger protectionist shift in the US Congress. Chairman Wilbur Mills of the House Ways and Means Committee commented in 1970 that Kennedy's Trade Expansion Act would not have attracted even 50 votes on the House floor in that year.<sup>35</sup> This situation thus, foreshadowed stormy economic relations between the US and Japan in the 1970s.

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33 See Destler, n.10, p.72.

34 Stephen D.Cohen, *Uneasy Partnership: Competition and Conflict in US-Japan Trade Relations* (Massachusetts: Ballinger Publishing Co., 1985), p.17.

35 C.Fred Bergsten, "Crisis in US Trade Policy", *Foreign Affairs* (New York), vol.49, no.2, July 1971, p.619.

The first and second "Nixon shock"<sup>36</sup> in July and August of 1971 explicitly made Japan the major target and it generated alarm among Japanese political, business and financial leaders. They responded with policy changes and concessions to repair the "frayed" American connection. A textile settlement was reached in October 1975 on American terms. In December, the multilateral Smithsonian accord was concluded, which contained an upward revaluation of the yen of 17 percent in relation to the dollar. The Nixon shocks also alarmed many Americans. Such tactics might be effective in winning immediate policy concessions, whether they be important and long overdue (e.g. yen revaluation, import liberalization) or simply accommodations of US demands on textiles. But more important, such tactics threatened the trust and confidence on which the Japanese alliance ultimately depended. So while 1972 and 1973 brought continued tension on economic issues punctuated by a "record" bilateral trade imbalance in 1972 and the "soyabean shock" of 1973, these years also saw conscious efforts initiated on both sides to repair the damage. There were also serious differences over energy, dramatized when Kissinger visited Tokyo in the fall of 1973 just as Japan was tilting sharply toward the Arabs to protect its oil supplies. While each successive governments at both sides showed determination to mute tension, higher oil prices brought Japan's current

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36 The first was Nixon's surprise announcement that he would visit China and the second was implementation of his New Economic Policy.

account into a deficit for a while, making the "fragile blossom" seem a more apt metaphor for Japan than an "emerging superstate."<sup>37</sup> Japan was not perceived as a major force for global economic disequilibrium. Trade issues were multilateralized and diffused as the Tokyo Round talks opened in 1973, and the US Congress gave the Administration a broad bargaining authority in the Trade Act of 1974, aimed at drastically curtailing Japanese imports, for these were seriously threatening and causing injury to domestic US industry especially that of colour television. Moreover, in the case of the bitter textile wrangle of 1969-71 which was a consequence of an escalation of US economic problems and a more demanding Washington with a simultaneous process of increasing pride and confidence in their economic accomplishments by the Japanese who were self-assertive and adamant in the face of US pressure, the US was able to win concessions from the Japanese only by threatening to invoke the "Trading with the Enemy" Act of 1965.<sup>38</sup>

However, bilateral economic problems which were seen as deep-rooted and even cultural in origin in 1971 had largely vanished by mid-1973, even before the oil-embargo had begun.

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37 For details see John M.Maki, ed., *Conflict and Tension in the Far East: Key Documents 1894-1970* (Seattle: University of Washington Press, 1971), p.75. See also Frank Gibney, *Japan, the Fragile Super Power* (New York: Meridian Books, 1979).

38 W.B.Kahn, "Japan's Industrial Challenge to America", *Asian Survey* (Berkeley, California: University of California Press), vol.20, no.6, January 1958, p.106.



The bilateral trade balance, which had earlier approached an annual rate of some \$4 billion in Japan's favour, had been reduced to a surplus in annual terms of no more than \$300 million by the fourth quarter of 1973. In the first quarter of 1974, this surplus became a deficit of almost \$500 million. The change in the bilateral balance was a part of the massive reversals of both the American and Japanese balance of payments. In 1971, the American basic balance was in deficit by \$9.5 billion. In Japan, during the same period, the basic balance shifted dramatically from a \$4.6 billion to a \$9.9 billion deficit.<sup>39</sup> As these massive shifts in trade and payment flows occurred, American protectionist sentiment weakened substantially. The highly protectionist Burke-Hartke Bill, which hovered over bilateral discussions in 1971 and 1972, never passed the Congress. Some scholars have argued that, the comprehensive trade bill that was enacted in 1974 in preparation for the new multilateral trade negotiations, despite its potentially restrictive escape clauses, cannot be characterized as a protectionist document.<sup>40</sup> Accordingly, it was suggested that the waning of protectionist sentiment and the improvement of bilateral Japanese-American economic relations were based not only on the belief that changes in

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39 Mryazaki Yoshikazu, "The Dollar and the Yen", *Japanese Economic Studies* (Tokyo), vol.22, no.8, Fall 1990, p.6.

40 Chae-Jin Lee and Hideo Sato, *U.S. Policy Towards Japan and Korea A Changing Influence Relationship* (New York: Praeger Publications, 1982), p.94.

Japan's commercial and financial policies had led to the successful adjustment of trade and payments flows between the nations. Rather the broader concern about the fundamental viability and competitiveness of the American economy had diminished substantially. In 1971 and 1972, Trade Union Presidents and leaders of declining industries often indicated to the press and to Congressional hearings, tables with two columns purporting to show the correlation between import increases and domestic job losses. Such evidences were pushed to buttress testimony stressing the need for new regulation protecting injured domestic industries.<sup>41</sup> The upturn of the American economy, which accelerated after mid-1972 and continued throughout 1973, proved that the protectionist fears were groundless. Analysts point out that the domestic forces which pulled down the aggregate unemployment rate from over six percent in 1971 to four and a half percent in mid 1973 also had considerable influence on those American industries which were purportedly threatened by import competition. For example, notwithstanding the continued rapid growth of imports in 1972 and 1973, employment in the United States electronic product industries reached 511,000 workers in December 1972 and, by October 1973, had hit a peak of 600,000 workers. This was fully 30 percent above the figures of 1971 when the industry

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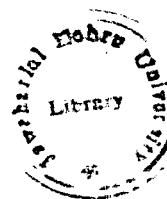
41 See the Statement of AFL-CIO economic policy council, as reported in *New York Times*, 22 February 1970, p.29.

had sought help from Congress.<sup>42</sup> Thus while Japanese foreign commercial and financial policies had a small negative influence on American employment, virtually all American localities and industries, which complained about import competition in the early 1970s, were incomparably more negatively affected, in so far as profits and employment were concerned, by the anti-inflation policies of the Federal Reserve System. In the light of this, the argument was made that in the early 1970s an unnecessary policy with potentially serious and unwanted domestic consequences was foisted upon Japan, because American policy makers overestimated the benefits flowing from a patched up Bretton Woods system. While it was widely recognized that the Bretton Woods System, built upon the primacy of the dollar and fixed exchange rates, had resulted in an overvalued dollar which encouraged the outflow of American long-term capital and, thereby, damaged American domestic industry, the imperative need for fundamental reform of the system got lost in a flurry of debates which ranged, at one extreme, from whether the American economy was flabby and Americans should work as hard as Japanese, to the other extreme that the world as a whole needed special protection from "Japan, Inc." By 1975, these events suggested a conclusion

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42 James R. Jones "U.S.-Japanese Economic Relations", in Gaston J. Sigur and Young C. Kim, eds., *Japanese and U.S. Policy in Asia* (New York: Praeger Publications, 1982), pp.67-80.

that the alliance had survived a shaky transition and was now on firm ground once again. Perhaps, some felt it has even built a firmer basis for partnership and cooperation: on security issues, in a better accepted if still unequal relationship; on economic issues, stressing reciprocity of rights and obligations in a liberal, multilaterally managed world order. However, the relative absence of difficult issues where domestic politics and priorities which generate bilateral tensions, was also an important contributor to the easing of strains.<sup>43</sup>

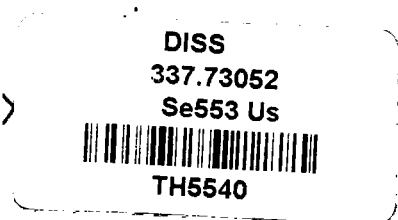


#### **CARTER ADMINISTRATION: DEEPENING CONFLICTS**

The Carter administration and the Fukuda government found the situation changed. Three issues persisted in 1977. These were Korea, nuclear energy and the trade imbalance. The core of the dispute was once again the trade imbalance. Japan was running a huge worldwide current account surplus and the United States a record trade deficit. Bilaterally, the trade balance had been generally in Japan's favour since 1965, but the "record" gap of \$4 billion in 1972 had closed to below \$2

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43 Akire Iriye and Neil Harris, "United States Policy Toward Japan: Problems of Understanding", in Morton A. Kaplan and Kinhide Mushkaoji, *Japan, America and the Future World Order* (Chicago: The Centre for Policy Study, University of Chicago, 1979), pp.91-106.



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billion in succeeding years as American sales to Japan skyrocketed, particularly in farm products, and as currency revaluation had its effects.<sup>44</sup> But Japanese exports rose sharply in 1976 while imports stagnated; the bilateral gap rose to a record \$5.4 billion, by 1977 and the figure then rose to \$8.1 billion. In the same year, the worldwide United States trade deficit was \$26.7 billion, more than four times the previous record of \$6.4 billion set in 1972.<sup>45</sup>

When senior economic officials of the Carter Administration came to office in January 1977, they were worried over the Japanese trade imbalance. With the OPEC nations running a large surplus, they considered very important that the stronger among the advanced industrial economies share the burden of the rest of the world's deficit. Moreover, if recovery from world recession were to succeed, they thought it necessary that the three strongest "locomotive" economies - the US, Japan and Germany stimulate domestic demand so as to draw in imports from elsewhere, thus pulling other, weaker economies to recovery also. The Japanese (and German) trade surplus and

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44 Nobuo Matsunaya, "A Japanese Perspective on Global Trade" in *Japanese Economic Studies* (Tokyo), vol.15, no.4, Fall 1987, pp.61-74.

45 Zbigniew Brzezinski, *The Fragile Blossom: Crisis and Change in Japan* (New York: Harper and Row 1977), pp.79-89.

slow domestic growth worked against this goal. Vice-President Mondale carried this message in his post-inaugural trip, including discussions with Prime Minister Fukuda and with German Chancellor Helmut Schmidt. This theme was pressed also at the London economic summit in May.<sup>46</sup>

At London, the Japanese Prime Minister Fukuda, reiterated his government's determination to achieve its goal of 6.7 percent growth in the 1977 fiscal year. He also responded to American concerns about Japan's current account surplus by citing a Japanese projection that it was in the process of disappearing, to be replaced by a \$700 million deficit.<sup>47</sup> Several analysts opined that in fact the growth target was a serious political commitment important in Japanese politics; the current account projection was not. But when, contrary to that projection, Japan's current account surplus grew larger, frustration grew also in the United States and Europe.<sup>48</sup> More

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46 I.M. Destler, *Coping with US- Japanese Economics Conflicts*, (Lexington, Massachusetts: Lexington Books, 1982), pp.91-103.

47 Frank J. MacChiarola, *International Trade: The Changing Role of the United States* (New York: The Academy of Political Science, 1990), pp.64-67.

48 See for details, Stephen D. Cohen, *Uneasy Partnership: Competition and Conflict in US-Japanese Trade Relations* (Cambridge, Massachusetts: Ballinger Publishing Co., 1985), pp.32-33.

widespread was the belief that the Japanese were not taking these obligations to world economic recovery very seriously. In Tokyo, meanwhile, discontent grew also, centering on the cause of the burgeoning surplus - the fact that domestic demand and investment were not picking up sufficiently to maintain the recovery that the export boom had inaugurated. The need for Japan to act to rectify its global imbalance was stressed by then Under Secretary of State Richard Cooper and Assistant Secretary of Treasury C.Fred Bergsten when they visited Tokyo in September 1977<sup>49</sup>. But concern was also rising in Washington about specific product issues - products being exported to the US in record amounts; products not being imported very substantially by Japan. Colour television was an early case of the former, resolved when Special Trade Representative Robert Strauss negotiated an orderly marketing agreement with Tokyo in April, which reduced sales sharply from their abnormally high 1976 levels.<sup>50</sup> When the US trade imbalance continued to worsen, increased attention was paid to Japan's barriers against imports particularly by officials in

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49 C.F. Bergsten ed., *Toward a New World Policy*, (Lexington, Massachusetts, Lexington Books, 1979), pp.48-59.

50 E.F. Denison and W.K. chung, *How Japanese Economy Grew so Fast*, (Washington, D.C.: The Brookings Institution, 1977), pp.129-133.

the Department of Commerce, expressed by its then Secretary Juanita Kreps by labelling the trade deficit as "simply unacceptable". Her preferred remedy was increased Japanese imports. One promising result was establishment of a bi-national Trade Facilitation Committee to investigate complaints of specific impediments encountered by firms seeking to export to Japan. But the overall Japanese response to these US initiatives was limited. Once again, the view that Japan saw trade as a one way traffic, pushing exports while impeding imports, became widely popular in Washington. It was felt in the US that Tokyo government was simply not dealing seriously and sincerely with the international economic problems to which it was contributing.

In this generally discouraging context, an interdepartmental group of US officials began to meet informally around September 1977 to address US-Japanese trade relations. The initiative apparently came from the State Department and the premise was that the US lacked a clear, concrete sense of what it wanted economically from Japan, and that the Japanese government would not respond to general admonitions like those Cooper and Bergsten had conveyed.<sup>51</sup> While all this was happening in Washington, the rise of the yen

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51 See Bergsten, n.45, p.63.



encouraged by American policy was having its effects in Tokyo. As it weakened export price competitiveness of certain important products, it ended any glimmering hope that the 6.7 percent growth target for the fiscal year (April 1977-March 1978) would be even approximately achieved.<sup>52</sup> It therefore, increased the efforts of the business community, and the Japanese Ministry of International Trade and Industry (MITI) officials, in taking certain economic and trade policy steps that might arrest further upward revaluation and stimulate growth. The US officials, it has been pointed out read these as signals, that encouraged prospects for change in policy and that stronger American pressure might be helpful in facilitating it: They also believed that there were signals in Washington that pressures for trade restrictions were rising. As one official characterized it as the steel "firestorm" of October; in which plant closures were blamed on imports. It spurred and intensified industry and Congressional efforts to limit such imports. There was also a continuation of industry petitions for relief on a range of other products, while the Multilateral Trade Negotiations (MTN) at Geneva, intended to provide a political counterweight to such pressures. The job of balancing all these pressures belonged to the their special

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52 Cohen, n.18, pp.32-33.

Trade Representative Robert Strauss then becoming the Administration's most powerful international economic official. The policy message he carried was almost certainly stronger than those the Japanese must have expected. The Japanese government had to set a growth target of 8 percent for the coming fiscal year; it had to make a specific commitment toward ending Japan's worldwide trade surplus, tied to an explicit timetable; it had to liberalize remaining import quotas, most of which were on agricultural products; it had to take a range of steps to facilitate imports of manufactured products, it had to commit itself to advance tariff reduction on a broad list of items and play an active forceful role for trade liberalization in the MTN talks.<sup>53</sup> The tacit political message conveyed by the subsistence of the "suggestions" however diplomatically they might have been delivered, was that US.-Japanese trade relations were under very severe strain. If the Japanese failed to take strong action, the Americans would place the economic relationship in serious jeopardy, with likely spillover to relations on other issues.

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53 See for details, Laura D'Andrea Tyson, *Who's Bashing Whom? Trade Conflict in High-Technology Industries*, (Washington, D.C.: Institute for International Economics, 1992), pp.298-301.

The US trade policy from October 1977 - to January 1978 was arguably a conscious and calculated, effort to seize the initiative in both the bilateral and domestic political arenas.<sup>54</sup> However, there was no significant "diminution" in Japan's worldwide current account surplus for fiscal year 1978; instead it remained roughly the same, and the bilateral trade deficit for the calender year 1978 rose to \$11.6 billion from \$8.1 billion in 1977.<sup>55</sup> The final months of 1978 brought favourable change in that the imbalance was no longer growing. But it remained high by pre-1977 standards, as the rise of the yen at the level of 200 to the dollar had already affected the volume of trade substantially. The quantity of Japanese goods moving to the US was stagnating and the quantity of American exports to Japan was rising. By 1979, the Japanese government under the new Prime Minister Masayoshi Ohira, abandoned the 7 percent growth target as no longer practical as pressure mounted from the Carter administration. At the Ohira-Carter Summit meeting of May 1980, at Washington, the principle of "co-existence and co-responsibility" was announced, and the

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54 Roberts Delfs, "Looking for a Role", *Far Eastern Economic Review* (Tokyo), vol.54, no.29, 21 June 1991, pp.41-43.

55 Donald C. Hellman, ed., *Critical Choices for Americans: China and Japan - A New Balance of Power*, vol.XII (Massachusetts: Lexington Books, 1978), pp.109-113.

first step towards a policy of strengthening Japan's military capabilities was taken. At the same time Carter also raised the issue of Japanese automobile exports to the US.

There was ample reason for the sudden increase in Japanese auto exports to America. The world was in the midst of the second oil crisis, and with the rise of gasoline prices the fuel-efficient Japanese cars had gained enormous popularity.<sup>56</sup> Various US political attempts to restrict the tide of imports had been ineffective in the face of freely operating market mechanisms. Throughout the summit, Ohira listened in silence as Carter pressed his demands on Japan. The most important of these was his demand, couched in terms of "the Soviet threat" for a Japanese military build up. With presidential elections just seven months away, it is not surprising that Carter, dependent on support from organised labour in auto-related industries, also pushed for some sort of Japanese government policy that would restrict auto exports to America. Ohira's dilemma was simple. Whether then or at present, the Japanese feel that there is a viable government solution to the problem of excessive auto exports to America. So any steps the government could take, and still guard the principle of free

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56 Bela Balassa and Marcus Noland, *Japan in the World Economy*, (Washington, D.C.: Institute for International Economics, 1988), p.271.

trade and maintain a market economy, had to be in the area of national budget policies. The Japanese government had no choice but to concede on military expenditures and hope that the situation would change. Ohira's concessions at the Summit were made with reluctance though he judged them essential to maintaining good bilateral relations.<sup>57</sup>

Japan-US trade conflicts that had begun in the period of the textile negotiations in 1968-72 and had become more serious and expanded into wider areas in 1976-78, became by the 1980s a full-fledged economic conflict. Viewed as a series of diplomatic negotiations over trade and economic matters, the Japan-US economic conflict was unusual in several respects. First, unlike usual negotiations over trade or other economic issues in which both parties engage in give and take, in the Japan-US negotiations, the US nearly unilaterally requested Japanese concessions. The main question of the negotiations had been how much and how soon Japan would agree to concede with US's offering little if anything in return. Second, beginning in the 1976, the US steadily widened the subject matter of the negotiations from trade issues to government

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57 Marc Leepson, "Tensions in U.S. Japanese Relations", in *Congressional Digest* (Washington, D.C., Published by Congressional Digest Corporation), vol.1, no.13, April 9, 1982, p.252.

policy problems that were thought to affect directly or indirectly trade flows between the two countries. Thus, the US requested that the agenda include such topics as o the yen-dollar exchange, Japan's macro-economic policies, financial deregulation, internationalization of the yen, and a wide variety of the Japanese government's regulations and standards related to safety, health, telecommunications and so on. Third, since most of these subjects were traditionally considered as belonging to the domain of internal affairs of a sovereign state, the attempt by the US to make these topics the subjects of Japan-US negotiations and to force Japan to take certain policy measures in these areas gave an unfavourable impression that the US was trying to encroach on Japan's internal affairs.<sup>58</sup>

US pressure on Japan accelerated the liberalization of import restrictions, foreign exchange controls and regulation of financial markets, and in fact, some Japanese welcomed such a pressure for liberalization. However, in the view of many Japanese the unilateral and high-handed way in which the US government demanded concessions from Japan aroused resentment. In the diplomatic negotiations over economic conflict issues,

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58 D.B. Keesing and M. Wolf, *Textile Quotas Against Developing Countries*, (London: Trade Policy Research Centre, 1980), pp.113-122.

the Japanese government had made numerous concessions one by one in response to foreign requests in the areas of trade problems and non-trade areas. Such a passive and piecemeal approach gave the unfavourable impression to the US government officials and the general public that the Japanese government had been using delay tactics to evade as much as possible what it should have undertaken by itself. There were reasons for the Japanese government's making concessions to such one-sided requests from the US. Japan's overall balance of payments surplus and bilateral trade surplus vis-a-vis the US were especially large when the trade or economic conflict was intense, and the performance of the Japanese economy was relatively good. Japanese government officials perhaps thought that Japan was "guilty" and could afford to accommodate some of the US requests especially when the latter strongly demanded that Japan cooperate in reducing the large US deficit. Moreover, it may also be argued that the US government requested Japan to take actions to correct the imbalance between the two countries to prevent protective legislation. Furthermore, Japanese officials might have feared that the US would retaliate if Japan did not concede to the US and thought that concessions were helpful in calming protectionist sentiments in the US. It is not surprising that they thought

they should cooperate with the US as much as possible in eliminating an imbalance that they considered detrimental to the maintenance of the free-trade regime. Besides these, Japanese officials might have felt indebted to the US for Japan's national security, and US officials were also conscious of the US's heavy burden as a protector of Japan and as the leader of the Western countries. Such a feeling and perception had been reflected in Japan's unilateral concessions in trade and other economic relations vis-a-vis the US.

Going backwards, Japanese dependence on US economy in the 1950s and early 1960s was summarised by saying that when the US economy gets a cold, the Japanese economy gets pneumonia. By 1970, if the Japanese economy caught a cold, the US economy was likely to catch one too. US economic policy makers demonstrated their appreciation of Japan's impact on the world economy when they pressed Japan to seek an 8 percent economic growth in 1977 in accordance with the so called "locomotive thesis".<sup>59</sup> Japan's trade surplus with the US had been growing since 1965, and by 1978 totalled nearly \$12 billion. Since 1970s, therefore, US frustration with the overall trade

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59 According to this view, Japan, along with erstwhile West Germany and the United States, should act as a 'locomotive' in stimulating demand and drawing in imports in order to help the weaker economies of the world.



imbalance and with bilateral sectoral trade issues, ranging from textiles to steel, colour televisions and automobiles made "belabouring the Japanese" "one of the most popular american pastimes".<sup>60</sup>

It is worthy while to note that the US remained economically more important to Japan than vice versa in the beginning of 1980s. While Japan's 1978 trade in goods and services with the US Constituted 26.1 percent of Japan's total volume of trade (a decline from 30.9 percent in 1955), US trade with Japan amounted to 12.2 percent of US total trade in same year (an increase from 4.1 percent in 1955). The Japanese economy though about half the size of the US economy was growing with high speed, which seemed alarming to US officials and industrialists. As an astute US economic reporter aptly noted, :Japan had challenged, probably more seriously than at any other time in the past 50 years, an essential part of the American self-image."<sup>61</sup>

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60 Robert C.Christopher, "They Try Harder", *New York Times Magazine*, January 22, 1978, p.27.

61 Robert J.Samuelson, "US Japan Find Old Relationships Have Unravalled", *Nation* (Canada: Ottama, June 30, 1979), p.1068.

## CHAPTER II

### FORMULATION OF US POLICY ON JAPANESE TRADE

#### CHALLENGE FROM MID SIXTIES TILL THE REAGAN YEARS

#### IN THE AREAS OF DISPUTES BY ANALYSING THE ROLE OF

#### PRESIDENT, CONGRESS AND US TRADE REPRESENTATIVE

Japan's postwar growth through the late 1970s was based on a high household saving rate, a financial system that effectively transferred funds from households to the corporate sector, a high rate of capital accumulation, a strong cultural work ethic, harmonious employer-employee relations, and a postwar consensus on the goal of reindustrialization. Business investment and consumption were the main components of aggregate demand during the high growth period of the 1960s while large government deficits became increasingly important after 1975 and business investment slowed due to the first oil-price shock of 1973.<sup>1</sup> Starting in the late 1970s however, Japan's growth shifted toward external sources as large trade surpluses emerged and growth became increasingly export based. Japan's success and export-led growth policies had become the focus of intense criticism by the US which viewed Japan's aggressive export policies and trade surpluses as directly responsible for the loss of jobs, the loss of industries, and the loss of its share of world trade. While criticism was

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1 R.E. Caves and M. Uekusa, *Industrial Organisation in Japan* (Washington, D.C.: The Brookings Institution, 1976), pp.41-50.

frequently expressed towards Japan in the 1970s, it had further intensified by the 1980s as the trade imbalances reached massive proportions. Japan had generally incurred persistent trade surpluses while running both current account surpluses and deficits. However, the yearly trade surplus and current account surplus increased dramatically after 1980. Japan's trade surplus of \$2.1 billion in 1980 increased to \$92.8 billion as of 1986.<sup>2</sup> As a result, protectionist sentiment in the US against Japan was running higher than at any time in the postwar period. Combined with the political trends in the US reflected by the November 1986 congressional elections when the Democrats remained in control of the Senate, the increase of protectionist rhetoric emerging from Congress during the 1987 session and the \$300 million punitive duties placed on selected Japanese electronics imports in 1987, engulfed the free world trading system in "serious peril."<sup>3</sup>

#### **US POLICY STRATEGIES 1980-85**

US policy in the 1980s held Japan primarily responsible for the massive trade imbalances and regarded Japan as the modern manifestation of the seventeenth century mercantilist state. The view commonly held was that Japan had structured its economy, its financial and macroeconomic

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2 Thomas C. Urata, "A Perspective on Trade Imbalances and U.S. Policies Towards Japan", *Columbia Journal of World Business* (New York), vol.22, no.4, Winter 1987, pp.55-60.

3 Frank J. Macchiarola, *International Trade: The Changing Role of the United States* (New York: The Academy of Political Science, 1990), pp.17-28.

policies, and its trade policies to encourage domestic growth at the expense of other countries. As a consequence of this view, US policy in the 1980s placed the major responsibility for eliminating the large and seemingly permanent imbalances on Japan which the US regarded as the most feasible cause for trade frictions. In fact, US started with a bilateral deficit of \$15.8 billion in 1981 to make it to \$33.6 billion in 1984, \$46.2 billion in 1985, \$55.0 billion in 1986, \$56.3 billion in 1987 and \$49.6 billion in 1989.<sup>4</sup> It is legitimate to state unequivocally therefore that these deficits had produced a genuine disequilibrium in political terms, i.e., an American belief that something was grievously wrong and urgently needed rectification, mainly through adjustments by Japan.

Here again, there were many opinions, but no genuine consensus. Conflicting perceptions were an inherent part of bilateral trade disputes. Some argued that the culprit was Japanese industrial policy, in which close government business relations had built a mighty "anti import fortress," known colloquially as "Japan Incorporated." Others contended that the culprit was the simple manufacturing ineptitude of the United States, a country alleged to be in the advanced stages of moving into a post-industrial, services-oriented economy. The systemic source of the imbalance was best viewed as a divergence in ends (priorities and values) and therefore a

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4 USA, Congress, Joint Economic Committee, *Hearings, "Impact of the debt crisis on the US Economy"*, Ninety Ninth Congress, First Session, 1985, p.265.

divergence in means (domestic, economic and trade policies). The American system in the 1980s was weighted in favour of the individual and consumption. The Japanese system was weighted in favour of the corporation and production. American ideology favoured the free market and cheap imports. Japanese ideology favoured government enhancement of market forces, industrial self-sufficiency, and world-class strength in manufacturing sector. The US printed money to finance the world's largest trade deficit and in turn consumed more than it produced. Japan saved and accepted relatively poor housing and an inadequate infrastructure, and continued sending massive amounts of capital earned from its trade surpluses back to the United States, the effect of which was to compensate for this country's inadequate savings rate. The systemic problem was allowed to continue mainly because both sides had largely gained success as they had defined it. Another way to look at the situation suggested that the two countries had different, deeply rooted economic and social neuroses that almost, but not quite complemented one another. To many observers, conflict was inevitable. Important groups in the American political sector had been hurt by the onslaught of Japanese imports (which increased from \$41.2 billion in 1983 to \$68.8 billion in 1985, \$89.8 billion in 1988 and \$93.8 billion in 1989)<sup>5</sup> and by the difficulties of exporting to Japan (U.S. exports to Japan

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5 USA, Congress Senate, Committee on Banking, *Hearings, "Foreign Barriers to US Trade,"* Hundredth Congress, First Session, 1987, pp.403-406.

increased from \$21.8 billion in 1981 to \$22.6 billion in 1985 to \$37.7 billion in 1988 and \$44.2 billion in 1989),<sup>6</sup> others had warned of intolerable economic, political and national security costs of a continued decline in relative American international competitiveness. The net result had been a never-ending cycle of American demands for Japanese concessions - increased market access and export restraints - that had been met by an endless cycle of Japanese concessions with minimal impact. Countless Japanese import liberalization measures had produced a nominal relative increase in American manufacturing exports to that country. Japanese exports had put one American industry after another at risk, thereby triggering US calls to "curb the market mechanism."<sup>7</sup>

#### CAUSES FOR TRADE IMBALANCE

According to one view, Japan cannot be faulted for the massive trade imbalances of the 1980s. It was pointed out that "neither Japan's trade policies nor its macroeconomic and financial policies could have accounted for the magnitude of the problem."<sup>8</sup> In fact, this view insisted that the

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6     ibid.

7     Imai Kenichi, "Japan's Changing Industrial Structure and United States - Japan Industrial Relations" in K. Yamamura ed., *Policy and Trade issues of the Japanese Economy*, (Seattle, University of Washington Press, 1990), pp.47-55.

8     Thomas F.Cargill, "A Perspective on Trade Imbalances and United States Policies Toward Japan", *Columbia Journal of World Business* (New York), vol.22, no.4, Winter 1987, pp.55-60.

macroeconomic policies of the US offered a more reasonable explanation of the trade imbalance in the 1980s<sup>9</sup> It suggested that the large federal deficits of the 1980s had generated high "real interest rates" and the resulting capital inflow had been the primary factor increasing the value of the dollar through late 1985. The high value of the dollar in turn had been the primary cause of the massive trade deficits. Simple national-income accounting concepts provided another way of expressing this basic point. The federal deficit combined with a low household saving rate had rendered US domestic output insufficient to satisfy domestic spending. As a result, the trade deficit had emerged to fill the gap between domestic spending and domestic output. The point had been firmly expressed in two Federal Reserve Publications. One of them argued that the failure to recognize the basic accounting identity had serious consequences for the policies that were proposed to deal with the trade deficit. The second was the 1986 Annual Report of the Federal Reserve Bank of Minneapolis. It referred to the basic accounting relationships that characterised the US situation as "The Unpleasant Arithmetic of Budget and Trade Deficits".<sup>10</sup> The Chair of the Board of

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9 Martin Fieldstein, "The Budget Deficit and the Dollar", *Macro Economics Annual 1986* (Cambridge, Massachusetts, Massachusetts Institute of Technology Press, 1986), pp.117-119.

10 Quoted from an excerpt of Federal Reserve Bank of Minneapolis, "1986 Annual Report: The Unpleasant Arithmetic of Budget and Trade Deficits", referred to in (continued...)

Governors at that time, Paul A. Volcker, in testimony to Congress emphasized the policy implications of the unpleasant arithmetic,

...The process of restoring external balance requires first of all that we tend to our inescapable responsibilities to deal with our budget deficit.... We have to recognize that the needed adjustments will require a relative shift of financial and real resources into internationally competitive industry and away from consumption and federal deficits."<sup>11</sup>

The macroeconomic policies of the US appeared to offer a more realistic explanation of the trade imbalances than Japan's macroeconomic, finance or trade policies. This view stressed the fact that the trade imbalances of the 1980s were primarily and fundamentally an American problem, both in terms of the causes and the solution.

#### **US POLICY INITIATIVES IN THE 1980s**

As Japanese surplus became a fixture in the bilateral trade relationship, the US successfully induced Japan to take sustained actions on two fronts. The first involved additional "voluntary" export restraints (VERs) in a number of sectors,

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10 (...continued)

Yoso Kanji, *The Economic system of Japan* (Massachusetts, Lexington: Lexington Books, 1986), p.97.

11 Quoted from an extract Paul A. Volcker, "Monetary Policy Objectives for 1986", Testimony to Congress, House of Representatives, Committee on Foreign Affairs, Subcommittee on International Economic Policy and Trade, February 19, 1986 as cited in Yoso Kanji, *The Economic System of Japan* (Massachusetts, Lexington: Lexington Books, 1986), pp.62-63.



including automobiles, steel, colour televisions and machine tools. The second involved Japan's initiation of an unprecedented series of unilateral measures that eliminated or reduced hundreds of overt tariff and non-tariff trade barriers. The result was an eventual Japanese contention that it had become the world's most open market. This assertion was not widely accepted in the US, where complaints about the difficulty of succeeding in the Japanese markets were and are still voiced by many American companies. To many American politicians, the VERs were simply a way for the United States to achieve the same result as a tariff or quota without violating the General Agreement on Tariffs and Trade (GATT). While the pressure encouraged Japan to remove a number of binding restrictions on non-agricultural imports, any benefit to free trade and the external imbalance problem was offset by the quotas on auto exports to the US. In fact, some experts even argued that the American consumer was the only real loser from the effects of this policy and the VERs unfortunately benefitted Japan more than the US. In fact, scholarly opinion was that the "VER's were perhaps the main villain of US trade policy"<sup>12</sup>. That was because they provided profits to foreign exporters, as U.S. consumers paid more for scarce goods, while protecting inefficient American industries that could not

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12 Jeffrey Schott, "US Trade Policy: Implications for US-Korean Relations", in *Economic Relations between the United States and Korea: Conflict or Cooperation*, (Washington, D.C., Institute for International Economics), January 1989, p.68.

compete for foreign markets. The International Monetary Fund (IMF) estimated that the VETs on Japanese cars had cost U.S. consumers between \$3.5 billion and \$5 billion annually,<sup>13</sup> and anywhere from one-quarter to three quarters of that amount went to the Japanese automakers. If there were a formal tariff or quota, consumers would still have paid more, but at least all of the increased costs would have remained in the U.S. Increasingly, the call had therefore been heard in the 1980s for new measures to force open the Japanese markets. Senator Robert C. Byrd and Mike Mansfield, former ambassador to Japan, had both suggested the establishment of a free-trade area with Japan. This idea was not taken too seriously by most economists who had pointed that the great majority of barriers to U.S. goods in Japan were of the "invisible" variety, and would have been next to impossible to eliminate by means of such an agreement.<sup>14</sup>

Recognising the difficulties of targeting trade policies, former secretaries of state Henry A. Kissinger and Cyrus R. Vance<sup>15</sup> had suggested setting an appropriate trade balance

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13 Stephen D. Cohen and Ronald Metlzer, *United States International Policy in Action* (New York: Praeger Publications, 1982), p.206.

14 Laura D'Andrea Tyson, *Trade Conflict in High Technology Industries: Who's Bashing Whom* (Washington, D.C., Institute for International Economics, November 1992), pp.69-71.

15 Higashi Chikara and Peter G. Lauter, eds., *Internationalization of the Japanese Economy* (Boston: Kluwer Academic Publishers, 1987), pp.97-104.

and letting Japan meet the goal however it chose. Critics noted, however, that even if the two countries could somehow have agreed on what is an "appropriate" balance of trade, such an agreement would have run directly counter to principles of free trade and the rules of GATT. Even during February 1987, the US trade representative's advisory committee had come out in favour of "results oriented" negotiations. This essentially amounted to the US's targeting specific industries or products where it was competitive and negotiating market shares. This too violated free-trade principles, but with somewhat narrower application than the Kissinger-Vance plan. According to an economist "the Japanese have created an advantage in global markets and it is not going to go away. It rests on product design, manufacturing design. It is not subsidy or simple market closure."<sup>16</sup> As for results-oriented negotiations, it was noted that although the Japanese might be forced to open up small market segments, it is a little like closing the back door after the horses have gone; Japan had already used its closed markets to establish dominance in global markets. But what was further worrying some than the bilateral trade relationship was the overall bilateral relationship. As it was said, "The question will be whether Japan and the United States effectively manage the relative change in their power. Both

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16 Chalmers Johnson, Laura D. Andrea, Tyson, John Zysman, eds., *Politics and Productivity: How Japan's Development Strategy Works* (Cambridge, Massachusetts, Ballinger Publishing Co., 1989), pp.75, 83, 97-112.

American policy and international institutions are set up on the premise that America is the dominant player. Can both our purposes, our allies' purposes and mechanisms, and the institutions shift? If they can't, we're going to have real trouble."<sup>17</sup> It was also emphasized that the US would in future find it difficult to deal with Japan on trade or any other issues if it did not accede to a greater Japanese role in the International Monetary Fund and the World Bank both of which it had been reluctant to endorse in the past. America did not need be more subservient to its largest creditor, but it definitely would have had to adjust to the fact that it "no longer could call all the shots."

#### **US LEGISLATIVE RESPONSE**

Bilateral consultations and negotiations continued throughout the 1980s amidst continuous proposals by various members of Congress to pass harsh, retaliatory legislation as leverage to force "genuine reciprocity in market access." As the problems with Japan worsened, new forms of agreements were pursued. They included altering macroeconomic policies in an effort to increase the value of the yen's exchange rate relative to the dollar in 1983 and 1984.<sup>18</sup> It was anticipated that these measures would increase world demand for yen, raise

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17 *ibid.*

18 Priscilla Clapp and Morton S. Halperin, *United States Japanese Relations in the 70s* (Cambridge, Massachusetts: Harvard University Press, 1986), pp.201-3.

the value of the yen, and hence, lower the trade surplus. The Japanese responded to US pressure by increasing the pace of financial liberalization in some respects such as an earlier introduction of a yen-dominated bankers' acceptance market. However, it was pointed out that the U.S. policies were misplaced flawed and based on mistaken economic reasoning. They were misplaced because financial liberalization had been an ongoing process in Japan since the mid-1970s and in 1980, unrestricted capital flows were officially accepted in principle by the Japanese authorities and, moreover, there existed little justification to argue that further liberalization would significantly influence the value of the yen in any one direction, especially over a short period of time.<sup>19</sup>

Instead of a piecemeal approach to addressing United States Corporate complaints, the Trade Act of 1984 was passed and market-oriented sector-selective (MOSS) talks were convened in 1985 to focus on all the alleged market-access problems for four specially designated goods in which they United States retained comparative advantage (electronics, pharmaceutical/medical equipment, telecommunications, forestry products, and later, automobile parts).<sup>20</sup> In 1986, the two

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19 Yoshio Suzuki, *Money, Finance and Macroeconomic Performance in Japan* (New Haven: Yale University Press, 1986), p.10.

20 Pietro S. Nivola *Regulating Unfair Trade* (Washington, D.C., Brookings Institution, 1993), pp.81-83.

governments concluded a ground-breaking agreement involving trade in semiconductors.<sup>21</sup> The US sought to shelter the American industry from Japanese "dumping" (selling below production cost) of chips both in the US and in Third countries, and it had sought to provide the American industry with a specific percentage (20 percent) of the Japanese market in lieu of any further Japanese promises of market-opening measures. More new forms of negotiating modalities were introduced in 1988-89.<sup>22</sup> The first was a direct outgrowth of Japan's being identified as a "priority" source of foreign trade barriers against American goods under the Super 301 amendment to the Omnibus Trade and Competitiveness Act of 1988.<sup>23</sup> Acting under the law, the US administration named three areas - supercomputers, communications satellites, and wood products - that required either productive bilateral negotiations or eventual US retaliation in kind against Japanese goods. The second, the so-called Structural Impediments Initiative (SII), was an indirect outgrowth of the

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21 Ryutaro Komiya, Masahiro Okuno and Kotaro Suzumora eds., *Industrial policy of Japan*, (Tokyo, Academic Press, Inc. 1989), pp.171-173. Also see USA, Congress Joint Economic Committee, Subcommittee on Trade, Productivity and Economic Growth, *Hearings*, "United States - Japan Trade: Semiconductors, Ninety Ninth Congress, First Session, 1985.

22 *ibid.*

23 "Super 301 Action Against Japan, Brazil and India: Rationale, Reaction and Future Implications," congressional Research Service (CRS) Report for Congress (Washington, D.C., The Library of Congress), January 26, 1990, pp.6-7.

Super 301 and marked a major conceptual breakthrough.<sup>24</sup> The original American idea had been to discuss the big picture for the first time by addressing such structural barriers to imports as the Japanese distribution system, industrial structure (whereby companies in an extended consortium, such as Mitsui or Mitsubishi, tend to buy from one another), and the rigid pricing system for imports, but Japan had insisted that the agenda be expanded to include its charges about the structural weaknesses in the US that were allegedly the principal sources of trade disequilibrium.

Some observations were be raised in the Congress with respect to US pressure on Japan to stimulate domestic demand.<sup>25</sup> First, the question was whether such policies would have effectively reduced Japan's trade surplus. Moreover, should Japan stimulate domestic demand independent of US pressure, and furthermore, should Japan regard housing and consumer spending policies in the US as a model in formulating its own domestic policies. The response to the first observation was that as long as the US continued to spend more than it produced domestically, it was unlikely that any reasonable increase in domestic demand within Japan would significantly have reduced Japan's trade surplus.

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24 *ibid.*

25 Lester Thurow, *Head to Head: The Coming Economic Battle Among Japan, Europe and America* (New York, William Morrow and Company, INC), 1992, pp.41-42.

There were at least two disturbing themes that permeated the various US proposed trade, financial and macroeconomic policies for Japan.<sup>26</sup> The policies firstly, were based on the premise that the US has little responsibility for the current trade imbalances and hence, Japan should have made the necessary changes and adjustments to reduce its trade surpluses. The US ignored the basic fundamentals such as a low US saving rate, high US domestic demand, and high US real interest rates that had contributed to the trade imbalances. The US had also ignored the substantial benefits that had resulted from the trade deficits with Japan. The crowding-out effects of federal deficits and their impact on interest rates had been greatly mitigated by the inflow of Japanese capital. US consumers had benefitted from high quality Japanese imports of almost every type and US industry had become more efficient and competitive in the face of Japanese competition. At the same time, the then current trade imbalances were not desirable and posed a serious threat to the world trading system.<sup>27</sup> However, it was expected that changes in the value of the yen and the natural evolution of the Japanese economy towards domestic spending would probably, in the future exert a more significant effect on reducing Japan's trade surplus than all of the US pressures combined. Unfortunately these correctives would not have immediate results and since trade issues had a

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26 See, Pietro S. Nivola, n.20, pp.101-102.

27 *ibid*, pp.103-111.



propensity to be settled in the political arena rather than the arena of rational and objective discussion, the US would continue to pressurise Japan.<sup>28</sup> As one analyst pointed if the past taught any lesson in this regard however, it taught that US pressure was frequently counterproductive, misplaced and did not reflect well on the US as the major world economic power.<sup>29</sup> Besides the changes in the exchange rate and the natural evolution of the Japanese economy, there were two suggestions that were offered for each country.<sup>30</sup> The most obvious observation was that, the US reevaluate its macroeconomic policies with respect to the federal deficit. Accordingly, the US could not continue to maintain policies that emphasized both private and public consumption, continue to rely on capital imports to support a consumption oriented economy, and at the same time, expect to operate with a balanced current account. The expert's view was that the US did not appear willing to undertake such an evaluation. The federal deficit continued and the tax reform packages of the late 1980s provided further disincentives to save.

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28    *ibid*, pp.113-119.

29    John Tochelsohn ed., *Keeping Pace: US Policies and Global Economic Change* (Cambridge, Massachusetts: Ballinger Publishing Co., 1988), pp.90-92.

30    See, Thomas F.Cargill, "A Perspective on Trade Imbalances and United States Policies Toward Japan", *Columbia Journal of World Business* (New York), vol.22, no.4, Winter 1987, pp.55-60.

It was also argued that the resolution of the trade imbalances of the 1980s could not be allowed to revolve around the type of protectionist legislation that were discussed in Washington in 1988. The world trading system that had been painstakingly developed since the end of World War II was at a turning point. While the trade deficits reflected the macro-economic policies of the US, Japan resisted the temptation to adopt a passive and defensive position, for such a position did not benefit a country that had achieved status as a major economic superpower.<sup>31</sup>

Beginning from the late 1950s, the US government occasionally asked the Japanese government to establish VERs on textiles and other labour-intensive, light-industry products. This situation continued into the 1960s. Diplomatic negotiations between Japan and the United States on such bilateral issues became prolonged and increasingly difficult in the case of textiles toward the end of the 1960s. The rapid increases in Japanese exports to the United States of certain textile products and other light-industry commodities in the 1960s had tended to induce protectionism in the US. Generally speaking, this had taken one of the following forms: (1) The US government acting at the request of private firms or groups adversely affected sometimes applied antidumping regulations, the escape clause, or countervailing duties, (2) VERs or export

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31 Martin Feldstein, "Correcting the Trade Deficit", *Foreign Affairs* (New York), no. 69, vol. 23, Spring 1987, p.796-806.

quotas based on intergovernmental agreement were introduced after diplomatic negotiations between the two countries; or (3) the US Congress had threatened to pass new laws restricting imports. In Japan, this situation or the process leading to restrictions on trade had been called "Japan-US trade (or economic) friction (or conflict) (Nichi-Beibooki [Keizai] masatsu). This description applied to friction or conflicts over Japan's exports, but there were other conflicts over Japan's imports.<sup>32</sup>

## **AREAS OF US: TRADE CONFLICTS WITH JAPAN**

### **Textiles**

Among the trade conflicts over Japanese exports to the United States, those concerned with light-industry products like textiles and miscellaneous goods may be termed "old-type trade friction", whereas those concerned with colour-television sets, automobiles, motorcycles, machine tools, and integrated circuits can be called "new-type trade conflict". Trade conflicts over steel and special steel products may be considered an intermediate type.<sup>33</sup> In the immediate postwar period, the US was the world's dominant textile exporter. Beginning in the mid-1950s, foreign cotton textile imports,

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32 Youn-Suk Kim, "Japan-US Industrial Competition", *Asian Profile* (Hong Kong), vol.15, no.3, June 1987, pp.76-79.

331 Hisahiko Okazaki, "The Restructuring of US-Japanese Alliance", *Japan Review of International Affairs*, vol.2, no.2, 1988, pp.123-42.

particularly from Japan, increased steadily, although such imports remained a small portion of US domestic consumption (\$84.1 million in 1956, \$65.8 billion in 1957, \$76.7 million in 1959 and \$69.4 million in 1961). The US had persuaded Japan to adopt a policy of 'voluntary' export restraint. However, the Japanese soon saw their "restraint" rewarded by having much of the US market they were forbidden to fill go to other Asian textile exporters, including Hong Kong, Taiwan and South Korea. By 1960, US imports of cotton cloth exceeded exports for the first time since 1878. In January 1962, the Kennedy Administration concluded a multilateral, cotton textile trade accord, the "Long-Term Arrangement" (LTA), which established rules by which cotton-textile importing countries could limit exports from any country by bilateral agreement or unilateral action.<sup>34</sup> Negotiations continued intermittently until the first comprehensive Japan-US agreement on the textile trade was concluded in October 1971 whereby restrictions on exports to US of wool and synthetic fibres by Japan were agreed upon at the governmental level. This was the first serious postwar trade conflict, and the diplomatic negotiations had become increasingly troublesome and painful for both the countries. When Japan and the USA had agreed to conclude the Short Term Agreement (STA) as an administrative (intergovernmental)

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34 Hideo Sato, "The Crises of an Alliance: The Politics of U.S.-Japan Textile Trade", Ph.D thesis, Department of Political Science, University of Chicago, 1976, chapter 2. Excerpts given in Chalmers Johnson, Laura Tyson and John Zysman, eds., n.14, p.99.

agreement in 1961, nobody thought that this was the beginning of widespread, detailed controls on trade in old kinds of textiles covering many countries. The quantitative restrictions on Japan's exports of cotton textile products to the US was thereafter extended first to exports from Hongkong, Taiwan, and South Korea and then to exports from all developing countries. The bilateral agreement on cotton trade, which was relatively informal in the beginning, became more and more formal, rigid and multilateral. It also became highly complicated and more or less permanent. The STA on the cotton textile trade (1961) and the Long Term Agreement (LTA, 1962) were legally recognized by GATT and twice extended (1967, 1970).<sup>35</sup> The US was then threatened by a rapid expansion of Japanese synthetic fibre and woollen textile exports, and the wane of protectionism in the US became overwhelming. The negotiations between Japan and the US were prolonged, and unfortunately from the view point of economics and world trade, the process became entangled in the US presidential election and the restoration of the Okinawa government to Japan. Finally, the textile negotiations became as tense that the Japanese government had no choice but to accept the Japan-US textile agreement of 1971, covering all textiles.<sup>36</sup> The

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35 Youn-Suk Kim, n.32, p.78.

36 A William R. Cline, *The Future of World Trade in Textiles and Apparel* (Washington, D.C., Institute for International Economics, 1984), pp.214-215.

repercussions were great for all members of GATT.<sup>37</sup> The Multi-Fibre Agreement (MFA) concluded in 1974 covered the worldwide trade of all textiles. The question is why had Japan readily accepted the request of the US to institute VERs on textile products at the beginning of the entire process? And why had the textile industry of Japan later strongly resisted the US request for export restrictions during the negotiations in 1968-71 for the Japan-US Textile Agreement? The observation with regard to the first question was that Japanese political leaders had felt obliged to accommodate the US request in return for US support for Japan's accession to GATT, as well as for the overall US policy towards Japan.<sup>38</sup> In any case, Japanese political leaders at the time did not want to create trouble in Japan-US relations. Another factor was that VERs, which had allowed Japan to control exports, were considered more advantageous for Japan than other U.S. import restriction measures. VERs were considered the lesser evil and less likely to become permanent than more formal measures such as import quotas, tariffs or tariff quotas. The distribution of the rent element inherent in any quantitative restriction measure is more advantageous to the export industry under VERs than under import quotas or tariffs. Furthermore, the industries affected

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37 Jeffrey J. Schott, ed., *Completing the Uruguay Round: A Results Oriented Approach to the GATT Trade Negotiations* (Washington, D.C.: Institute for International Economics, 1990), pp.200-207.

38 *ibid.*

in the early stage - from the late 1950s to the early 1960s - were overwhelmingly small or medium-size firms with little political power. The US government succeeded in ending the long running negotiations on the textile trade by strong, unilateral actions (including abolishment of the gold convertibility of the US dollar and an across-the-board 10 percent import surcharge), actions known in Japan as the "Nixon shock".

From 1968 to 1972, Japanese exports, especially to the US expanded rapidly and Japan's overall balance of payments in its current account showed sizeable surpluses. Between 1968 and 1972 trade friction tended to become more frequent and serious when the US economy was in recession and Japan's balance of trade was positive, both overall and bilaterally with the US, Japan had experienced then what could be called the "first wave" of the Japan-US trade conflict.

### **Steel**

Among the more serious trade frictions were steel exports to the US. There had arisen a strong protectionist movement in the US to restrict steel imports from Europe and Japan. A bill to establish import quotas for steel was introduced in Congress in 1967. Fearing that a formal quota system would be established, the Japanese steel industry had set up a VEW system in 1966, which was strengthened in 1969. A third VER

was enforced from 1972 to 1974.<sup>39</sup> During this period, the European Community also introduced a VER on its steel exports to the US. Meanwhile, Japanese steel exports to the EC increased rapidly from 1969 to 1971, and Japan had enforced a VER on its steel exports to the EC since 1972, with the exception of 1975.

Trade conflicts in steel has already been mentioned as an intermediate type. Japan once had a strong comparative advantage in textiles and other light industry products based on cheap and efficient labour, whereas the strong international competitiveness of the Japanese steel industry was based on modern and sophisticated technology, locational advantage and the large size of the domestic market. The ability of the Japanese steel industry to compete successfully even in the North American and European markets since the middle of the 1960s indicated that the Japanese economy had reached a new stage of industrialization. During this period, trade conflicts arose from footwear and metal tableware, special steel products, sheet glass and fasteners (intermediate type) and electric and electronic machinery and parts and colour television sets (new type).<sup>40</sup>

#### **Colour Television Sets**

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39 William R. Cline, *American Trade Adjustment: The Global Impact*, (Washington, D.C.: Institute for International Economics, 1989), pp.71-77.

40 See Cline, n.39, p.81.



While textiles remained a potential source of tension among the two countries, the main focus of attention shifted in the late 1970s to another trade sector, slightly higher on the technological ladder - colour television sets. Owing the Japan's aggressive manufacturing and marketing efforts, Japanese colour television exports to the US increased rapidly in the 1970s.<sup>41</sup> In 1976, for instance, television exports to the US grew nearly 150 percent over the previous year, that is, from 1.04 million units to 2.53 million units, thus about 40 percent of the US market.<sup>42</sup> Seeking import relief, US domestic producers resorted to a "shotgun approach of multiple jeopardy."<sup>43</sup> They initiated a variety of actions directed at their Japanese counterparts, including legal proceedings against alleged Japanese dumping, price fixing, and customs fraud. Moreover, in September 1976, the Committee to Preserve American Colour Television (Compact), a domestic industry-labour lobby, filed with the International Trade Commission (ITC)<sup>44</sup> an escape clause petition, which was authorized by

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41 Priscilla Clap and Morton H. Halperin, eds., *United States Japanese Relations - The 1970s* (Cambridge, Massachusetts, 1974), pp.59-60.

42 Ronald I. Meltzer, "Colour TV Sets and US-Japanese Relations: Problems of Trade Adjustment Policy Making", *Orbis* (Philadelphia), Summer 1979, p.421.

43 *ibid*, p.421.

44 This is an US domestic agency and an impartial arbiter, investigating into the different areas of U.S.-Japan trade conflicts, specially in the areas of automobiles, steel textiles and other primary products.

section 201 of the 1974 Trade Act.<sup>45</sup> The petition asked for the drastic curtailment of Japanese imports for they had been responsible for causing serious harm to US domestic industry by the elimination of 19,000 US jobs. On March 14, 1977, the ITC ruled in favour of COMPACT. With the aim of alleviating import damages, it recommended a substantial, phased tariff increase (20 percent for the just two years, 15 percent in the third and fourth, and 5 percent in the fifth year). While Tokyo and Japanese industry representatives regarded the ITC ruling as "too severe" and the proposed unilateral US tariff increases as destabilizing overall trade relations, Japanese officials were prepared to take a flexible trade policy stance in order not to repeat the experience of the 1969-71 textile issue and Tokyo willingly wanted to negotiate an orderly marketing agreement (OMA) with the US.<sup>46</sup> The Carter administration which also favoured the OMA approach, instructed special Trade Representative Robert Strauss to begin negotiations with the Japanese. The OMA and other US efforts to limit Japanese colour television exports to the US market had three important interrelated consequences.<sup>47</sup> First, they encouraged the Japanese manufacturers to increase the production of colour televisions in the US. When the OMA was signed, three Japanese

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45 Clapp and Halperin, eds., n.41, pp.59-63.

46 Don Bonker, *America's Trade Crisis*, (Boston: Houghton, Mifflin and Co., 1988), pp.25-36.

47 *ibid*, pp.38-39.

manufacturers (Sony, Matsushita and Sanyo) were producing in the United States and the agreement induced them to expand existing production facilities. Later, three other Japanese companies (Mitsubishi, Toshiba and Hitachi) decided to produce in America. In effect, "In 1977, virtually all export losses mandated by the negotiated OMA were offset by increased American production of colour TV sets by Japanese owned firms."<sup>48</sup> As a consequence of the increased Japanese production in the US and the Japanese companies' additional, self-imposed export restraints (due to the continuing controversy over the assessment of dumping duties), Japanese colour television shipments to the United States fell below the quota sanctioned by the OMA. US imports of Japanese made sets fell from 1,842,196 units during the first year of OMA to only 1,238,689 sets during the second year.<sup>49</sup> Finally, President Carter allowed the three year OMA to expire as scheduled on June 30, 1980. Predictably, as imports from Japan declined, shipments from Taiwan and South Korea increased rapidly.

#### US RESPONSE IN THE EIGHTIES

The US had responded to increasing textile and colour television imports from Japan by resorting to a tempered

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48 Meltzer, n.42, p.438.

49 C. Fred Bergsten and Marcus Noland, *Reconciliable Differences U.S. - Japan Economic Conflict*, (Washington, D.C.: Institute for International Economics, 1993), pp.100-104.

protectionism in the form of voluntary restraint or orderly marketing arrangements, thereby avoiding outright mandatory quotas or unilateral tariff increases. Japan's initial export restraint was exploited by South Korea and other Asian countries which had quickly increased their share in the US market. Then the US expanded the import control arrangements to include these other Asian exporters. In the textile case, the Japanese response was to adopt a scrap and build policy with major firms investing heavily in South Korea and other countries, with low labour costs.<sup>50</sup>

### **Automobiles and Autoparts**

In the area of colour television, the Japanese companies opted to increase production in the US market in order to offset the decrease in exports. In addition to textiles and colour television sets, the US had numerous disputes over foreign imports, including steel and automobiles from Japan. In the case of steel, Washington had resorted to the "Trigger Price Mechanism", a price oriented import-control arrangement applying to all foreign suppliers.<sup>51</sup> With regard to imported

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50 See for details in Chae-Jin Lee and Hideo Sato, *U.S. Policy Towards Japan and Korea. A Changing Influenced Relationship*, (New York: Praeger Publications, 1982), pp.45-51.

51 Hideo Sato and Michael Hodin, "The Politics of Trade: The US-Japan Steel Issue of 1977", paper published and prepared for the Japan-United States Economic Relations Group, November 1980. For detailed reference on this f.n. see David P. Calleo, *Beyond American Hegemony: The Future of the Western Alliance*, (New York: Basic Books, 1987), pp.144-146.

automobiles, the Carter administration refrained from establishing either mandatory or voluntary quotas. The lack of an International Trade Commission determination that domestic industry had been injured by imports hampered efforts to set voluntary quotas. Nevertheless, the automobile issue became a major source of tension between Japan and the United States in 1980, due to a well-publicized protectionist campaigns by the United Auto Workers (UAW) and Ford. Finally, despite the ITC ruling made in November 1980 against automobile import restrictions, the new Reagan administration successfully negotiated a voluntary quota agreement with Japan in May 1981. In the auto dispute, the US Congress from the beginning took a protectionist stance, largely because of the growing unemployment problems resulting from the plant shutdowns and production cut-backs. The main economic consideration was to avoid large-scale disruption in related industries and the economy in general.

In the midst of the auto dispute the US Congress passed concurrent resolutions declaring it to be a strategic national industry, taking into consideration the fact that "one in twelve manufacturing jobs was related to the auto industry and because the automotive sector provided a 'market for 24 percent of the US steel output, 17 percent of aluminium, 54 percent of iron, and 59 percent of synthetic rubber."<sup>52</sup> Throughout the

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52 USA, Congress Joint Economic Committee, *Hearings, "US Trade and Investment Policy: Imports and the Future of the* (continued...)

dispute, the Japanese auto industry remained opposed to restraints on their export of passenger cars to the US. It denied that the American auto industry was in decline and instead viewed its plight as only a transitory, although painful phenomenon. Even Douglas Fraser, President of the UAW, admitted as much, but he had objected to was the "continued unfair exploitation [by the Japanese] of their current, temporary advantage," and he had noted that if this practice was continued, it would have led to an overreaction of protectionism in the United States.<sup>53</sup> It is true that Japan had on several occasions in the past, agreed to exercise VERS and so the outcome of the auto dispute was no novelty. The difference could be found in the underlying rationale behind the actions of the Japanese government. This, however, raised the question of why the dispute festered for over a year and a half if the Japanese government was from the very beginning in support of the VERS. The duration would appear to make the traditional explanations of linkage politics and foreign pressure more attractive, but these provided only a partial

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52(...continued)

American Automobile Industry", Ninety-sixth Congress, second session, March 19, 1980, p.12.

53 As quoted in "The Automobile Crisis and Public Policy", an interview with P.Caldwell, Chairman, Ford Motor Co. in *Harvard Business Review*, (Boston), January-February 1981, p.78.

explanation and should, as a scholar phrased it, more appropriately be seen as constant parameters.

One constant feature of US-Japan trade disputes had been the inevitable linkage with defense issues and Japan's alleged 'free-ride' on American security commitments. The belief that Japan was taking a free-ride on US defence efforts troubled many Americans, who saw in this a distinct advantage for Japan because it freed resources that could then be diverted to achieve economic ends.<sup>54</sup> External pressure was another constant element in US-Japan trade relations, but a helpful one given the nature of the decision making process in Japan and its effectiveness in forcing solutions to problems. Pressure had not been altogether redundant and had been important in resolving trade disputes and for breaking stalemates emerging from the nature of bureaucratic and organizational politics. VETs had been used in the past, but only in the case of the auto VET was the Ministry of International Trade and Industry (MITI) favourably predisposed.

#### JAPAN'S POLICY NUANCES

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54 Ramon H. Myers and Tetsoya Kataoka, *Defending an Economic Superpower: Reassessing the U.S. Japan Security Alliance*, (Boulder, Colorado: West View Press, 1989), pp.101-109.

The Japanese steel industry too had been very receptive to US demands for export restraint. However, in 1978, three years after the 1969 VER had lapsed, steel exports became, once more, a source of friction between the two countries. The Japanese steel industry was favourably inclined to export restraints because of a sense of indebtedness to the US for assistance in the early developmental stage, the profitability of VERs and for the fear of losing a large and stable market in the US. Since the steel industry itself wanted export restraint, MITI went along and as a result of negotiations with the US a trigger price mechanism (TPM) was agreed upon, which had ultimately proved highly beneficial to the Japanese steel industry, since it took away the competitive edge of South Korean steel manufactures and secured for Japan a stable market share in the US.<sup>55</sup>

Conflicts also took place in May 1982 over reduction or complete removal of tariffs on 215 items by Japan especially electric washers, boilers etc. In April 1983 the US increased tariffs over large motorcycles and conflicts also. By December 1985 conflicts arose over the dumping of Japanese semiconductors and over President Reagan's approval of a study

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55 See Bergsten and Noland, n. 49, pp.106-109.



to examine the possible dumping of "256 K-bit D.RAM" (highly integrated semiconductor memory units) made by Japan. Trade frictions thus had a history exceeding two decades.<sup>56</sup>

#### **EXECUTIVE AND CONGRESSIONAL INPUTS**

The vital relationship between domestic politics and the conduct of foreign policy have increasingly become obvious in the past decade. Not only is a nation's foreign policy shaped by factors within the domestic body politic, but its foreign policy must respond, at least in general, to the aspirations, values and mood of the society it serves. The foreign policy of a government democratically elected evolves from a process of pulling and hauling among competing forces within the government and the society, more than it does from the outside world. This is particularly true of the American political process.

The innermost circle of policy making is composed of the President and his policy advisers and personal appointees. The President's greatest resource is the vast federal executive establishment which he heads. For the most part, the executive departments of government and the political appointees who head them, are at the core of the policy making process,

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<sup>56</sup> Sato and Hodin, n.51, pp.144-146.

particularly the Departments of State and Defence. The President is nominally "boss" of the employees who staff the executive departments and agencies. The interests of the executive branch organizations however are not always synonymous with the interests of the President. For that reason, members of the cabinet have often been described as a President's "natural enemies". However, Reagan, more than any other president, committed himself to a cabinet like form of government, where the collective wisdom of government heads would decide administration policies which all could then support and defend.<sup>57</sup> President Reagan's choice of Alexander Haig as Secretary of State was spotlighted as an indication of the President's desire to relocate primary control over foreign policy making in the State Department. Foreign economic-policy making involved a much wider network: The Department of Agriculture on food policy, the Department of Commerce on trade issues and the Treasury Department of monetary issues. Each of

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57 See for detailed explanation in Fred I. Greenstein, ed. *The Reagan Presidency An Early Assessment*, (Baltimore, Maryland, The John Hopkins University Press), 1984, pp.19-23.

these departments has important domestic roots and often powerful congressional allies.<sup>58</sup>

#### **THE 1984 TRADE ACT**

President Reagan's main plank was a stronger America with restored military might. As far as his responses towards Japan's massive trade surplus with US (In 1985 US bilateral trade deficit was \$49.7 billion) was concerned, Reagan felt that the number the size of US trade deficit with Japan simply represented the difference between how much merchandise the US sold to Japan, and how much they US bought from - "Japan nothing more and nothing less."<sup>59</sup> Japan's trade surplus never indicated in the opinion of Reagan, how open the Japanese market was. The deficit had risen by \$13 billion in 1985, but Japan did not erect \$13 billion worth of new barriers against US products. Reagan felt that the US had a number of successes

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58 B.B. Kymlicka and Jean V. Mathews eds., *The Reagan Revolution*, (Chicago: Dorsey Press, 1988), pp.85-87. Also see U.S. Department of Commerce, International Trade Administration Office of Trade Investment and Policy Analysis, *U.S. foreign Trade Highlights 1981-91* (Washington, D.C. , 1992), pp.41-44. Also see Jeane J. Kirkpatrick, *The Reagan Phenomenon and Other Speeches on Foreign policy*, (Washington, D.C.: American Enterprise Institute for Public Policy Research, 1983), pp.97-106.

59 US, *Economic Report of the President Transmitted to the Congress 1984-08* (Washington, D.C., 1984-88), p.296. This has been cited in Edward E. Olsen, *US Japan Strategic Reciprocity: A Neo-International View* (Stanford, California: Hoover Institution Press), 1985., p.28.

especially in 1984, through the market oriented, sector selective process (MOSS), even while the deficit rose.<sup>60</sup> The 1984 Trade and Tariff Acts at the behest of US domestic textile and steel companies stepped in to stop such deaths by a thousand cuts. A mandatory cumulation proviso would compel the Commerce Department to conduct more full investigations of dumping for more countries. Moreover, section 613 of the Act enabled commerce to impose counteracting duties on subsidized components of they "bestowed competitive benefits and had a significant effort on the manufacturing costs of final products for export. The Act authorized the Executive to enforce the myriad VERs over 5 years, backed by the sense of Congress that imports should be kept within the 17 percent to 20.2 percent range."<sup>61</sup> Reagan felt that Japan's trade surplus was not an indicator of how competitive American and Japanese industries were against each other. The US and not Japan, was still the world's largest exporting nation and the world's technological leader. The US trade deficit with Japan did not indicate that the US sold more American products to Japan than to any other country in the world except Canada, and, that, 625,000

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60 *ibid.*

61 Yakushiji Taizo, "Trade Acts in Perspective", in *Japan Echo* (Tokyo), vol.15, no.4, Winter 1988, pp.35-38.

Americans owned their jobs to such exports. Moreover, Japan had, by 1985 become one of the leading investors in the US. Further, the Japanese manufactured in 40 US states and employed about 80,000 workers.<sup>62</sup>

#### **MOSS AND TRADE ACT OF 1988**

During this period, the Reagan administration found it difficult to keep its own markets open in the face of a growing trade deficit and a perception that others were taking advantage of their openness. It persuaded Japanese Prime Minister Nakasone to make an unprecedented effort to open its trade and financial markets, an effort which would yield significant new opportunities for US firms. The so-called MOSS talks had already achieved significant successes in opening Japan's market for telecommunications, pharmaceuticals, medical equipment and forest products. The Reagan administration began to initiate discussions on overall trade at the Tokyo Summit to focus on a new GATT round of multilateral negotiations. Further, the government negotiated agreements for mutual zero import duties thus preventing trade frictions. Several analysis argued that the efforts of Presidents Nixon and Carter "to break the umbilical cord" between the US and Japan had reinforced the suspicion in Japan that US was only interested

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62 Cohen, n.13, pp.32-33.

in nuclear power balances.<sup>63</sup> This impression subsided during the Reagan years, for Reagan had cast aside the paternalistic style of alliance leadership and took Japan as a full partner and gave new importance to it as an ally.<sup>64</sup>

#### CONGRESSIONAL ROLE IN THE FORMULATION OF POLICY

During most of the postwar period, the Congress had deferred to the notion that the legislative branch should confine its influence to the domestic sphere and leave foreign policy more or less to the initiative of the executive branch. During the 1960s, and particularly after 1965, changes that were occurring in the Congress began to manifest themselves in executive legislative relations in the area of foreign policy. Vietnam, was the catalyst during the post war period, Japan never loomed large on the Congressional horizon. During the 1950s and 1960s the issues most frequently aired on the floor of the House or Senate was related to trade and particularly textiles.<sup>65</sup> While there have been a number of hearings over the years on treaty commitments with Japan, US policy in Asia

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63 William R.Cline, Nobure Kawanabe, T.O.M. Kronsjo, and Thomas Williams, *Trade Negotiations in the Tokyo Round: A Quantitative Assessment* (Washington, D.C.: Thr Brookings Institution, 1981), pp.29-38.

64 *ibid*, p.39.

65 See Clapp and Halperin, n.18, pp.71-73.

and aid appropriations to the Japanese, they have been perfunctory in the sense that they mounted no effective challenges to executive policy and whatever effect the Congress might have had on the Executive branch approach to US-Japanese relations in the 1960s and early 1970s was more indirect.<sup>66</sup> The most direct threat of legislative action in Congress that affected US relations with Japan occurred in connection with the strongly protectionist Burke-Hartke Bill, recommending severe restrictions on Japanese imports to the US. However, the bill stated at the House Ways and Means Committee and none of its protectionist provisions were incorporated in the Trade Reform Act, which passed the House in 1973.<sup>67</sup> Although any restrictions legislated by Congress would have affected most of the countries that exported to the US, there was little doubt that Japanese imports were viewed as the most serious threat.

From the mid 1980s, Japan-US trade friction became a major irritant in the bilateral relations between the two countries, by assuming the proportion of what was generally described as

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66 *ibid*, p.82.

67 Richard C. Shroeder, "Trade Talks and Protectionism in *Editorial Research Reports* (Washington, D.C.), vol.1, no.2, January 12, 1979, pp.116-18. Also see, Patrick G. Marshall "U.S.-Japan", *Congressional Quarterly Researcher* (Washington D.C., congressional Quarterly Inc., May 31, 1991.

a trade war. Protectionist sentiments were expressed in the US Senate and the Congress as a whole which prompted them to take a hard look at the state of affairs between the two allies. The views of the Congress became widely felt in the automobile dispute between US and Japan, which had started in 1981. The clearest signal of a looming crisis had come when the United Auto Workers (UAW), in early 1980, demanded relief from the inroads being made by Japanese car manufacturers and which had threatened to disrupt American car manufacturing. The issue was immediately taken up by Congressmen and Senators from the Great Lakes region, and they had spelt out the need for a five year import quota on Japanese cars so that Detroit had a 'breathing space' to complete the switchover to the production of small cars and the modernization of its production facilities.<sup>68</sup> Furthermore Senator Riegle pointed out that the Japanese auto industry had been built up behind a thick, impenetrable wall of tariff and non-tariff barriers. In the auto dispute, the US Congress from the very beginning had taken a protectionist stance, due to rising unemployment problems resulting from plant shut down and production bottlenecks. The Senate also on 28 March 1985, passed a resolution urging President Reagan to retaliate against Japanese imports unless

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68 Komiya, Okume and Suzumora, eds., n.21, pp.310-13.



Japan gave US products greater access to its markets.<sup>69</sup> Referring to the \$37 billion total trade deficit with Japan in 1984, Senator John Danforth one of the sponsors of the resolution had said: "This resolution is not a message to the Japanese. Rather it is to establish a policy in international trade - that \$37 billion is too much... and that if one do not get it equal treatment) [sic], we will act in a retaliatory way."<sup>70</sup> Two other Senators introduced their own bills on 27 March 1984 on the issue of Japanese trade. One by Senator John Heinz asked for an imposition of a 20 percent tariff surcharge solely on Japanese goods. The bill of Senator Lawton Chiles said that unless Japan allowed a \$10 billion more US goods to be sold in that country within two years, the President must retaliate with actions similar to those the US accused Japan of using. Later, 2 April, the Senate Finance Committee, stepping up the push for lifting barriers to American goods, passed a bill ordering President Reagan to lash back at Japan in 90 days unless it opens its markets to US products. The Finance Committee's actions meant for beyond the non-binding senate resolution of 28 March and would have constituted a specific

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69 See Don Bonker, n.46, p.104.

70 John P.Hardt and sheila N.Heslin, *US-Japan commercial Relations: Issue Brief No.63219* (Washington, D.C.: Congressional Research Service, 1987) p.100.

directive to the President. In essence, it had required him to improve the US trade deficit with Japan by \$3.5 billion during the next 12 months.<sup>71</sup> At the same time, the House of Representatives Ways and Means Committee approved a non-binding resolution similar to the one unanimously adopted by the Senate on 28 March 1985, and it urged the President to restrict imports from Japan unless it opened its markets.<sup>72</sup> Thus, the Congress initiated the legislation for the passage of the Omnibus Trade and Competitiveness Bill of 1988 to deal with a large, continuing trade deficit. Many in the Congress attributed the trade deficit to unfair trade practices in foreign countries and diminished US industrial competitiveness. The Congress had two priorities: firstly to promote a more active government role in opening foreign markets and enhancing the competitiveness of US and secondly to convey the Congressional wish for a balanced trade policy. In the Omnibus Trade Act of 1988, Congress had sought to ensure that the government would take action when US interests were harmed by unfair practices and would provide temporary relief for injured

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71 *ibid*, pp.103-6.

72 U.S.Department of Commerce, *International Trade Administration, Improving US Competitiveness*, Proceedings of a Conference held at the US Department of Commerce on 22 September 1987 (Washington, D.C., December 1987, pp.21-29.

domestic industries. This act and the 1984 Trade Acts also provided for a strong Congressional role in the future.<sup>73</sup>

#### ROLE OF USTR

An important and influential discussion of the trade policy is managed by United States Trade Representative (USTR). Headed by a Presidential appointee who carries the rank of ambassador, and dating back to the Kennedy administration, the office is responsible for directing American participation in trade negotiations with other nations, such as the Tokyo Round of Multilateral Trade Negotiations concluded in 1979. More generally, the trade representative is responsible for setting and administering overall trade policy, particularly activities and negotiations relating to the General Agreement on Tariffs and Trade (GATT) the United Nations Conference on Trade and Development (UNCTAD), and the Organization for Economic Cooperation and Development (OECD). The USTR's office was

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73 Jeffrey J. Schott, *More Free Trade Areas?* (Washington, D.C., The Institute for International Economics 1989, pp.107-10.

recognised in 1980 which gave it a greater voice in determining overall American trade policy.<sup>74</sup>

Initially, in the automobile dispute case, USTR William Brock, under the recommendations of the Presidential task force, of which the USTR himself was a part, left for Tokyo in late April 1981 to negotiate the VER. The negotiations led to the extension of the VER for a duration of three years; the exercise of the VER by Japan in the first year of the agreement with total permitted exports not to exceed 1.7 million units (April 1981-March 1982); MITI to be held responsible for the allocation of quotas to the Japanese manufacturers; MITI would oversee the implementation of the VER and take steps to ensure compliance under the Export Trade Control Act should it appear that the quotas would be exceeded.<sup>75</sup>

In the US policies related to Japan continued to be trifurcated along the classic lines of the bureaucratic politics model of decision-making. The State Department, the National Security Council and part of the Defence Department

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74 Susuma Awanohara, "Super 301: the Sequel US bill targets Japanese Trade", *Asian Survey* (Berkeley), vol.30, no.1, January 1990, pp.240-41.

75 Also see William R.Cline, ed., *Trade Policy in the 1990s* (Washington, D.C.: Institute for International Economics, 1984), p.416. See Clyde V. Prestowitz, *Trading Places: how are allotted Japan to take the lead* (New York: Basic Books, 1988), pp.50-59.

argued that the commercial issues were secondary to the larger goal of preserving the political and military alliance with Japan. The Treasury Department, the Council of Economic Advisers and the Office of Management and Budget view themselves as the defenders of the free market and opponents of any official intervention to determine the composition of trade flows. These two sets of forces are pitted against the bureaucratic version of what is truly in the US national interest - the trade hawks. The office of the USTR, the Commerce Department and those parts of the Pentagon worried about increasing dependence of US weapons systems on Japanese electronics components, view themselves as the spokesperson in government for both a largely battered, misunderstood American industrial sector and for a more decisive, aggressive, and consistent trade policy (bilaterally and multilaterally).<sup>76</sup>

In the realm of US agricultural trade policies, the VSTR and US Department of Agriculture (USDA) helped to tie the beef and citrus issues into broader concerns about market access for industrial products, which enabled the US to make Japan agree to resume talks on agricultural trade, especially on beef and citrus and to begin new discussions of market opening measures in October 1982. The 1979-1981 reorganization of

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76 See Prestowitz, n.75, p.78.

trade responsibilities in the US government also significantly weakened the State Department's influence on these matters and strengthened the USTR's position and role and its hardline position on Japan. The efforts by USTR and USDA officials to create a governmental consensus on beef and citrus, combined with a relative decline of the pro-Japan State Department, greatly contributed to the emergence of these commodities as important political issues. The image of beefs as an all-American symbol also assisted efforts to organize various agencies behind the USTR and USDA positions. The linkage of agricultural and industrial conflicts in Congressional debates and in the USTR's statements enhanced the importance of US-Japan agricultural trade conflicts.

The role of the USTR vis-a-vis Japan was highlighted in the application of the Super 301 provision of the Omnibus Trade and Competitiveness Act of 1988 to Japan. The Super 301 provision required the Executive Branch to identify priority foreign trade barriers and to seek their removal under timetables and the threat of retaliation.<sup>77</sup> Under the terms of the Super 301 provision three 'priority' countries - Japan, Brazil and India were identified as well as six "priority

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77 "US Hits at alleged Protectionalism in Asia: Carrying a Stick", *Far Eastern Economic Review*(Tokyo), vol.54, no.29, 21 June 1991, p.54.

practices" in those countries as major barriers to US exports were identified. Domestic pressures weighed heavily in the decision to identify Japan as a "priority" country. Formally entitled "Identification of Trade Liberalization Priorities, Super 301 established a mandatory process for the USTR to initiate investigations to reduce barriers to US exports.

Widespread resentment and puzzlement characterized the Japanese government's and public reaction over being singled out as an "unfair trader". Japan adopted the position that it would not enter into negotiations under the context of Super 301 (that is, under the threat of unilateral sanctions) but would discuss the problem raised by the US in another forum. Carla Hills, USTR maintained that as long as talks were held on barriers to trade in super computers, satellites and forest products, it does not matter what they are called. On the Structural Impediments Initiative (SII), the US accepted Japanese demands that talks to be a two way street so that US policies influencing a low savings rate and US budget policies are also discussed.<sup>78</sup>

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78 US, Department of State, Bureau of National Affairs, *Daily Executive Reporter*. USTR Expresses Willingness to Discuss Trade Barriers with Japan Outside Super 301, (Washington,DC), May 31, 1989, p.A-12.

Japan had been destined to clash with the US in increasingly capital intensive and high-technology areas, such as computers, semiconductors and telecommunication equipment. Indeed, Japan's heavy dependence on the US market had been a major reason for US to single it out as a target for criticisms. Japan has often been criticized by the US as a "free-rider" for not bearing a larger defense burden commensurate with its economic power, and US pressure on Japan to play a more active role in the security arena had increased under the Reagan administration.



**CHAPTER III**  
**IMPACT OF THE LABOUR, INDUSTRY, MEDIA AND THE**  
**PUBLIC OPINION ON DECISION-MAKING**

Domestic politics plays an important role in the US Japan relationship. Trade policies have been a major issue being affected by parochial and narrow interests. The US constitutional framework and the modalities of democratic politics have combined to produce a policy making milieu and process that, although perfectly appropriate to the needs of American domestic politics, may perhaps be inappropriate to the demands imposed by international politics.<sup>1</sup> Among the three complex dimensions of this dilemma are (i) the sheer volume of interest group activity (lobbying of Congress, Presidency, courts and bureaucracy); (ii) the development of large concentrations of private economic power such as labour unions and corporations and (iii) international financial institutions abroad. These three sectors provide the backdrop to the dynamism of private power in American society.<sup>2</sup>

Given the scope and depth of American involvement in the world, the lobbying by foreign actors involve a complex mix of groups, institutions, individuals, foreign governments, and

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1 Bruce R.Scott and George C. Lodge (eds.), *U.S.Competitiveness in the World Economy* (Boston, Massachusetts: Harvard University Press, 1989), pp.9-13.

2 John Zysman and Laura D. Andrea Tyson, *American Industry in International Competition* (Ithaca, N.Y.: Cornell University Press, 1983), pp.75-91.

even the US government itself. Among the more important categories of foreign policy lobbying are a mix of economic groups including associations of senior executives of American industry, broadly based associations as well as trade and professional associations, single industry groups, and labour.<sup>3</sup>

Theoretically speaking, interest groups are particularly important according to the pluralist model. It assumes that the US is a pluralist society consisting of a large number of overlapping interest groups whose interests can be defined by such characteristics as economic position, ethnic background, race and occupation.<sup>4</sup> The pluralist model further assumes that interest groups are organized for political action and that the struggle among interest-group organizations is central in the policy process. Foreign policy is the compromise outcome of that struggle. The transnational politics model is also pertinent to our consideration of interest groups, because it suggests that many groups' interests now transcend national boundaries. For instance, because of their transnational economic activities, multinational corporations' interests cannot be defined simply as subinterests of American national interests. Their interests are partially consistent with

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3 Norman J. Ornstein, Shirley Elder, *Interest Groups Lobbying and Policymaking* (Washington, D.C.: CQ Press, 1991), pp. 25-34.

4 Chae-Jin Lee and Hideo Salo, *U.S. Policy Towards Japan and Korea: A Changing Influence Relationship* (New York: Praeger, 1982), chapter 6, pp. 47-49.

American national interests and partially consistent with other countries' national interests. But in essence they are transnational corporate interests.<sup>5</sup>

#### **INTERESTS GROUPS LINKAGES IN US TRADE POLICY**

Economic groups constitute an even larger and more heterogenous set of lobbying forces that seek from time to time to influence American foreign policy and national security policy. It has been estimated that more than 500 corporations maintain legislative liaison office in Washington. In addition, influential groups of senior business leaders and executives, such as the 200 member Business Round Table, have established ready access to the foreign economic policy establishment. The Chamber of Commerce and National Association of Manufacturers are perhaps the best known business associations, with the Chamber widely regarded as the most professional and influential of the business groups.<sup>6</sup> The Chamber represents tens of thousands of firms and individuals throughout the country, and its extensive network of local chapters and offices provides it with political access to virtually every Congressional district in the country.<sup>7</sup> Its large Washington operation ensures considerable impact within Congress and the executive bureaucracy.

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5     ibid, pp.50-51.

6     Allan J.Cigler, Burdett, A Loomis, *Interest Group Politics* (Washington, D.C., 1991), PP.10.

7     ibid, pp.53-61.

The ways in which groups interests are represented in the policy process are diverse. They include not only the well-known Washington-based professional lobbying staffs of such organizations as the National Association of Manufacturers, the AFL-CIO, and the Veterans of Foreign Wars; they also include numerous Washington law firms, public relations firms, and individual free-lance lobbyists. Out of these, groups which are more specialized representatives of commercial interests, particularly of Western European and Japanese governments and corporations stand out significantly.

#### **LABOUR'S IMPACT ON TRADE POLICY IN THE SEVENTIES**

Labour stands out as a major economic group engaged in lobbying the government on foreign and national security, policies along with political and economic policies. Some fifty labour organisations operate in Washington. With the onset of increased international economic independence and its sometimes disruptive effect on domestic economics, the American labour movement began to shift from its traditional internationalist position during the 1970s.<sup>8</sup> According to one estimate for much of the period after World War II, most of labour could be counted on to take fairly liberal and internationalist positions on questions of trade and tariff

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8 Donald C.Hellman (ed.), *Critical Choices for Americans, China and Japan: A New Balance of Power*, vol.XII (Massachussetts, 1976), pp.9-14.

restrictions. However, the onset of intense competition and market penetration from abroad, especially in the areas of automobile, textile, steel and some light manufacturing industries, has led labour to take a far more protectionist posture. This attitude was clearly evident from mid-1965 and went on to reach its peak in 1985-86.<sup>9</sup> Thus, on virtually all trade reform and expansion legislation during the late 1970s and throughout 1980s, labour adopted a "fair trade" rather than "free trade" position, frequently in opposition to the Executive then engaged in trade negotiations with the Europeans and Japanese and increasingly on the opposite side from Labour's traditional liberal legislative allies in the Congress.<sup>10</sup> Since then, the preparation of the workforce represented by the Labour organizations has steadily declined. Through two decades of prosperity, the 1950s and 1960s, organised labour had developed the so called "deceptively cooperative alliance" with big business. When, the mid-1970s, the business community adopted an intensely adversarial posture, both in the private market-place and in the legislative arena, labour was caught not only unprepared but politically weakened through the erosion both of its ties to the democratic party and of its ties to many of the organisations making up the liberal left.

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9 Mark P. Petracca (ed.), *The Politics of Interests: Interest Groups Transformed* (Boulder, Colorado, 1992), p.133.

10 *ibid*, pp.121-2.

One of the direct repercussions of the declining strength of organized labour was the freezing of a major wing of the labour movement into a defensive posture, both on internal issues of union jurisdiction and on broader questions of politics and public policy. For such "cornerstone unions" as the United Automobile Workers (UAW) and the US steelworks, the dominant concerns were the seeking of government protection from foreign competition, through tariffs, import restrictions or other legislative mechanisms mandating a share of the market to American companies.<sup>11</sup>

In the opinion of many, assessing the policy impact of these group actions was difficult, compounded by the groups' claims of impact and the decision makers' equally vociferous claims of freedom from any outside influence. The major studies of lobbying in the 1970s generated a most benign view of this activity. For instance, one study painted a portrait of Washington lobbyists, in a "...Boy scout-like picture, depicting them as patient contributors to the policy-making process."<sup>12</sup> This view concluded that lobbyists had minimal impact. In fact, during the period 1983-1988, labour could be found in frequent alliance with industrial and business lobbyists seeking relief and protection from the forces of complex interdependence. In fact, those labour interest groups

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11 Lester Milbrath, *The Washington Lobbyists* (Chicago, 1973), pp.10-11.

12 *ibid*, pp.13-19.

like the AFL-CIO, the National Association of Manufacturers, the National Chamber of Commerce, the National Farm Bureau and the American Legion were vocal in furthering US protectionist policies, vis-a-vis Japan in the 1980s, though it is not always that their decisions have been defined with precision and specificity.<sup>13</sup> The broadly representative power of organised labour in the United States has been on the wane. The trade union movement reached the height of its powers in the early 1950s, just before the nation's two largest labour federations, the Congress of Industrial Organizations and the American Federation of Labour merged to become the AFL-CIO.

#### **BUSINESS AND CORPORATE SECTOR LOBBYING**

Many American business establishments have long had major interests at stake in foreign affairs. Manufacturers, for instance, have relied on imports of raw materials for their production processes; wholesalers and retailers have relied on imports of finished consumer goods for their sales. Exports have been an important source of profits for many corporations. But in the past few decades, there have been important changes in the form, magnitude and the scope of international activities of corporations. Together, these changes have combined to create a set of actors comprising a distinctive interest group: multinational corporations. To a degree, multinational corporations (MNCs) have been in at least a tacit cooperative partnership with the American government - a

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13 *ibid*, p.73.

partnership based on the convergence of MNCs' perceptions of their interests and government officials' perception of the national interest. The contribution of the MNCs to the spread of capitalism and American technology and culture has been viewed as an important means of extending American influence. MNCs share a mixed and complex pattern in their relations with American government policy-makers. Those relations are often cooperative but at times conflictual. The interests of big business, however, are sometimes ambiguous and often diverse. As a result, their executives' preferences are frequently ambivalent and conflicting. In fact, big business is sometimes politically inactive for such reasons. When they are politically active, they often oppose one another. Although they have frequently favoured trade liberalization, often the active lobbying of particular business segments, in alliance with labour unions, has successfully supported protectionist trade policies.<sup>14</sup>

During the 1970s, the political wing of the nation's corporate sector staged one of the most remarkable campaigns in the pursuit of political power in recent history. By the late 1970s and the early 1980s, business, and Washington's corporate lobbying community in particular, had gained a level of

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14 USA, House of Representatives, Committee on Foreign Affairs, Subcommittee on International Economic Policy and Trade, *Hearings and Markup "Omnibus Trade Legislation, vol.1, Legislative Proposals on Mixed Credits"*, Ninety Ninth Congress, First Session, 1985. For details see Penelope Francks, *Japanese Economic Development: Theory and Practice* (London: Routledge Press, 1992), p.117.



influence and leverage. The acquisition of power in the 1970s was remarkable because the business achieved its goals without any broad public-political mandate such as that of the 1920s when pro-business values were affirmed in the elections of 1920, 1924 and 1928.<sup>15</sup> Further, business in the 1970s also developed the ability to dominate the legislative process under adverse, if not hostile, circumstances. Corporate leaders had been closely associated with Watergate and its related scandals, and a reform-minded Democratic Party with strong ties to the consumer and environmental movements had gained increasingly large majorities in Congress.<sup>16</sup>

Despite these odds, the political status of business rose steadily from the early 1970s, one of its lowest points in the nation's history, until, by the end of the decade, the business community had achieved virtual dominance of the legislative process in Congress. In 1978, in the midst of the corporate political revival, R.Heath Larry, president of the National Association of Manufacturers, contended that the "single most important factor" behind the resurgence of business was "the decline in the role of the party, yielding a new spirit of independence among Congressmen - independent of each other, of the President, of the party caucus."<sup>17</sup> Other analysts of

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15 Thomas Byrne Edsall, *The New Politics of Inequality* (New York, 1984), p.711.

16 *ibid*, pp.72-74.

17 *ibid*, p.75.

foreign trade policy, found the business community to be largely incapable of influencing Congress in its lobbying attempts.<sup>18</sup> Given the many internal divisions within the private sector over trade matters, this was not an ideal issue to illustrate business cooperation. The important aspect worth noting was that the study focussed on lobbying for more than a decade - ironically, in the very period when groups proliferated and became more sophisticated in their tactics. In a 1969 treatment of Washington representatives as an emerging professional group, it was suggested that lobbyists will play an increasingly important role in complex policy making.<sup>19</sup>

Larry's perception of the role of the decline in political parties in the revival of the stature of business was accurate, but his contention that this decline produced increased independence is wrong. In fact, the collapse of political parties and of traditional political organizations, especially those at the local level that formerly had the power to assume or to deny reelection, has been a key factor in a neutral of forces and developments undermining the independence of politicians and augmenting the strength of the business community.<sup>20</sup>

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18 Raymond Bauer, Ithiel de Sola Pool and Lewis Dexter, *American Business and Public Policy* (New York, 1963), p.22.

19 *ibid*, p.25.

20 *ibid*, p.78.

Whereas the pluralist and transnational politics models assume that there are competition and a degree of countervailing power among multiple-interest groups, the ruling elite model assumes that there is a single dominant interest group. Multinational Corporations are organizational manifestation of elite interests and power. Also, according to the ruling elite model, there may be other non-governmental organisations that reputedly represent public interests; but they are actually controlled by a few elites, who use them to promote their own interests rather than public interests.<sup>21</sup>

#### **FOREIGN GOVERNMENT AND THEIR INTERACTION WITH BUSINESS GROUPS**

Organizations like the United States-Japan Trade Council which has 900 American and Japanese Corporations, including General Electric, Standard Oil of California, Japan Airlines and the Bank of Tokyo as its members, represent transnational interest groups. Its annual budget of more than \$500,000, is provided mostly by the Japanese government, and it maintains contact with the Japanese embassy in Washington.<sup>22</sup> It publishes a bi weekly newsletter and its staff members meet frequently with officials in such executive agencies as the State Department, the Commerce Department, the Treasury Department, the International Trade Commission, and the White

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21 *ibid*, p.52.

22 Congressional Quarterly, *The Washington Lobby*, first edn. (Washington, D.C., 1971), pp.92-96; Also see *Nation* (Ottawa), vol.10, no.11 (March 18, 1978), p.427.

House, in an effort to promote trade between Japan and the United States. Japanese Corporations have been especially active in recent years as they try to restrain the movement for more protectionist US trade policies vis-a-vis Japan. Perhaps the most heavily funded of any foreign lobby, the Japanese are estimated to spend over \$40 million annually on Washington lobbying activities.<sup>23</sup> They often joined forces in transnational coalitions with American organizations that shared a common interest in free-trade policies between Japan and the US. Thus, the Japanese automobile companies cooperated in antiprotectionist lobbying with American agricultural organizations, longshoremen and port authorities, all of whom are highly dependent on trade with Japan for their incomes. Japan alone spent up to \$60 million in 1989 on lobbying, four times as much as in 1984. More than 250 Japanese companies, industries, and government agencies have hired lobbyists. In 1987, the Toshiba Corporation mounted a \$9 million attempt to block sanctions for illegally selling sophisticated submarine technology to the Soviet Union. The firm enlisted the support of American companies that do business with it: American Telephone and Telegraph, Hewlett Packard, International Business Machines, Rockwell and Xerox, among others. Together these companies pressurised members of Congress not to impose sanctions on the Japanese company. Workers at Toshiba plants in the US even instigated a letter-writing campaign to

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23 Petracca, n.7, pp.128-9.

Congress, and one Texas factory sent 6,500 letters to Capitol Hill in a single week. The Toshiba effort paid handsome dividends when the Congress enacted very weak sanctions on the firm. Some members of Congress, irate at Toshiba, took to the steps of the Capitol to destroy Japanese products with a sledgehammer.<sup>24</sup> The more serious and staid, *New York Times* editorialized about former American officials working for other countries: "Rising public revulsion fuels the chance for dramatic action.... It's one thing to tolerate lobbying for private business, quite another to have a former Secretary of State, say, put his skills and standing at the disposal of foreigners."<sup>25</sup> The politicization of the trade problem on the American side parallels the outcry of aggrieved domestic constituencies in Japan who heavily lobby for their positions and are key financial contributors to the "war chests" of political parties and candidates. The impact of domestic politics is thus felt both in Japan as well as in the US and makes resolution of the outstanding difficulties much more complicated. Out of the foreign governments who have become increasingly active in lobbying the White House and Congress, Japan has mounted extensive efforts to sway American policies,

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24 *ibid*, pp.132-3.

25 "Lobbying for Foreigners is Worse", *New York Times*, 28 June 1986, p.26. This press extract and the detailed explanations regarding it are given in footnote 162. John Yochelson (ed.), *Keeping Pace: US Policies and Global Economic Change* (Cambridge, Massachusetts, Ballinger Publishing Co., 1988), chapter XX, p.199.

hiring as their lobbyists distinguished Americans who have served in the Cabinet, in the Congress, and even in the Vice Presidency.<sup>26</sup> Most lobbyists concentrate on legislation in Washington, but increasingly they have been shifting their tactics towards the electoral arena. Interest groups use political action committees (PAC) to channel contributions to candidates for Congress.<sup>27</sup> PACs financed by foreign money, including American subsidiaries of Japanese firms and foreign car dealers, have more direct economic stakes and have used their clout to shape tax laws in different states of the US.<sup>28</sup> As long as the money is raised exclusively in the US, such practices are legal. If such practices prove effective, it is argued that they will become more widespread.

The bipartisan nature of US foreign policy has thus been threatened by making international politics too much like domestic issues. Americans can afford to be contentious at home, but the stakes are much broader abroad. At one time, studies printed out that the Soviet leaders had complained that negotiating with American Presidents was difficult because the latter could not ensure that agreements reached would be approved by Congress. These problems would only increase if foreign policy issues become important in electoral campaigns marked by heavy expenditures and threats. What the correct

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26 *ibid*, p.130.

27 See Zysman and Tyson, n.2, p.142.

28 See, Milbrath, n.12, p.59.

policy ought to be becomes less important than which group can be most vocal and the volume is affected by the purchasing power of television advertising. Causes that before the elections enjoyed widespread and bipartisan support among the public, might become objects of great conflict and threaten a formulation of a long-term policy.<sup>29</sup>

#### **MEDIA LINKAGES**

The American media add an important dimension to the evolution of policy. While they are not involved in fighting elections directly, they nevertheless play an important role in both setting of the agenda and testing the electoral candidacies on given issues. Further, as they are increasingly part of huge conglomerates, their own interests are also intricately involved.<sup>30</sup> Most areas of public concerns are addressed by the media without prior consideration in the electoral arena and often with only a cursory nod from presidents, political parties, congressional leaders, or top political appointees in the executive branch.<sup>31</sup> In fact, one analyses of the US policy system points out that, "The clientele of oriented subsystems express many points of view from the web of the American public policy dominating the workload of congressional committees and subcommittees,

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29 See John Lipset, *The Washington Lobby* (Washington, D.C.: CQ Press, 1982), pp.63-68.

30 Harry Holloway and John George, *Coalitions, Elites and Masses* (New York: St.martin's Press, 1979), pp.15-16.

31 *ibid*, p.70.

interest groups, and executive branch agencies. The specialized media - professional journals and newsletters associated with specific interest groups or government programmes - also frequently play a key role in subsystems and often are the only windows to their activities. Television, radio and the general national news media are usually uninterested and unaware of the day-to-day issues and politics of policy subsystems unless a crisis or scandal occurs surrounding a subsystem's decisions."<sup>32</sup>

The vigorous attempts by a succession of administrations since the fifties to seize control of the flow of information on foreign policy had the contracting effect of producing a more aggressive and skeptical media than at any time since the end of the World War II. The revelations of the Pentagon papers and Watergate not only produced more suspicion of information sponsored and promoted by the government, but also contributed to journalists' assuming a more adversarial relationship to government.<sup>33</sup> It was aggressive investigative reporting that led to Watergate and the fall of the Nixon administration. The decision to publish the Pentagon Papers was hardly the act of a "cowed and controlled" media.

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32 Edwin Diamond, *The Media Show: The Changing Face of the News, 1985-1990* (Cambridge, Massachusetts, MIT Press, 1991), p.153.

33 See Edsall, n.10, p.87.



Throughout the Carter and Reagan administration, the press maintained "a merciless accounting" of the administration's meandering and at times contradictory policy path.

Television and print media proved to be both provocaters and communicators of the person and policy disputes within administration. According to a research group started out in 1987 to study how these trade issues were being covered by US news outlets and media advertising. Hollywood films, television comedies, mass market books, political cartoons, and other elements of American popular culture were continuously reinforcing certain deeply held negative mental images of the Japanese.<sup>34</sup>

The United States, long the wealthiest nation in the world, has become the biggest debtor nation, while poor, defeated Japan has grown to become "Japan Inc." - and America's biggest creditor. It is a role reversal bound to have political and psychological effects, the more so when tied to memories of a brutal war. No other country quite occupies this role in the American psyche.

Before Japan Inc., the dominant picture of Japan in the American mind was linked to memories of World War II. Thus, Television anchor person Tom Brokaw, reporting an economics story on the "NBC Nightly news", began by saying, "Forty years

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34 George Horace Gallup, *The Gallup Poll: Public Opinion The Various Sources Which Inform Public Opinion*, vol. III 1980-1990 (Wilmington, Delaware: Scholarly Resources, 1990), p.100.

after the end of one war between them, the US and Japan are trying to avoid another war, this time, a trade war."<sup>35</sup> Given a steady media barrage along these lines, it is not surprising that the war that ended more than 45 years ago is still a mental reference point for many Americans. In a 1985 poll conducted jointly by the *New York Times*, CBS News, and the Tokyo Broadcasting Systems, Americans were asked what came to mind when Japan was mentioned. One in every five respondents named "war-related events."<sup>36</sup> On the other side of the Pacific, only seven percent of the Japanese questioned in the poll named "war-related events" when asked what first came to mind when they thought about the United States.<sup>37</sup> But more recent polls of Japanese attitudes indicate that trade tensions are beginning to have their effects: more and more Japanese are reporting "unfriendly" feelings towards the United States.<sup>38</sup>

US images of Japan and the Japanese are, overall, negative. Too often, US pop culture evokes pictures of Japanese "conformity" and "clannishness". In a United Parcel Service television advertisement, a UPS representative is showing taking twelve "Japanese businessmen" on tour. Each man is in similar dress and of similar height; they walk single file through the commercial; the men nod to each other at each

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35 See Diamon, n.32, p.162.

36 *ibid*, p.63.

37 *ibid*, p.164.

38 *ibid*, p.165.

sight they see; and they finally go up into the door of a brown UPS delivery van, and out the other side, while the voice-over says, "UPS. The most rewarding package tour". The commercial derives its "humour" from an assumption that we all "know" to be true: the Japanese behave as an antlike collective, protectively travelling with their own kind. Of course, Americans travel in groups, too; many people feel more comfortable that way. When the conformist image is applied to people who are already conceived of a different - intractable - the picture comes out negative: the Japanese are seen as their comical or threatening.<sup>39</sup>

The same stereotypes can be found in late 1980s motion pictures involving Japanese characters. *Blind Date*, an otherwise forgettable vehicle for the actor Bruce Willis, presents a stiff Japanese businessman and his submissive wife, who is dressed in a geisha costume complete with lacquered wig and white face powder. Similar anachronisms appear on American television. A recent rerun of the situation comedy "Gung Ho" featured two references to ritual suicide, one to samurai warriors, one to sumo wrestling, and one to miniaturization - all within a half-hour show.<sup>40</sup> Occasional favourable impressions do come through: a *US News and World Report* cover story in the summer of 1987 depicted the industrious Japanese

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39. James A. Stimson, *Public Mind in America: Moods, Cycles and Swings* (Boulder: Westview Press, 1991), pp.116-24.

40. *ibid*, p. 126.

as always a step in front: "even their clocks... are ahead of ours." But positive or negative, these images short-circuit reasonable thinking. They reinforce pictures in our minds that often are crude to being with.<sup>41</sup>

One picture that counts in US-Japanese relations is the depiction of the two countries' trade; on average, one-third of America's annual \$150 billion trade deficit in the late 1980s was with Japan. The term "Japan Inc." is intended to convey the image of a country run like an efficient corporation, with business as its sole reason for existence and political ministries functioning as a board of directors.<sup>42</sup> Japan Inc.'s products sold so well worldwide that many Americans believed it was necessary to learn about how business is conducted and managed in Japan in order to compete. Books such as *Theory Z* and *Shadows of the Rising Sun* attempted to explain what had gone wrong with American business, and what is right in Japan. David Halberstam in *The Reckoning* contrasted Ford Motor and Nissan Auto and their corporate structures and leadership. Halberstam portrayed Japan's profit-oriented bureaucracy and Japanese citizens as cogs in the wheels of industry. To Americans, this system seems like a social nightmare, a denial of the spirit of individual enterprise. It also results in other nightmares, especially the specter of

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41 See for details Walter Lippman, *1889-1989 Public Opinion* (New York: Free Press, 1989), p.214.

42 *ibid*, p.219.

American jobs lost to more competitive imports and of whole towns idled as a result. It makes Americans wonder, as one worker did on a CBS News special report, "Just who did win in 1945, anyway?"<sup>43</sup>

Yet modern Japan itself is a "product" made in America - or, more precisely, one that emulates America to a great extent. Immediately after World War II, the United States assumed a teacher-student relationship with its defeated enemy, much to initial Japanese consternation. The United States gave Japan a constitution and a new school system, and sent in business teams to teach corporate management and quality control. The pragmatic Japanese absorbed all these lessons. They set about rebuilding their country, adopting the best of the technology and marketing systems that the United States had to offer. Popular culture symbols do not reflect this reality. Typically, the images not only present caricatures of Japan and the Japanese, but outdated ones at that. The images reflect only a partially accurate picture, but one that is too often taken for the whole truth.

A skeptic might wonder what effect a 30-second spot, a television sitcom, a motion picture, or a network news broadcast might have on perceptions. One answer is that, eventually, skewed particulars add up to a misleading whole. Stereotypes should be recognized wherever they appear, whether

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43 Diamond, n.32, p.201.

in hard-news accounts or all-fluff commercials, so that one can discount the superficial and maintain some sense of balance.

Another element in Americans' stereotyped attitudes about Japan is cultural and racial.<sup>44</sup> To a certain extent, Americans live in a mythic past; although the US is a multiracial society, much of the American dream - for example, the ideals of rugged individualism and the winning of the West - is usually rendered in an all-white hue. As it happened, once upon a time in the West, Asians were invited to this country when their labour was needed - to build the railroads, for example. Efforts to exclude them came later. Perceptions of Japanese "inferiority" or "weakness" occur in terms of American cultural baggage. This soon becomes apparent. If West Germans dumped chips on the market or sold computers to the Soviets, would national resentment be as strong? No one hears many expressions of anti-Norwegian sentiment in the aftermath of a Norwegian company's sales of secret submarine technology to the Soviet Union. Nothing on television or in print currently reflects the blatant racism reminiscent of World War II - vintage posters; but the trade imbalance that strains US - Japanese friendship has also revived American jingoism and calls for protectionism. Americans would do better to take pride in their own good sportsmanship; America has not flooded any markets with its underpriced goods, as Japan has, in both the United States and Europe. It would be

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44 See George H.Gallup, n.34, p.115.

healthier to remember, and take pride in, American "fairness", rather than putting down Japan and the Japanese in order to boost American feelings of worth.

The media could begin the process by rethinking the too-easy stereotypes of television comedies and 30-second advertising spots; these images are false and ultimately self-destructive. We could all profit by reevaluating old cultural notions. The inscrutable East belongs to the past. The Japanese are not ciphers; they can be understood by anyone who makes the effort. As a starting point we might remember that Japan is a capitalist nation much like the United States. The two countries share a belief in the work ethic, in progress and in social mobility. Lately, the students have beaten the teachers at their own entrepreneurial game. That is the real image, in print and on television, that requires considerable adjustment for Americans. The Japanese are not ten-foot-tall sumo wrestlers; neither are they sneaky little schemers. Japan is a modern industrialized nation and a trading partner of America. In short, an equal. As Americans, press and public alike, begin to shed the errors of stereotypes, they will be able to see the game and the players more clearly.<sup>45</sup>

Once in Japan, the networks showed what extra time and resources can accomplish. There were reports from Buddhist temples, the Japanese stock exchange, a traditional teahouse, subway cars, offices, wedding parties, classrooms homes,

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45 See Holloway, n.30, p.103.

restaurants, bars, hotels, and arcades. No subject was ignored: work, school, home religion, leisure, arts, shopping, entertainment, and especially women - in the workplace, in the home, in transition - all received attention. Sometimes the crowded living conditions that the Japanese endure were inadvertently mirrored in the reports.

The best journalism came out of broadly defined themes, when reporters substituted information for stereotypes. Some went beyond the cliché of "changing Japan" e.g., NBC correspondent George Lewis reported that Japanese youth are less work-oriented than their parents, no longer believe in lifelong loyalty on one company, and want a less regimented society. Similarly, Peter Jennings introduced an overview of the Japanese economic success. newsreel footage of circa-1945 bombed cities illustrated his theme: "rubble to renaissance-at breathtaking speed."<sup>46</sup> America was given some credit for the Japanese miracle; the United States "was instrumental in setting the Japanese back on the road to industrial success." The Japanese "copied, redesigned, improved on" US products and ideas.<sup>47</sup>

This last point proved critical. US television responds to US politics and society. When the president treats Japan as important, the news shows do the same. When ordinary Americans worry about foreign takeovers, the camera zooms in on them.

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46 See Diamond, n.32, p.157.

47 *ibid*, p.158.



The first angry voice heard on the CBS special report "America for Sale" came from an Alabama businesswoman, who said, "I haven't forgotten Pearl Harbor.... They're just taking money and buying the country]."48 Xenophobia alone does not create the specter of American jobs lost to more competitive imports; know-nothing attitudes develop in the dark, in the absence of information. The television invasion of early 1988 framed today's Japan in more realistic terms. The commitment of resources guaranteed an unprecedented level of information for US viewers. When the anchors went home, coverage reverted to the occasional minute-and-a-half news story or 30-second item, typically about political or economic developments. But larger perceptions and new images will remain in American minds. Above all, the realization that modern Japan is, in part, a "product" made in America is beginning to be understood.49

Furthermore, as Reagan administration's economic and foreign policies emerged from the post election honeymoon period, press commentary became more pointed. Early reference to the Presidents' easy amiability were increasingly replaced by speculation that he lacked a grasp of the substance of policy. The questions of whether the balance between presidential power and the press is appropriate or whether the media use their power responsibly are probable beyond

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48    ibid, p.161.

49    See Lippman, n.41, p.273.

definitive resolution.<sup>50</sup> Journalists, outside observers and, of course, Presidents have periodically attacked the media for an anti-government bias, especially in their coverage of events in Third World conflicts and trade with developing and developed countries. With regard to the question of the proper balance of institutional power, judgements are frequently more a reflection of policy preferences than of calculations of institutional weights. Thus, when, an administration pursues policy contrary to those of the observer, media aggressiveness is considered responsible. When, however, an assertive media proves an obstacle to a Presidential initiative in accord with one's predispositions, the institutional relationship between media and officialdom is judged out of balance. No less perplexing is the problem of the media's responsibilities to communicate the complex range of choice that exists on many foreign policy questions. The task of laying out the continuum of options on questions such as a new strategic missile system, elaborating the consequences of alternative policies concerning trade, or explaining the often esoteric implications of international monetary policy is extraordinarily difficult. Although elite media such as the *New York Times*, the *Washington Post*, or the *Wall Street Journal*, and the commercial television networks' "White Papers" or special reports, and public

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50 For details on this aspect see President Ronald Reagan's speech to the National Association of Manufacturers (NAM), 29 May 1986 (Washington, D.C., 29 August 1986) quoted in Cigler, Burdett and Loomis, n.6, p.104.

television news programming such as the "McNeil/Lehrer Report" regularly shoulder the burden, it is debatable whether their often brilliant efforts reach mass publics.<sup>51</sup> "However, when those media that do command a mass audience choose to focus in personalities and not policy, the role of the media as a necessary interlocutor between people and policy maker becomes even more problematic. In so far as the image of public affairs communicated to mass publics is but "sound and fury, a mere clash of ego and ambition, a dramatic swirl of events and spectacle", it is argued that not surprisingly the public's substantive grasp is frequently underdeveloped, and if the policy maker's cynicism concerning the public's capacity for self-government is thereby confirmed, it can be said that the messenger who brings the bad news is, in this instance, at least, partially to blame.

The media, thus can be said to serve as a second voice in interpreting what is significant in international affairs even as it acts as a conduit for the government's version of reality and the proper response to it. According to *New York Times*

Japan is investing huge sums abroad at rate of \$50 billion to \$100 billion annually with about half of it being invested in US Treasury security issued to finance Reagan administration's huge budget deficits." Nomura securities chief investment officer, Brian Fernandy say it is "potentially the

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51 US Department of State, *Report* titled "United States Japan Trade: Issues and Problems 1982", presented by the President to the Congress in 1983. For details see George C. Edwards, *The Public Presidency: The Pursuit of Popular Support* (New York: St. Martin's Press, 1983), p.127.

biggest single flow of capital in world security.<sup>52</sup>

According to New York Times,

Columbia University of graduate school of Business study finds that Japanese companies operating in US perform better than US corporations; study attributes success of Japanese companies to their emphasis on quality and cultivation of warm relationship between labour and management.<sup>53</sup>

It also warned that:

US pressures on Japan to stimulate its domestic economy have rekindled debate about Japan's fundamental economic policies. Although most economists attribute Japan's large and growing trade surpluses to strong dollars and other macro economic factors, US officials suggest that more expansionary posture domestically would help to reverse trade and currency imbalances.<sup>54</sup>

Theodore H. White's article on relations between Japanese and 40 years after Japan's surrender in World War II in New York Times

holds Japan's trade tactics as posing a threat to US and that the Japanese are on the move again in one of history's most brilliant commercial offensives as they go about dismantling American industry.<sup>55</sup>

According to the *Christian Science Monitor*

Japanese government approves multibillion dollar economic package of incentives and price cuts, in a move to spur economy that is threatened to slow down because of strengthened yen; hopes action will impress US that Japan is committed to stimulating

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52 See *New York Times*, 5 March 1986, p.3.

53 *New York Times*, 18 March 1985, p.8.

54 *New York Times*, April 30, 1986, p.1.

55 *New York Times*, July 28, 1985, p.19.

domestic demand and lessening import duty it has placed on exports.<sup>56</sup>

Further examples from media coverage of the trade disputes convey the skepticism and anger at Japanese intractability on solving trade disputes with the US. For instance:

President Reagan plans to salute PM Nakasone's new economic policies to spur Japanese domestic growth when both leaders meet at Camp David recently. Some US officials are skeptical that new moves will be put into effect.<sup>57</sup>

PM Nakasone, in Washington talks to Reagan and Congressional leaders will try to offset view that Japan's continuing huge trade surpluses indicate Japan has not tried hard enough to remove barriers to markets.<sup>58</sup>

PM Nakasone at Camp David meeting says Japan is determined to effect 'historic change that could help ease US-Japanese trade imbalance; meeting, comes several days after Japanese government's advising panel recommended fundamental shift in Japanese economic priorities, in which country would rely less on exports and more on imports and domestic consumption for growth.<sup>59</sup>

Japanese feelings about America begin to reflect pride in Japan's new might resentment of US pressure about trade and defense and uncertainty about Japan's role in a world excluding an all-powerful US-Japanese sees US as unable to tame its trade and fiscal deficits and eager to blame Japan for problems that were made in USA.<sup>60</sup>

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56 *The Christian Science Monitor* (Boston), April 9, 1986, p.1.

57 *The San Diego Union* (California), April 9, 1986, p.2.

58 *Newsday* (New York), April 12, 1986, p.34.

59 *ibid*, April 14, 1986, p.1.

60 *New York Times*, June 8, 1988, p.6.

An article on Japanese economic strength reports that US monetary strategy meant to remedy trade imbalances in September 1987 had resulted in speeding Japan's emergence as financial superpower and challenger to American economic leadership. Japanese companies can now easily outbid rivals for American real estate and Corporation, white investors have bought enormous amounts of US Treasury Securities and Japan has become world's largest donor nation with new power to influence the developing nations. Yen's rise forced Japanese to stimulate domestic sales and domestic market while exports continue to swell.<sup>61</sup>

It is not surprising that there is a tension between the two rates or that the policy makers prefers a conduit to a critic. What is disturbing are the length to which presidents have been prepared to go in their attempts have been prepared to go in their attempts to constrain an ostensibly free press and opposition to their policies.

#### **PUBLIC OPINION ON POLICY**

The American public has fluctuated in its perception of the relative importance of foreign policy issues, but it has consistently favoured an active role in the world. Although substantial portions of the population prefer unilateral, nationalistic and even jingoistic policies, a majority generally prefer more cooperative bilateral and multilateral diplomacy.

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61 *Chicago Tribune* (Chicago), October 14, 1987, p.4.

The traditional view is that the public has very little influence. Political leaders, according to this view, are given a broad mandate by the public to conduct foreign policy.<sup>62</sup> The public's views of international events are, to a large extent, shaped by political leaders. The public has no first hand means to check the reality of what the President says. Only the most interested followers of foreign affairs spend much time reading and thinking about foreign affairs, and even then the evidence collected is not as direct as it is on many domestic affairs.<sup>63</sup> The administration has many ways to influence public opinion on foreign policy. One is simply by trying to control and "interpret" appropriately the kind of information the public has about a foreign policy situation. Another way the administration and other influential foreign policy decision makers affect public opinion is through trying to shape the agenda of public discussion.<sup>64</sup> Thus, in any situation, certain alternatives are considered more reasonable than others and still others are never discussed at all. Alternatives acceptable to the administration are advanced through public statements, background briefings of the press, articles in influential foreign policy journals or leading

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62 For details see, Edsall, n.15, p.74.

63 See Seymour Martin Lipset and William Schneider, *The Confidence Gap: Business, Labour, Government in Public Mind* (London: Collier MacMillan, 1983), pp.17-19.

64 See William J.Mayer, *The Changing American Mind: How and Why American Public Opinion Changed Between 1960 and 1988* (Hillsdale, New Jersey: L.Erlbaum Press, 1991), p.23.

"national" newspapers such as the *New York Times* or *Washington Post* and State Department emissaries sent to college campuses and elsewhere.

The Press generally reinforces the administration's definition of policy alternatives. Although an administration may complain about press bias, by and large the press - unwillingly in some cases - adopts the administration's view of the options, even if not endorsing the particular one chosen. As Bernard Cohen once argued, "The news agency men may grumble and call it propaganda, but they dutifully report as 'hard news' most of what the State Department News Officer offers them by way of official departmental statements at his noon briefing."<sup>65</sup> There is little tendency to challenge basic tenets of foreign policy.

According to a report based on a survey conducted in January/February 1987, shortly after the end of the sixth year of Reagan's Presidency, "The end of the inflation and recession crisis of the late 1970s and early 1980s have had a striking effect on the thinking of the American people concerning the domestic economy and for relations."<sup>66</sup>

Despite growing friction between the US and its principal partners in the Organisation for Economic Cooperation and

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65 Bernard Cohen, *The Public's Impact on Foreign Policy* (Boston: Little Brown Press, 1973), pp.45-47.

66 John E. Rielly, *American Public Opinion and US Foreign Policy* (Chicago: Chicago Council on Foreign Relations, 1987), pp.2-3.



Development (OECD) over trade and financial issues, the public's highly favourable attitude toward Western Europe and Japan continues;; in the case of Japan, somewhat surprisingly it even improved.<sup>67</sup>

Despite the massive trade deficit the last five years (1982-1987 saw a measurable decline in public support for protectionist measures as well as modest growth in support for economic and to other nations.<sup>68</sup> The leadership sample could strongly in favour of free trade - two-thirds favoured eliminating tariffs on imported goods and less than 30 percent believed that tariffs are necessary. As has been the case consistently, the weight of public sentiment is the reverse; 53 percent of the public believed tariffs and trade restrictions to be necessary, only 20 percent favoured their elimination over the past decade (1977-1987), however, the two opinions trends have moved closer to each other. Leaders are slightly more protectionist and the public somewhat less so. The Japanese have been narrowed by 15 percent over the past eight years (1979-1987). As in previous surveys both the public and leaders saw the US as having vital interest in different countries. Leaders generally have a more inclusive view of national vital interests, although their priority areas in most cases are the same. Despite the strong disagreements between the US and allies in Europe and Japan over the past five years

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67    ibid, pp.17-18.

68    ibid, pp.4-5.

(1982-1989), they continue to be rated most highly along with Canada and Mexico.<sup>69</sup>

When the public was asked to rank countries in terms of warmth or coolness felt towards them, the top countries were Canada, Great Britain, FRD and Japan, Mexico and Israel. Japan with a "mean temperature" of 60 degrees increased y eight degrees over the past five years (1982-1987), a surprising result given by a significant friction between the US and Japanese and the harsh criticism by American political and governmental business and trade union leaders.

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69 *ibid*, pp.6-9.

## CHAPTER IV

### US STANCES ON THE JAPANESE CHALLENGES:

#### NEGOTIATING COMPROMISES

It has often been stated that the US-Japanese trade imbalance was not just a function of US imports and Japanese exports. It was in the opinion of several experts, the most visible manifestation of the need for the United States to strengthen its industrial base and revitalize its economy. Accordingly, an economically sound America should be the objective of even those US legislators most concerned with the Japanese threat; the threat would diminish as the US regained its competitiveness in world matters by retooling its industries, retaining its workers, and reordering its priorities.

During the decade of the eighties, the high rate of unemployment in the United States was the most pressing domestic problem, but in the long run, inflation presented the single greatest obstacle to be overcome. For instance, in the case of automobiles, in 1970, the average American car had cost less than \$3,500, whereas in 1982, it had cost more than \$10,000. In the case of compacts, Japan's cost advantage was close to \$2,000 per car. This clearly presented an attractive incentive for American consumers to "think small" - and to "think Japanese." Before the "voluntary restraint agreement" on automobile imports went into effect, Americans who bought

Japanese cars saved over \$1 billion annually on the purchase price and millions of dollars on reduced gasoline consumption.<sup>1</sup> Thus, car manufacturers in Detroit were compelled to make every effort to recapture the US market by producing smaller, more efficient cars, which could be termed as benefits from free trade. On the contrary side, there were, of course, real benefits to be gained from protectionism, but they were mainly short-term. For instance, the so-called "trigger price mechanism," which helped the US-steel industry compete with Japanese imports, did not force American manufacturers to upgrade their plants and equipments but enabled them to instead buy oil fields.<sup>2</sup> The "time" bought by protectionism was only useful when applied to making structural adjustments and other preparations to deal better with future contingencies.

A revitalized US economy was not dependent on trade barriers but on upgrading domestic productivity. According to some, the political actions taken to redress immediate economic grievances did not address the underlying macroeconomic factors

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1 Thomas C.Cochran and Thomas B.Brewer (eds.), *Views of American Economic Growth: The Industrial Era*, vol.II, (New York, St. Louis, Mc Graw Hill Book Company, 1986), pp.191-93.

2 Bruce R.Scott and George C.Lodge (eds.), *U.S.Competitiveness in the World Economy* (Boston, Massachusetts, Harvard Business School Press, 1987), pp.185-6.

which formed the real basis for trade imbalances.<sup>3</sup> The antagonistic nature of labour management relations in the US made it particularly difficult to transfer employees between jobs, to introduce labour-saving machinery, or to retrain workers for new careers. Moreover, high language financing to promote long-term investment, easily available in Japan, but not in the US presented another domestic obstacle to instant revitalization of the US economy. The high interest rates factor had virtually eliminated most large-scale, long-term corporate borrowing necessary for capital improvement.<sup>4</sup> None of this was to suggest that there was no real problem between the two countries. In some areas, of course, Japanese equality was followed by superiority. Bilateral trade between the US and Japan, totalling more than \$60 billion annually, was very much in Japan's favour, with a trade surplus of close to \$20 billion in the mid 1980s.<sup>5</sup> While this figure no way represented the entire picture of US-Japanese relations - the US for instance, had a considerable surplus in service industries and each country was the other's largest supplier of manufactured goods - its adverse effects was serious enough to trigger a bilateral trade war which would significantly impact the entire world economy.

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3 Hasejama Keitaro and Kosai Yutaka, "Economic Options After Reagan", in *Japan Echo* (Tokyo), vol.15, no.4, Winter 1988, p.31.

4 *ibid*, p.32.

5 Bruce R.Scott and George C.Lodge (eds.), n.3, p.355.

International trade widely accepted as vital to most nations of the world; it approaches one-third or more of the Gross National Product (GNP) in many countries. A certain amount of short-term economic dislocation may be the inevitable cost of such extensive global intercourse, but the dislocation remain as limited as possible. If the United States and Japan were to intensify their protectionist tendencies, it would result in the diversion of both American and Japanese products.<sup>6</sup> This would lead such countries to erect barriers to Japanese and American products and would lead Japan and the US to limit imports from the new protectionists. In fact, the voluntary restraint agreements on Japanese auto exports to the US, spawned immediate demands by Canada and several West European nations for similar measures.<sup>7</sup>

#### **FACTORS INFLUENCING NEGOTIATIONS**

The eighties found the US hesitating to start a full scale trade war. The main factors that influenced this policy were as follows. Firstly, the United States was still the most productive nation in the world in terms of GNP and still dominated international economic activity, producing about 22 percent of gross world product.<sup>8</sup> Secondly, the US also

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6 Penelope Francks, *Japanese Economic Development: Theory and Practice* (London and New York: Routledge, 1992), pp.28-29.

7 *ibid*, p.31.

8 Akira Iriye (ed.), *Mutual Images Essays in American-Japanese Relations* (Cambridge, Massachusetts: Harvard University Press, 1983), pp.202-3.

maintained its world leadership position in many areas, including computer software, construction machinery, commercial aircraft, photographic film, agriculture and distribution systems. Thirdly, as the US and Japan became more similar economically, the prospects for cooperation seemed to outweigh the potential for further deterioration of relations. However, the political nuances of economic and trade disagreements can jeopardize many of these under perceived mutual interests. As aptly pointed out by the Japan-US Economic Relations Group, the public and private sectors of both countries "have to look not only at their national needs and priorities but also at their international responsibilities and objectives."<sup>9</sup>

It also pointed to the fact that the issues which were once thought to be purely domestic concerns have worldwide repercussions: transportation, health and safety, employment, welfare legislation, and so on. The effects of economic policy choices were thus especially likely to touch foreign sensitivities and must, therefore be formulated with the greatest care. "...The task is for business leaders, policy makers and the public at large to learn to view traditional domestic economic issues from a broader international perspective."<sup>10</sup>

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9 Penelope Francks, n.7, pp.201-2.

10 William R. Cline, *American Trade Adjustment: The Global Impact*, (Washington, D.C.: Institute for International Economics, 1989), pp.81-83.

## US-JAPANESE DIFFERENCES

The deep-rooted historical, social, and cultural differences between the US and Japan, have made clear policy perspectives difficult to obtain. For the Japanese especially, one of the most isolated and inward-turning societies in history, taking the interest of other nations into account is a totally unfamiliar way of thinking. Even after Japan opened its doors to the West, the "outside world" continued to be regarded as a hostile entity.<sup>11</sup> There is very little recognition of the need to assume an international role commensurate with its economic importance and global reach.<sup>12</sup>

American attitudes have tended to change in the opposite direction. From a posture bordering almost an omnipotence, or at least invulnerability, the US has suffered severe economic, political, military and moral setbacks in the past two decades. While humility has not yet become a prevailing national characteristic, the easy generosity which was so evident when things were going well for the US has been replaced by a much more "up tight" and nervous guarding of those competitive advantages it still enjoys. The American public and its

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11 C. Fred Bergsten and William R. Cline, *The United States Japan Economic Problem*, (Washington, D.C.: Institute for International Economics, 1985), pp.160-161.

12 Paul H.Kriesberg, "The US and Asia in a Global Perspective", *Japanese Economic Studies* (Tokyo), vol.20, no.6, January 1987, p.103.



representatives feel unable to make any further concessions to Japan.<sup>13</sup>

It was not easy to the US to synthesize traditional values with new economic realities. While the US was faced with the choice of retooling its industries to deal effectively with the increasingly competitive international environment of the future, Japan, had to try to change its image as a country with closed markets which does not play the international trade game fairly.<sup>14</sup> Primarily, there was a need for a bilateral approach which exhibited some consistency, the "love/hate ambivalence" of the US-Japanese relationship only increased mutual distrust and suspicion.<sup>15</sup> For instance, the US was criticised for having encouraged Japanese high-technology industries and then instituted protectionist measures against them. The Japanese fear of outsiders are reconfirmed by such tactics. This view also holds that the Japanese economic structure, designed to increase its competitiveness and preserve jobs, has outlived its usefulness in an international context. It further pointed out that Japan was strong enough to eliminate virtually all of its trade barriers. While this would not automatically reduce its trade surplus, it would immediately create a better

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13 Bruce R.Scott and George C. Lodge (eds.), n.3, p.314.

14 ibid, p.317.

15 ibid, p.318.

psychological atmosphere.<sup>16</sup> It was also argued that to some extent, natural market forces would correct much of the trade imbalance that threaten the US-Japanese bilateral relationship. The limits which inhibit the continuation of rapid economic growth in industrialized countries are becoming apparent in Japan. Furthermore, Japan is in the first stages of phasing out its basic manufacturing industries and in the future will be turning more from products to services, where the US still clearly has the advantage.<sup>17</sup> The Japanese government's economic policy is likely to become more responsive to internal development needs, implying that national objectives will become more heterogeneous. But to the extent that bilateral trade problems will continue to exist, perhaps even intensify in the short run, it can be said that there must be a better understanding of the reasons for the current trade and account imbalances.<sup>18</sup> Even if American goods gained total access to Japanese markets and even if American economic policies were perfectly managed, there would still be a disequilibrium caused by structural differences. Thus, overall good relations are affected adversely by a singular and simplistic focus on the bilateral merchandise trade imbalance.

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16 Stephen Marris, *Deficits and the Yen-Dollar Relationship: The World Economy of Risk*, (Washington, D.C.: Institute for International Economics, 1987), pp.396-401.

17 Julian Gresser, *Partners in Prosperity Strategic Industries for the United States and Japan* (New York, McGraw Hill Book Co., 1984), pp.30-31.

18 *ibid*, p.37.

## COMPARATIVE ADVANTAGE FACTOR

Another factor which influenced negotiations was the concept of comparative advantage. In a world where every nation has something to offer this concept was especially relevant. Variations in the cost of labour and capital, changing patterns of consumption and demand, and technological innovations all contribute to economic dislocations. Neither Japan nor the US consistently enjoys an advantage. But there exists often powerful political pressures to assist those industries which are presently suffering most. It becomes, then, a major responsibility of both countries to avoid protectionist temptations and to foster instead domestic adjustments which are consistent with the changing conditions of international competition.<sup>19</sup>

The economist Joseph Schumpeter called this process of adjustment as "creative destruction."<sup>20</sup> In simple terms, it means that innovation and progress threaten, disrupt or even destroy traditional values, institutions and jobs. Ideally, the destruction creates a more efficient, cost effective and satisfying outcome. Thus, in the case of Japanese-American relations, the process of structural adjustment would benefit consumers through the creation of better products at lower

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19 R.Minami, *The Economic Development of Japan* (Basingtoke: McMillan, 1986), p.10.

20 For details regarding this concept see, Joseph, A. Schumpeter, *Capitalism, Socialism and Democracy*, (London: Allen and Unwin, 1942), p.48.

prices and would open new export markets to domestic producers.<sup>21</sup>

#### **EXCHANGE RATE FACTOR**

Yet another factor that perhaps influenced US stance was the fact that changing international economic conditions also have a significant effect on exchange rate fluctuations. Shifts in the yen-dollar exchange rate increase or decrease the magnitude of the trade imbalance. It was argued by several experts that with the yen's increasing international role, Japan should be able to share the burdens of a key currency country by taking domestic actions to help maintain the stability of its currency, and therefore of the international monetary system. Similarly, the United States could strive to stabilize the dollar, a task to be accomplished mainly by a revitalization of the American economy. In continuation of this argument, it was felt that the problems of structural adjustment as well as exchange rate fluctuations should be addressed through a coordinated bilateral approach. Tightly coordinated macroeconomic policies may be counter productive or destabilizing.<sup>22</sup> In the opinion of many, a better and more realistic solution might be to aim for close consultation and

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21 D.Hunt, *Economic Theories of Development* (New York and London: Harvester Wheatsheaf, 1989), p.55.

22 Thomas C.Cochran and Thomas B.Brewer (eds.), n.1, p.273.

general agreement on economic conditions and future policy responses.<sup>23</sup>

#### **JAPANESE REACTION**

Japan has been perceived by the US as having a problem with taking initiative in the absence of outside pressures. The US strategy was thus to increase pressure on Japan to reduce both its formal and non-tariff trade barriers. As a result, in 1980, then Prime Minister Suzuki appointed a commission headed by Minister Esaki of the Ministries of Finance and of International Trade (MITI), to investigate charges of restrictions on imports.<sup>24</sup> Significantly, the commission approved the establishment of an office of Trade Ombudsman. The agency resolved the grievances of foreign businessmen, an important first step in recognizing Japan's vital interest in a free trade system.<sup>25</sup>

Japan also made substantial progress in opening its market to manufactured products - as in the case of supercomputer telecommunications and semi-conductors. Most foreign exchange and investment controls were lifted. However, the perception of a closed Japanese market still remained in the US view.<sup>26</sup>

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23 Frank J. Macchiarola, *International Trade: The Changing Role of the United States* (New York: The Academy of Political Science, 1990), p.78.

24 C. Johnson, *MITI and the Japanese Miracle* (Stanford, Berkeley: Stanford University Press, 1982), pp.149-51.

25 *ibid*, p.152.

26 R. Minami, n.18, p.101.

For instance member of US House of Representatives James Florio of the Republican Party from New Jersey stated that: "Japan, not only has to continue the actual process of liberalization but must also work on changing US perceptions."<sup>27</sup> In some instances, positive results were achieved by pointing out that exclusionary policies might deprive them of access to US technology. In others, the most practical results were achieved by creating incentives whereby the Japanese regarded the improved market access to be in their own interest. The latter method proved successful in the dispute over airline traffic rights: the US was able to secure concessions from the Japanese because the American negotiators could identify how such concessions would also benefit Japan.<sup>28</sup> Similar attempts by the US cigarette industry were not as successful, suggesting that some of the obstacles to a further opening of Japanese markets are both governmental (cigarettes being produced and distributed by a government monopoly) as well as private.<sup>29</sup>

#### **AREAS AND ISSUES OF CONFLICT**

To understand the advantages earned and obstacles faced by both US and Japan in their trade disputes, it is essential to see how each party conceived of their own case in disputes

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27 W. Diebold, *Industrial Policy as an International Issue*, (New York: McGraw Hill Book Co., 1980), p.88.

28 Julian Gresser, n.15, p.236.

29 *ibid*, p.237.

which the US and Japan have addressed for some time. The centrality of their relationship has grown over the years, and as the intensity of the conflict has ebbed and flowed, the variety of policy responses has also grown.

#### INITIATIVES IN MONETARY POLICY

The most prominent of these responses has been the *management of the exchange rate*.<sup>30</sup> In 1971 the US had insisted on a substantial revaluation of the yen as part of the Smithsonian Agreement that encompassed the first post war devaluation of the dollar (and attempted to restore the Bretton Woods system of fixed exchange rates).<sup>31</sup> In 1977, the US insisted that Japan stop intervening to avoid yen appreciation<sup>32</sup> (under the system of flexible exchange rates that then prevailed). In 1985-87, massive yen appreciation was a part of the Plaza Agreement to restore the dollar to a more competitive position.<sup>33</sup>

Some of these efforts of currency management have been accompanied by efforts to improve *international monetary*

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30 Jeffrey J. Schott, *Trading for Growth: The Next round of Trade Negotiations* (Washington, D.C.: Institute for International Economics, 1985, ), pp.72-79.

31 *ibid*, pp.84-86.

32 C.Fred Bergsten and William R.Cline, *The US-Japan Economic Problems* (Washington, D.C.: Institute for International Economics, 1987), pp.160-3.

33 *ibid*, pp.165-6.

managements,<sup>34</sup> with the goal of avoiding renewed currency misalignments of the future. Most notably, the US and Japan had agreed in October 1986 to try to stabilize the yen-dollar exchange rate by adopting a system of "reference ranges" for their currencies. That agreement was accepted by the rest of the Group of Seven (G-7) major industrialised countries at the Louvre in February 1987.<sup>35</sup> However, the yen-dollar range had to be "rebased" in April 1987, and the whole stabilization effort was premature, because the misalignment that preceded it had not yet been fully corrected; consequently it did not prevail for long.<sup>36</sup>

Some of the currency episodes have also been accompanied by efforts on either side to alter the course of the partner country's *macroeconomic policy*, or even to coordinate the two.<sup>37</sup> At the Bonn economic summit in 1978, Japan had accepted a quantitative target for expanding its domestic demand, to bring down its external surplus and help correct the American deficit - thus accepting the "locomotive theory" that the surplus countries (Germany as well as Japan at that time)

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34 Gary Clyde Hufbauer and Joana Shelton Erb, *Subsidies in International Trade* (Washington, D.C.: Institute for International Economics, 1984), p.290.

35 Jeffrey J.Schott, *The Global Trade Negotiations: What can be Achieved* (Washington, D.C., 1990), pp.68-71.

36 *ibid*, p.71.

37 Stephen Marris, n.16, pp.396-397.



had a responsibility to become engines of growth.<sup>38</sup> In the Plaza Agreement in September 1985, the US promised to cut its budget deficit and Japan again agreed to expand domestic demand. The countries cut their interest rates together on several occasions in 1986-87.<sup>39</sup> During the Structural Impediments Initiative (SII) talks of 1988-90 the US reiterated its budget pledge and made several other commitments to raise its national saving rate.<sup>40</sup> On the same occasion, Japan agreed to a long-term increase in public works spending in order to raise its level of national investment and help curtail its external surpluses.

#### **STRUCTURAL IMPEDIMENTS**

A wide array of *structural issues* were also addressed in the SII talks.<sup>41</sup> For example, "the US agreed to improve its education system and to seek to lengthen the time horizons of its private investors. Japan agreed to strengthen its antitrust enforcement to limit "*Keiretsu*" collusion and to amend its large scale retail store law to open its distribution system to more efficient volume merchants.<sup>42</sup>

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38 *ibid*, p.399.

39 William R.Cline, *Trade Policy in the 1980s* (Washington,D.C.: Institute for International Economics, 1989), pp.707-8.

40 *ibid*, p.709.

41 Howard F.Rosen and G.C.Hufbauer, *Trade Policy for Troubled Industries* (Washington,D.C.: Institute for International Economics, 1988), p.104.

42 Quoted in *ibid*, p.109.

*Sector-specific* initiatives were also undertaken. Some were in clusters like the "market-oriented, sector specific" (MOSS) talks initiated by the US in 1985-86, which covered telecommunications and other electronic products, forest products, and medical equipment and pharmaceuticals.<sup>43</sup> The US sought both restraints on Japanese sales into the American market (in automobiles, mechanic tools and steel in the 1980s) and better access to the Japanese markets for a very wide range of products (including semiconductors and auto parts).<sup>44</sup> Some of these initiatives have been pursued under explicit or implicit American threats of market closure if Japan failed to cooperate. The most prominent example has been the so called super 301 provision of the 1988 trade act, which obliged the US administration to designate "priority foreign countries" whose trading practices it found to be unfair and to set a deadline for remedial action, under threat of retaliation.<sup>45</sup>

#### **US RESPONSE IN AGRICULTURAL TRADE**

In the field of agricultural products, the US maintained formal quotas in several areas, including dairy products,

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43 See Scott and Lodge, n.2, p.193.

44 *ibid*, p.197.

45 C.Fred Bergeten and Marcus Noland, *Reconciliable Differences: United States-Japan Economic Conflict* (Washington, D.C.: Institute for International Economics, 1993), p.67.

sugar, peanuts, and cotton. The US also participated in the Multi-Fiber Arrangement, a global system of bilateral quotas in textiles and apparel. The US had negotiated voluntary export restraints (VERS),<sup>46</sup> on a number of products, the most notable ones covered steel, machine tools, colour television sets, and automobiles.<sup>47</sup> The VERS on colour televisions and steel have been removed, that on machine tools is scheduled to be phased out and that on automobiles as no longer binding.<sup>48</sup>

US firms have made extensive use of anti-dumping and countervailing duty provisions in US trade laws to limit trade between the US and Japan. Between 1979 and 1991, US firms filed a total of 5 countervailing duty and 58 dumping suits against Japanese exporters, 43 of these (69 percent) resulting in restrictions on trade.<sup>49</sup> While the disposition of these cases is justifiable under US Trade Law, the widespread and arguably indiscriminate use of countervailing duty and dumping suits clearly indicate a protective effort.<sup>50</sup> The US also maintained vis-a-vis Japan a variety of sanitary regulations, standards, testing and certification requirements, and other

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46 *ibid*, p.74.

47 Macchiarola, n.23, p.87.

48 W.J. Abernathy, *The Productivity Dilemma*, (Baltimore: John Hopkins University Press, 1982), pp.16-19.

49 Jagdish Bhagwati, *Protectionism* (Cambridge, Massachusetts: MIT Press, 1988), pp.109-17.

50 David Dollar and Edward N.Wolff, *Competitiveness, Convergence and International Specialization* (Cambridge: Massachusetts, MIT Press, 1993), pp.70-73.

practices that could be classified as nontariff barriers by the General Agreement on Tariffs and Trade (GATT) and Ministry of International Trade and Industry (MITI).<sup>51</sup>

#### **DISPUTES OVER INTELLECTUAL PROPERTY RIGHTS**

Intellectual property rights disputes between the US and Japan fall into two historical categories. In the first category are disputes arising from systemic differences in the two countries' intellectual property regimes. The second category of disputes stem from simple conflicts over property rights, drawn by technological rivalry.<sup>52</sup>

Patent infringement disputes are only one indicator of increasing US Japan rivalry in high technology sectors, which accounted for an increasing share of bilateral trade in the Reagan years. Japanese have revealed in this period a comparative advantage in office equipment and in telecommunications equipment, but low in aircraft, pharmaceuticals, agricultural chemicals, steam engines and turbines.<sup>53</sup> U.S. revealed comparative advantage, in contrast,

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51 US Firms have also made use of Section 301 of the 1974 trade act, initiating 13 such cases against Japan since 1975 to continue till 1988, and Japan was the primary target of the Super 301 provision of the 1988 trade act. These policies are not directly protective, since the stated aim is to increase US access to foreign (in this case Japanese) markets, not to protect the US market.

52 See Dollar and Wolff, n.50, p.91.

53 Richard N. Cooper, "Industrial Policy and Trade Distortion", in Dominick Salvatore (ed.), *The New Protectionist Threat to World Welfare* (New York: North Holland, 1988), pp.34-41.

the highest in aircraft followed by medical equipment, steam engines and locomotives. One possible explanation of this apparently complementary pattern of high technology specialization is that the US tends to specialize in science-based industries, which are dominated by large firms capable of financing the basic research necessary for innovation, while Japan fares better in industries in which research is more product-specific and the management of research activities is more important.<sup>54</sup> Japan has a comparative disadvantage in basic Research and Development (R&D) intensive activities, but a comparative advantage in development - R&D intensive and an even larger comparative advantage in applied R&D intensive activities and this has obvious implications for technology policy, since the primary source of US comparative advantage is relatively open, while the primary locus of Japanese activities is relatively closed, creating an asymmetry.<sup>55</sup> Moreover, the greater prominence of governmental support for R&D had contributed to the development of a more easily accessible, less proprietary system of R&D activities in the US.<sup>56</sup> In contrast, R&D in Japan was carried out by large corporations with their tradition of lifetime employment; as a result,

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54 *ibid*, p.46.

55 C. Fred Bergsten, "Taming Japan's Trade Surplus", *New York Times*, 28 November 1991, p.19.

56 USA, Congress, Senate, Committee on Finance, Subcommittee on International Trade, *Hearings*, "United States Japan Structural Impediments Initiative," Hundred and First Congress, Second Session, 1985, p.15.

knowledge generated within the organisation tended to stay there.<sup>57</sup> This, in turn, in the 80s led to concerns in the US about the leakage of technology advances abroad; much of this concern has focussed on the acquisition by foreign firms of small US high-technology firms.<sup>58</sup>

In the Reagan period, alarm began to be expressed that foreign acquisitions, especially Japanese takeovers in the electronics industry, are eroding the US defence industry base and rendering the Pentagon increasingly dependent on foreign firms for important military parts and components. Congress added a provision to the 1988 omnibus trade act intended to respond to these concerns. This provision, commonly known as the EXON-FLORIO amendment (after its sponsors Senators J. James Exon and member of House of Representatives, James Florio), gave the President authority to review foreign acquisitions of US firms, and if a takeover threatens US national security, to block it.<sup>59</sup> Day to day administration of Exon-Florio was handled by the interagency committee on Foreign Investment in the US (CFIUS).<sup>60</sup> Since the law's enactment, several cases have been subjected to formal investigation, and the record

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57 *ibid*, p.52.

58 Stephen D. Cohen, *Cowboys and Samurai: Why the United States is Losing the Battle with the Japanese and Why it Matters* (New York, 199-), p.64.

59 Ryutaro Koniya and others, ed, *Industrial Policy of Japan* (Tokyo, Academic Press, Inc. 1988), pp.174-175.

60 I.M. Destler, *American Trade Politics* (Washington, D.C.: Brookings Institution, 1992), p.73.

with regard to Japanese firms does not appear unusual. The statute was further revised to make formal CFIUS investigations mandatory in certain instances and broadens the definition of national security to include the impact on US technological leadership in weapons of mass destruction and involvement by foreign countries in supporting terrorism.<sup>61</sup>

In case of primary products (covering domestic agricultural products) Japan had protected them from foreign competition through tariffs, quotas, state trading monopolies and when formal barriers were insufficient, through informal barriers to imports. During the period 1982-1987, the quotas covered 22 products, while trade in 6 more was monopolized by official or quasi official organs.<sup>62</sup> In 1987, the US brought a complaint to the GATT about 12 of these quotas; the following year the GATT panel ruled that 10 of the 12 were fundamentally at odds with Japan's commitments under the GATT. Japan acceded to the panel ruling and agreed to a liberalization schedule involving the phaseout of the quotas and their replacement with high tariffs to be reduced over time.<sup>63</sup> Japan subsequently acquiesced to US demands to eliminate its beef and citrus quotas, which were similarly replaced with high tariffs.<sup>64</sup>

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61 *ibid*, p.81.

62 Pietro S. Nivola, *Regulating Unfair Trade*, (Washington, D.C.: The Brookings Institution, 1993), p.69.

63 See Nivola, n.62, p.71.

64 See Bergsten and Noland, n.45, p.104.

Due to the liberalization of Japanese agricultural policies, the major beneficiary was the US whose exports rose between \$1.3 billion and \$4.6 billion annually from 1988 onwards.<sup>65</sup> Similarly, the Reagan administration also erected large trade barriers in other primary products. US fish products exports were subject to quotas in 12 categories in 1986, covering about one-fourth of all US fish exports to Japan. Wood products exports were impeded by escalating tariffs.<sup>66</sup> The US responded by imposing restrictions on its petroleum exports to Japan and banned the export of Alaskan oil to Japan in 1987.<sup>67</sup>

**MANUFACTURING SECTOR: OIL SHOCK,  
AUTOMOBILES AND AUTO PARTS**

In the mid sixties and throughout the 70s US-Japan trade disputes involved both Japanese penetration of declining manufacturing industries in the US (e.g., the textile wrangle of the 1960s) and problems encountered by US firms seeking to penetrate Japanese industries characterized by concentration and public targetting (e.g., computers). In the 1980s, the old labour intensive disputes were dropped out off the agenda, to be replaced by conflicts in more sophisticated manufacturing sectors such as steel, machine tools, and automobiles.

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65 Bela Balassa and Marcus Noland, *Japan in the World Economy* (Washington, D.C.: Institute for International Economics, 1988), p.49.

66 *ibid*, pp.51-66.

67 *ibid*.



During the period from 1978-1983, competition and innovation in Japan spurred the development of a very efficient domestic automobile industry, and Japanese producers began exporting a significant number of small, low cost cars.<sup>68</sup> The Japanese export drive was already given an enormous boost by the first oil shock in 1973 which had prompted a worldwide shift in demand toward fuel-efficient cars. Japanese exports of passenger cars nearly doubled from 381,338 in 1973 to 695,573 in 1982.<sup>69</sup> The real price of gasoline began to fall in late 1970s and demand shifted towards larger, less fuel-efficient cars. Again, from 1979 to 1983, OPEC oil producers raised prices shifting the demand back towards small fuel-efficient Japanese cars which stood at an advantage against the General Motors, Ford Motor Company and the Chrysler Corporation of the US by mid 1980s. The Japanese producers who had also otherwise built up large inventories were perfectly positioned to meet the demand.<sup>70</sup>

Ford and the United Auto Worker's Union responded in 1980 and 1984 by filing a section 201 case with the US International Trade Commission (ITC).<sup>71</sup> The ITC rejected the case on the grounds that import competition was not the predominant cause

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68 *ibid*, p.116.

69 See Bergsten and Noland, n.45, p.117.

70 I.M.Destler and John S. Odell, *Anti Protection: Changing Forces in United States Trade Politics* (Washington, D.C.: Institute for International Economics, 1987), pp.113-14.

71 *ibid*, p.125.

of the industry's distress. Political pressures intensified and several bills to put quotas on Japanese car imports were raised in the Congress.<sup>72</sup> The Japanese, under pressure from the Reagan administration announced voluntary export restraints on automobiles to the US, partially meant to avoid the application of US antitrust legislation. What followed was that Japanese producers initially responded to the VER by raising prices on their cars, which then had on additional scarcity value due to their limited supply. With the prices of Japanese cars growing high, American and European producers were free to do the same for their production also.<sup>73</sup> An estimated \$5.8 billion to \$10.3 billion in quota rents were transferred annually from US consumers to the world's automobile producers which were mostly captured by Japanese producers making the Toyota the most profitable firm in Japan in the 1980s.<sup>74</sup> These excess profits were ploughed back into investment in new plants, equipment, and R&D, making the Japanese firms even more formidable.

Moreover, since Japanese producers were limited in the number of cars they could sell in the US market, they attempted to maximize profit margins on each unit by upgrading into the luxury car market, previously an exclusive American and

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72 See Destler and Odell, n. 70, p.126.

73 See Bergsten and Noland, n. 45, pp.119-20.

74 See Bhagwati, n. 49, p.101.

European preserve.<sup>75</sup> Fortunately, the next step was for the Japanese assemblies to circumvent the VER restrictions by establishing assembly operations in the US.<sup>76</sup> Honda Motor Co. was the first, establishing a plant at Marysville, Oklahoma in 1982. The Reagan administration retaliated by filing antidumping cases against Japan in profitable segments of the industry where Japanese producers had not established transplant production i.e., off-road vehicles and minivans (1988).<sup>77</sup>

### **COMPUTERS AND SEMICONDUCTORS**

The goal of Japanese industrial policy as far as computers was concerned were to create a viable domestic industry. The preeminent computer firm in the world in the 1960s was IBM which had petitioned to Japan in mid-60s to allow it to establish a subsidiary that would be 99 percent owned by the parent company and negotiations were finally concluded permitting IBM to establish the only wholly foreign computer manufacturing subsidiary in Japan and to freely remit profits, but it had to licence valuable technology patents to its Japanese rivals, submit to MITI controls on production market

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75 See *Facts on File* (New York), vol.48, no.2459, January 1-8, 1988, p.366.

76 *ibid*, p.367.

77 See, *The Richmond News Leader* (Richmond, Virginia, March 22, 1986), p.28.

share and agree to export performance requirements.<sup>78</sup> The US pressurised Japan to force a liberalization of the market. Eventually trade in products was liberalized by 1975 and Japanese government greatly increased fiscal supports and supported large scale cooperative research ventures among domestic firms. Joint ventures were permitted beginning in 1979 and investment was fully liberalized by 1984, but meanwhile the government again increased its support of the domestic industry.<sup>79</sup> By 1985, Japanese firms had developed their own proprietary operating systems, thereby making it extremely costly to users to switch systems. As a consequence, liberalization did little to change the status of foreign firms in the Japanese market and the big three Japanese markers, Fujituso Ltd., NEC Corporation, and Hitachi Ltd., accounted for more than 60 percent of the Japanese mainframe market from 1985 onwards.<sup>80</sup>

The US semiconductor industry developed on parallel lines with the computer industry. The structure of the Japanese semiconductor industry is significantly different from that of the US. The 10 largest Japanese semiconductor producers are

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78 See for details *The Denver Post* (Colorado), 8 June, 1990, p.6.

79 Thomas O. Bayard and Kimberly Ann Elliott, *Reciprocity and Retaliation* (Washington, D.C.: Institute for International Economics, 1993), pp.117-31.

80 See C. Freed Bergsten and William R. Cline, *US-Japan Economic Problem; Policy Analysis in Internatgional Economics*, (Washington, D.C.: Institute for International Economics, 1987), pp.69-71.

all large, vertically integrated electronics firms with extensive non-semiconductor business.<sup>81</sup> Together they account for more than 90 percent of Japanese semiconductor production.<sup>82</sup> They also account for a significant share of Japanese consumption, with the top six producers together accounting for more than 60 percent of the total. This structure of the Japanese industry has clear implications for international trade in semiconductors.<sup>83</sup> Unfortunately for the US, Japan has the world's largest market in semiconductor with it accounting for in 1987, 38 percent of world semiconductor sales compared to a meagre 28 percent for the US.

Conflict between the US and Japanese industries came to a head in June 1985, when semiconductor Industry Association of US submitted a Section 301 petition against unfair trade practices by Japan. Shortly thereafter, a US firm, Micron Technology, charged Japan with dumping 64 K dynamic random access memories (DRAM). In August 1985, the Justice Department opened an antitrust investigation into possible predatory pricing by Hitachi. In September 1985, three more US firms filed dumping suits against Japanese producers of erasable programmable read-only memories (EPROMS). Finally, in December 1985, the Commerce Department self-initiated a dumping case in 256 K DRAMS.

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81 See Bayard and Elliot, n.79, pp.133-137.

82 See Bayard and Elliot, n.79, p.138.

83 See Bergsten and Noland, n.45, pp.128-31.

In the late seventies, the world supercomputer industry had two firms: Cray Research and ETA systems of the US. The Japanese government first targeted supercomputers in 1981 and purchased its first super computer in 1983 when the US machines were clearly superior on the basis of performance and the availability of software.

The US government initiated negotiations over the super computer market in 1987 as part of the Market Oriented Sector-Specific (MOSS) talks, when MITI Vice Minister Makoto Kuroda reportedly stated that the US firms would never be able to sell in Japan and that the US might have to nationalize Cray Research to save it from the coming Japanese onslaught. Kuroda's statements "galvanized" high-level administration attention on the supercomputer issue. NEC announced that it would begin by importing semiconductors to be used in its supercomputer industries, but this had little if any impact on US attitudes. The Japanese government announced that it was including money for two supercomputer purchases in its 1987 emergency supplemental budget. Perhaps not surprisingly under these circumstances, the US firms each won a bid for these additional purchases. A formal agreement was concluded that summer that improved the transparency of the bidding process.

Soon, however, it became apparent that these purchases had been largely symbolic, as the foreign manufacturers failed to sell any additional supercomputers the following two years. In late 1988, the US government named public procurement of

supercomputers a priority foreign practice for bilateral negotiations under the Super 301 provision of the 1988 omnibus trade act and in many ways the experience of 1988 was a reprise of 1987.<sup>84</sup> With great public fanfare, Cray Research was awarded the contract to install one of its supercomputers at national universities. The US, held firm, however, and the day before the Super 301 negotiation period was to end, the US and Japan announced a new set of agreements on supercomputer procurement. The new accord improved upon the old by mandating that performance requirements be stipulated in terms of real rather than peak performance, and discouraging bidding on the basis of paper machines. A Procurement Review Board was established and empowered to reopen bidding if the accord's provisions are violated.<sup>85</sup>

The US has traditionally been the world leader in computer software - an area in which Japan conspicuously lagged behind. Given the US dominance and the fact that software is typically licensed abroad and did not appear in the merchandise trade statistics, software has not figured prominently in Japan-US trade disputes. An exception was the "1988 flag over TRON", a developmental operating system that the Japanese government was supporting and planning to purchase for use in the national education and telecommunications systems. TRON also required

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84 Dennis J. Encarnation, *Rivals in Trade and Beyond*, (Ithaca, New York: Cornell University Press, 1992), pp.171-173.

85 *ibid*, pp.175-176.

specialized terminals and other equipments, thus adding a major hardware dimension to the dispute. By mid eighties the US preeminence in software started eroding. With the very rapid growth of personal computer use in Japan, there has been an explosion in demand for software, making Japan the second largest market in the world after the US. Rapid increases in demand, along with the high-margin strategy of the major US firms created a market opening for Japanese entrants. At the same time, around 1987, Japanese firms started moving aggressively to tap software engineering resources elsewhere in Asia, particularly in China. These resulted in Japan becoming both a major important market and a potential source of competition for US firms. As a consequence, US started increasingly attempting from 1987-88 onwards to establish a presence in the Japanese market through either greenfield investments or acquisitions. Another implication was that Japanese firms started becoming by the end of the Reagan administration increasingly important players in worldwide cross national software development alliances.<sup>86</sup>

#### **TELECOMMUNICATION SECTOR NEGOTIATIONS**

The US and Japan long maintained highly regulated telecommunications market. Opportunities for service provisions by foreigners was, for practical purposes proscribed

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86 For details see, John Williamson and Marcus Millen, *Targets and Indicators: A Blueprint for the International Coordination of Economic Policy*, (Washington, D.C.: Institute for International Economics, 1989), pp.91-97.



and most equipments was procured domestically. The US began to deregulate this market in 1984 with the break up of AT and T's domestic telephone monopoly.<sup>87</sup> This loosened up the market and foreign electronics firms rapidly increased their telecommunications equipment sales in the US. Japan has consistently lagged the US in telecommunication deregulation, which explained largely the cause of trade tensions in this sector in the 1980s. In 1980, Motorola attempted to enter the Japanese market for beeper-pagers but could not even secure an appointment with NTT, the Japanese public telecommunication monopoly. Next in apparent violation of Japan's GATT obligations, NTT refused to disclose its proposal procedures or specifications. This in turn led to government to government negotiation and eventually the NTT Procurement Agreement of December 1980, the first of a series of bilateral telecommunications accord. By the mid-1980s imports made up only three to four percent of NTT procurement, however, and there was growing dissatisfaction in the US with the implementation of the Agreement. In 1984 the US designated the telecommunications as one of the sectors slated for MOSS talks. The goal of these negotiations was to obtain an environment similar to that in the US with regard to telecommunication enterprises, equipments standards and certification. The 1985 agreements that resulted from these talks appeared to do just

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87 Jeffrey J. Schott, *More Free Trade Areas* (Washington, D.C.: Institute for International Economics, 1989), pp.81-82.

that. These agreements, together with NTT's partial privatisation in 1985, were expected to result in greater foreign access to Japanese telecommunications market. Significant change was not apparent, however, and in March 1986 the US Senate voted 92-0 to recommend President Reagan to retaliate against Japan for its failure to open its telecommunication market. This unanimous condemnation apparently shocked Japanese policy makers. One area of contention was cellular telephones. The stakes in this dispute were enormous. In 1986, the Japanese market was third largest in the world at \$400 million and expected to grow by 40 to 50 percent annually till 1990. Meanwhile in 1984, Motorola's attempt to enter the Japanese market was frustrated when MPT, after much negotiations permitted the Motorola system to be used throughout Japan, but not in the lucrative Tokyo-Nagoya corridor. As a consequence, the NTT system could be used anywhere in the country whereas the Motorola system still could not be used in the most important market.

#### **SERVICE SECTOR STRATEGY**

In case of US-Japan disputes in the service sector, specially, banking, construction, securities, and retailing, it typically involved difficulties encountered by US firms in penetrating the Japanese market due to a combination of government regulations and private cartel behaviour, leading the US government to attempt to remove such barriers to the

access by US firms and the problem eventually in the 1980s got intermingled with domestic politics of regulatory reforms.

In the above mentioned cases, since only one significant US producer or service provider was involved, US trade policy was criticised as having the risk of being effectively privatised.

As a result of the past negotiations resulting from trade disputes, a significant portion of trade between the US and Japan was already managed with the use of quantitative indicators.<sup>88</sup> Some of Japan's most successful exports to the United States have been limited by so-called voluntary export restraints (VERs) for considerable periods: Japanese exports of automobiles, machine tools, steel, and textiles and apparel have been subjected to such restraints. Some of America's exports to Japan are now promoted by voluntary import expansion schemes (VIEs): Japan has committed itself to import specific quantities of semiconductors, and the relevant Japanese industries have set targets for their imports of auto parts and of automobiles themselves.

There have also been a few efforts by the United States and Japan to exercise joint leadership to *improve the functioning of the international economic system*. Most of the macroeconomic initiatives mentioned above, such as the Bonn summit package in 1978 and the Plaza-Louvre episode in 1985-87, took place in a broader G-5 or G-7 context. In a few

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88 See Bergsten and Noland, 45, p.16.

instances, "G-2" efforts by the United States and Japan were aimed at galvanizing the European countries to proceed likewise; notable examples, both eventually successful, were the reference ranges of October 1986 and the Brady Plan approach to Third World debt in 1989.

In tactical terms, the United States has deployed an extensive array of techniques of *managing the relationship* across these several issue-areas. Some initiatives have been pursued multilaterally: these include the exchange rate realignments in the G-5 and G-7 (and earlier in the G-10) and efforts to improve access to the Japanese market through negotiations on tariffs, government procurement, subsidies, and other trade issues in the Kennedy, Tokyo, and Uruguay rounds of the General Agreement on Tariffs and Trade (GATT). Other initiatives have been pursued in the bilateral mode: in this category on the trade side are the MOSS and SII talks as well as virtually all of the sector-specific efforts, including those that produced the VERs and VIEs, while financial examples include the G-2 efforts cited above and the yen-dollar talks. The United States has also taken unilateral measures toward Japan, mainly in implementing its domestic trade laws (notably on antidumping) and, in 1987, retaliating against Japanese noncompliance with the 1986 Semiconductor Trade Agreement (STA). (Retaliation has been threatened in many other instances as well). Yet another mode of dialogue, a regional one, could become available in the future if the recently

established Asia Pacific Economic Cooperation (APEC) evolves into a major forum for trade and broader economic negotiations.<sup>89</sup>

Thus, over the past decade, the US-Japan economic agenda has been pursued through initiatives that have ranged far and wide in terms of both substance and tactics. Thus, multilateral, bilateral, and unilateral approaches to the macroeconomic, structural, sector-specific, and systemic components of the conflict has become clearly evident. There have been notable successes: negotiations at the macroeconomic level have produced sizable reductions in both countries' global current account imbalances, both in the 1970s and from 1987 to 1989; many American (and other foreign) firms now enjoy enhanced market access as a result of negotiations on Japan's structural barriers; and significant increases in US exports of a number of products have been the direct result of sector-specific negotiations.

On the other hand, there have been numerous disappointments in the Reagan period. Japan's global current account surplus has again soared to new highs. The bilateral imbalance has resisted decline even as the global imbalances of both countries have dropped sharply. Most analyses suggest that Japan remains an international outlier in terms of foreign suppliers' (and especially foreign investors') access to its

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89 Gary Clyde Hufbauer and Howard F. Rose, *Trade Policy for Troubled Industries*, (Washington, D.C.: Institute for International Economics, 1988), pp.98-102.

market. Japan has done little to obviate the adverse effects of the *keiretsu*<sup>90</sup> system on outsiders. *Gaiatsu*<sup>91</sup> still seems a necessary catalyst to Japanese public decision making, and Japan has shown few signs of exercising constructive international leadership.

For its part, the United States has yet to significantly reduce its budget deficit. On a number of indicators, America has yet to improve its international competitiveness substantially. Its national saving and investment rates remained a fraction of those in Japan from the mid 1980s.

In the US, the primary obstacles to improving bilateral relations will continue to be inflation, poor productivity, and declining overall economic performance. Without an effective policy of positive adjustment to international competition, the temptation is always to resort to stop-gap protectionist measures. However, such political remedies only create economic disincentives to adjust. Yet in spite of such political "quick fixes", the desire to strengthen the international trading system exists in both countries. The US-Japanese agreement to accelerate tariff reductions on semi-conductor products represents a constructive effort to strengthen the semi-conductor industry in Japan as well as in

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90 Keiretsu refers to a network of corporate governance, financial markets, labour-management relations, government and private sector linkages, and linkages among companies.

91 Gaiatsu refers to foreign pressure acting as a catalyst to galvanize and boost up constructive responses to legitimate criticism.

the United States.<sup>92</sup> Japanese producers lost some protection but they gained from the benefits of cooperation in research, development and procurement programmes. The economic relations between Japan and the US are so important to the health of the international economic system that neither country can allow sectoral problems to undermine the essential strength and stability of the partnership.<sup>93</sup>

America's trade problems, then are, deeply rooted and not remedied by such quick-fix solutions. In fact, as Japan makes greater strides in the area of high-tech products and as the newly industrialized countries further refine their manufacturing processes and adopt Japanese-style approaches to doing business, the US can expect greater deterioration, not improvement of its trade balance. Viewed in this light, the ad-hoc responses of the Reagan administration and Congress did not address the problem, and in fact, did more harm than good. Whatever specific action they tried to force Japan to take - accepting "voluntary" export restrictions, guaranteeing a portion of its domestic market for US goods, suffering stiff penalties as a trade surplus nation, or living with a higher yen - the basic intent was always the same: to shift the burden elsewhere. These piecemeal approaches all ignored the underlying problems affecting US competitiveness and thus

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92 Clyde V. Prestowitz, *Trading Places: How we allowed Japan to Take the Lead* (New York: Basic Books, 1988), pp.197-8.

93 *ibid*, p.201.

distracted attention from more painful but necessary policy changes. Over the years, the US had obtained agreements from Japan to limit its exports of steel, automobiles, textiles, apparel, machine goods, and microchips. These might have placated American industry demands for protection, but, in the end, they benefitted no one. American consumers were forced to pay in 1984-85, perhaps, \$25 billion more in higher prices. Restrictions governing the import of lower-priced Japanese cars for instance, had increased the average purchase price of a new car by at least \$1,500.<sup>94</sup> This means that, in 1984 alone, over 9 million American purchasers of new cars were faced to pay hidden automobile subsidy taxes totalling \$13 billion.<sup>95</sup> Nor did industry really benefit from the protection of export restraints; on the contrary, shielded from foreign competition, management and labour lost their incentive to abandon the uncompetitive ways that inspired these restraints in the first place.

Market-oriented sector - specific (MOSS) negotiations could be a more promising approach than export restraints, especially when they were used to pry open Japan's remaining protected markets.<sup>96</sup> This allowed the US to export those products - such as rice, coal, and petroleum - in which it

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94 Yoshikaju Mryajaki, "The Dollar and the Yen", *Japanese Economic Studies* (Tokyo), vol.,22, no.8, Fall 1990, p.6.

95 *ibid*, p.7.

96 USA, Senate, Committee on Banking, *Hearings*, "Barriers to US Trade", Hundredth Congress, second session, 1987.



enjoyed a genuine advantage. But too often, MOSS arrangements acquired the worst features of export restraints with, predictably, many of the same ill effects. In August 1986, for instance, the Japanese agreed to price their microchips sold outside Japan higher than American chips, in response to charges of dumping. Although intended to protect the American microchip industry, the pricing agreement had actually contributed to its virtual extinction. So prices of the highly valued Japanese chips increased 400 percent, Motorola and Texas instruments, the last remaining US chip makers, quickly abandoned their own production to sell imports from Japan. The pricing agreement also meant that manufacturers and other producers requirement high-grade microchips could now look forward to inflated chip prices and limited availability, thus placing them at a further disadvantage relative to their Japanese competitors.<sup>97</sup>

MOSS negotiations also did more harm than good when, like voluntary export restraints, they were conducted to the benefit only of the US and not of all nations.<sup>98</sup> Exclusive market concessions created economic blocs that threatened to undermine the world trading system. "It was this same preoccupation with bilateral trade deficits that bagged proposals for remedial legislation, particularly the Rostenkowski, Bentsen and

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97    *ibid.*

98    W.Wray, *Japan's Economy: Past and Present* (New York, 1989), p.307.

Gephardt trade bills."<sup>99</sup> These proposals were meant to penalize a chronic trade-surplus nation like Japan unless it agreed to reduce its surplus with the US by a designated amount each year. Supporters of such protectionist measures assumed that a trade surplus nation would choose to increase imports exclusively from the US to cut its surpluses. In reality, trade-surplus nations like Japan, Taiwan and South Korea were more likely to restrict their exports to the US if they were forced to meet a surplus reduction target, or to retaliate against US exports. The end result would have been a dramatic shrinkage of trans-Pacific and worldwide trading and an adverse impact on the US economy. This is because, the trans-Pacific trading structure has already been so intertwined among nations that a unilateral reduction in US imports of Japanese goods, could, for instance, have wiped out the US trade surplus with Australia, or if Japan were to retaliate for US actions by shifting its purchases of grain from the US to Thailand, Australia or Canada, the overall trade deficits would have grown plunging the US agricultural sector deeper into recession.

The Reagan administration had placed an increasing emphasis on "taking down the dollar", not just as a way of making US goods more competitive but also in the hope of forcing Japan to reflate its economy.<sup>100</sup> This proved to be

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99 *ibid*, p.309.

100 Yoshikaju Mryajaki, n.<sup>o</sup> 94 p.9.

counterproductive. US pressure for a weaker dollar and a stronger yen played into the very hands of those in Japan who resisted any further accommodation with the US. Rapid yen appreciation had damaged the export competitiveness of many firms and regions that made standard crafts and manufactures. If the US would have continued to talk down the dollar against the yen, the bureaucrat-farmer-localist alliance that holds enormous political power in Japan could very well have sought retaliation against the US, perhaps through the financial leverage that Japan did and new wields with the massive investment in the US.<sup>101</sup> This is, however, not to say that an adjustment of the dollar yen relationship is unnecessary or unwelcome, only that it needs to be carefully managed.

A dollar-yen exchange rate stabilized around the 165-yen level would have benefitted both the US and Japan. It would have allowed Tokyo to put into effect stimulative domestic measures to offset any deflationary effects of reduced export activity and Japanese industries would then have planned for an orderly expansion of overseas manufacturing and service activities, including those in the US.

Such expanded Japanese operations in the US would have meant greater US job creation and more competitive American-made products. Increased Japanese business activity in US would also likely have increased the sale of US made goods and services to Japanese firms operating in the US and their

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101 *ibid*, pp.10-11.

subsidiaries abroad. This could have helped restore balance to multilateral trading in the Pacific Basin and throughout the world. Meanwhile, continued outflows of capital and technology from Japan to the United States would have fostered stronger ties between American and Japanese firms in the Pacific and elsewhere.<sup>102</sup>

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102 Paul H.Kriesberg, n.12, p. 107.

## CONCLUSION: POLICY ANALYSIS AND IMPLICATIONS

The stresses in US-Japan relations vividly demonstrate the changing contexts of US interests. In the past, the US defined its relations with Japan solely in terms of the Cold War context. The Soviet threat not only provided the basis for defining the mutual interests of US and Japan, it also provided for what former ambassador Mike Mansfield proclaimed: Japan was the most important US ally "bar none". In such a scenario, the US often overlooked economic conflicts in trade with Japan for the sake of its broader strategic interests in the Asia and the Pacific.

Japan's rise as a global economic and financial power was a direct consequence of such a policy. Its prowess in process technology and its broad inroads into several high technology sectors as well as in auto, steel, rice, construction and other conflict areas, altered the hitherto benign definition of US interests in the region. Japanese challenged the economic competitiveness of many of the US strategic industries which includes steel and automobiles. Moreover, Japan's success enhanced its "soft power" by providing an attractive economic model for newly industrialising countries in Asia. It also undermines the US power and confidence by highlighting its glaring domestic policy failures.

The ability of the US to compete in the world economy has eroded significantly over the past two decades, the decline

being manifested chiefly in the areas of steel, automobile, consumer electronics, apparel and machine tool industries. America's falling share of world gross national product (GNP) and exports, deteriorating merchandise trade balance, reduced profitability and productivity growth in manufacturing firms, widespread plant closings, bankruptcies and unemployment also reflected this decline. In fact, given the present situation, staying competitive has now become more important than ever, given the increasing US interdependence on international trade. Other nations, especially Japan continues moving into higher technology and value-added sectors, often by exploiting American inventions and upgrading their products, within existing industries, partly in response to voluntary import quotas. Japan, in contrast to the United States has achieved high investment and productivity growth rates by adopting national development strategies to mobilize resources and foster work incentives in response to long-term market opportunities. By contrast, the pluralistic pursuit of a diverse diplomatic and domestic goals by the Americans has handicapped the ability of the US to compete effectively and has made it resort to ad hoc trade restraints.

In the light of the trends perceived, the Reagan administration, on the one hand, analysed the inabilities of the US to acknowledge its problems or to agree on why they were losing their competitive clout so quickly. On the other, its strategy rested on obtaining a wide domestic consensus on

shifting the burden of blame of trade imbalance on Japan. It approached the trade challenges between the world's two biggest economies by raising to some extent, a certain kind of a free trade zone between the two nations. It succeeded in highlighting the Japanese advantages in the bilateral relationship as the main factor in reviewing the trade surpluses.

The challenge to the US from a rising power like Japan made US analyse its past policies particularly in the decade of the 80s. The primary challenge to the US was how to contain its economic decline in general and manage better choices in its trade negotiations with Japan in particular. The process of formulating such a policy had a mixed record in the Reagan administration years.

The wide spread and dominant perception that provided an overall framework for US policy in the eighties may be summed up as follows: unless negotiations with Japan are accompanied by sufficient external pressures to overcome the opposition of Japanese vested interests, Japan would not cooperate.

During the late 1970s and till the end of the Cold War, policy differences and trade frictions continually rose, even while the security issue was paramount. In the American view, the Japanese firms assisted by the administrative guidance and targeted industrial policies, enhanced Japan's success in export markets. Assisted by massive domestic savings and an undervalued yen, Japan was able to grow and increase trade and

current account surpluses with the rest of the world and especially with the US. The US pressure on Japan to open its markets produced a pattern whereby the Japanese government engaged itself in protracted trade negotiations and minimal opening of its economy. The agreements reached from the late seventies to the late eighties were worded vaguely enough, suggesting that they were negotiated compromises and as such subject to conflicting interpretations.

The US policy formulations were a result of an interplay of several forces. The primary focus of the Reagan administration was to pursue the Japanese to make an unprecedented effort to open its trade and financial markets - an effort which had yielded significant new opportunities for US firms. The so-called MOSS talks despite frequent assertions to the contrary, had achieved significant successes in opening Japan's market for telecommunications, pharmaceuticals, medical equipment and forest products. The Reagan administration initiated discussions of trade at the Tokyo Summit to focus on a new GATT round of multilateral negotiations. That was argued as a fair means to achieve an increased access for exports, to provide more effective resolution of disputes and to strengthen the fabric of the international trade system. Moreover, the Reagan administration brought an end to the textile and steel disputes and in sharp contrast to the early days of economic friction, no particular industry or product was the cause of a serious trade strife. The Reagan government brought about the



agreements for mutual zero import duties thus preventing trade frictions. Reagan also played an effective role in bringing about the rapid advancement of each country into the other's market. The apparent efforts of Presidents Nixon and Carter to break the umbilical cord between the US and Japan had reinforced the suspicion in Japan that US was only interested in nuclear power balances. This impression subsided during the Reagan years, for Reagan had cast aside the "paternalistic style of alliance leadership" and took Japan as a full partner and gave new importance to it as an ally.

The Congress attributed the trade deficit vis-a-vis Japan to unfair trade practices in foreign countries and diminished US industrial competitiveness. They wanted to promote a more active government role in opening foreign markets and enhancing the competitiveness of US firms as also a Congressional wish for a balanced trade policy. In the Omnibus Trade Act of 1988, Congress had sought to ensure that the government would take action when US interests were harmed by unfair practices and would provide temporary relief for injured domestic industries. This act and the 1984 Trade Act also provided for a strong Congressional role in the future.

The role of the United States Trade Representative (USTR) vis-a-vis- Japan was reflected in the application of the Super 301 provision of the Omnibus Trade and Competitiveness Act of 1988 to Japan. The Super 301 provision required the Executive Branch to identify priority foreign trade barriers and to seek

their removal under timetables and the threat of retaliation. Formally entitled "Identification of Trade Liberalization Priorities, Super 301 established a mandatory process for the USTR to initiate investigations to reduce barriers to US exports. When Japan adopted the position that it would not enter into negotiations under the context of Super 301 (that is, under the threat of unilateral sanctions) but would discuss the problems raised by the US in another forum, Carla Hills, the then USTR maintained that as long as talks were held on barriers to trade in supercomputers, satellites and forest products, it does not matter what they are called.

As the US and Japan became more similar economically, the prospects for cooperation outweighed the potential for further deterioration of relations. The political frictions accompanying economic and trade disagreements, however, often jeopardized many of their mutual interests. The effects of economic policy choices touched foreign sensitivities and needed to be formulated with the greatest care. The task, therefore, for business leaders, policy-makers and the public at large on both sides was to learn to view traditional domestic economic issues from a broader international perspective.

In the analysis of domestic influences on US responses to Japanese trade challenges it was evident that apart from ad hoc protectionism, US trade policy was largely comprised of legalistic attempts by private parties to force other nations

to play by US rules, by eliminating subsidies and halting unfair practices. It was also evident that foreign firms and governments such as Japan being strongly committed to their own strategies and sensing US reluctance or inability to enforce international agreements have resisted pressures to change. Labour was found in frequent alliance with industrial and business lobbyists seeking relief and protection from the forces of complex interdependence. The business group on the other hand, although frequently favouring trade liberalisations, has sometimes, in alliance with labour unions supported protectionists trade policies. The media and public have played highlighting roles in reflecting the administrative and public sentiments on questions of tariff, quotas and protectionism.

In assessing the actual policy outcome from such an interplay of forces it may be concluded that several other factors also influenced the policy makers and the policy outcomes.

While examining factors affecting negotiation it has been pointed out that obsolete notions of static comparative advantage and a predisposition for open markets had induced policy-makers to pursue an unilateral approach to free trade and to underestimate the effectiveness of foreign national strategies that subsidize exports and actually create competitive superiority in select sectors. As a result, trade

officials have often lacked a clear conceptual framework for setting long-term priorities.

Moreover, in the case of US-Japanese relations, there has been a power symmetry in a reasonable degree. The US enjoyed a bargaining advantage, because the relative opportunity costs of change were less for the US; nevertheless, the absolute costs of a closure of trade would be high for both countries. The two largest economies in the world were not in a situation in which they could engage in mutual exploitation. Japanese and US policy makers would have been better off, if they would have abandoned aspirations for virtue based on adherence to liberal principles and norms and instead legitimated policies that were more closely attuned to short-term and specific interests. Such interests were likely to drive policy in any event. Aspiring to virtue would have lead US policy-makers to continue to demand that Japan looked more like the US and Japanese policy makers to regard their US counterparts as hypocritis. A reduction in mutual recriminations through an interest-based policy would leave the US and Japan in a better position to meet the most important challenge in the contemporary economic environment, and to foster the ability of the world's two largest economic powers to act quickly, decisively and effectively to cope with international crisis.

In the event of Japan's increasing relative economic capability, it would become more important for Japanese and US central decision makers to work effectively together. In

crises, efficacy is related to trust. In the US Japanese relations, trust is more likely to emerge from ad-hoc procedures based on interests in specific issue-areas and a web-of contracts, than on efforts to create and enforce general rules based on abstract liberal precepts.

Thus, various trends have been evident in the 80s to indicate that the nature of alliance is changing. While there is a common recognition of the importance of the alliance to both the US and Japan, there are a number of contradictions and a host of conflicting interpretations of the impacts of these trends. The competing pulls of different policy goals, international political constraints, and internal Japanese political developments also operated substantially to frustrate the Reagan administration's efforts to reshape US-Japan relations and reduce the bilateral trade deficit.

For Japan, the basic fabric of its international relations is its relation with the US. These two countries happen to be the largest and the second largest economies of the world. At the same time their mutual interdependence is so intense that a scenario of separation is just unrealistic and unthinkable. Moreover, the stability and soundness of the US-Japan relationship is a precondition for the political and economic stability of the world, and for Asia in particular. Furthermore, at it seems now, there is lesser possibility of any other country other than Japan to share with the US the

responsibility of leadership and actual geopolitical power, for the US can no singly longer sustain a global economic, political and military system by itself.

Their relationship in such a global framework can no longer remain a simple bilateral relationship. Once simply bilateral trade and economic conflicts between the two should now be seen as a manifestation or symptom of the undergoing shift and change in the international system. This new dimension or rather the globalization of US-Japanese relationship has been recast in a more global and systemic context.

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