



On a collision course with Japan

By Herman Schwartz and Leonard Schoppa

The United States and Japan are headed toward a collision in their current dispute over autos and auto parts. Like a pair of teenagers engaged in a game of chicken, each side thinks the other will give way at the last moment. Both sides are wrong.

U.S. policy-makers, having seen the Japanese take negotiations to the brink in numerous prior disputes only to make concessions at the last minute, expect they'll do it again before June 28, when the U.S. is scheduled to start collecting 100 percent tariffs on \$6 billion worth of Japanese luxury cars. Japanese policy-makers, on the other hand, expect that lobbyist pressure on a porous U.S. state will force the U.S. to drastically scale down its sanctions, particularly under a weak president like Clinton. Observers see the administration's announcement this week agreeing to meet with the Japanese before the Halifax summit in mid-June as following this familiar pattern.

But like most international crises that escalate beyond the participants' expectations, this dispute is dangerous because the old lessons don't apply. Neither side is likely to give in because the situation is wholly unlike prior trade disputes.

The U.S. believes it can use *gaiatsu*, or foreign pressure, to force Japan to back down—as it has repeatedly done over the past two decades. The dynamics that produced Japanese concessions in the past, though, don't operate in this case.

Gaiatsu worked in the past because the U.S. had powerful allies inside Japan who favored the outcome it was seeking. For example, Japanese industry favored opening the highly inefficient local agriculture market, both to cheapen wage costs and defuse trade tensions with the U.S. Politicians like Toshiki Kaitu and Yasuhiro Nakasone were able to extend their tenures as prime minister through their successful "management" of U.S.-Japan conflict. Even the Ministry of International Trade and Industry was often quietly on the American side in disputes such as these. Between them, those elite actors could buck Japan's powerful vested interests.

In this case, though, the U.S. is attacking one of the core interests and industries of Japan. American demands for Japanese auto firms to adopt "voluntary" parts-purchase plans and encourage their dealers to sell American autos directly challenges the nation's system of interlocking corporate ties. Many observers inside and outside Japan believe that the system creates one of the nation's major competitive advantages—and the automobile industry is Japan's largest exporter. Japanese industry is unlikely to pressure politicians to make them less competitive, particularly at a time when the economy is depressed, employment is falling and exports are shrinking in yen terms. Neither is the MITI.

The end of the Cold War increases Japan's resistance to U.S. demands. The Soviets are no longer a threat, and a rapidly growing Asia provides Japan with alternative export markets. After acquiescing to American bullying for so long, many Japanese feel it is now safe to stand up to their longtime ally.

Meanwhile, politicians have placed their reputations and credibility on the line. For two

years they have said that targets were unacceptable. Accepting them now would undermine both personal careers and Japan's ability to negotiate in the future.

Just as the U.S. completely misreads Japan, the Japanese are fundamentally wrong about what motivates this dispute. In the past, U.S. trade pressure has always been driven by Congress and interest group pressure, and the Japanese could count on the president to mediate disputes before they got out of hand. In 1987, resident Ronald Reagan scaled back the semiconductor sanctions—initially targeting \$4 billion of Japanese exports—to just \$300 million after hearing the complaints of U.S. firms who would have had to pay more for their imports of Japanese components. The Japanese hope Lexus dealers will be able to pull off a similar coup this time.

The problem for Japan is that this time the American demands are driven by more than just interest-group pressure. Our national interest, as the Clinton administration understands it, is at stake. Sanctions are part of a broader policy to restore U.S. global competitiveness, generate new technologies through government research and development, aggressively support U.S. firms trying to export that technology, and "reinvent" the state apparatus itself. Not just unions and the automobile industry, but a broad spectrum of U.S. industry has signed on to Clinton's brinkmanship, hoping for broader access to Japanese, and later Asian, markets.

Of course this also dovetails nicely with Clinton's personal political ambitions. Having lost control of the domestic agenda to a Republican Congress and an aggressive Federal Reserve, Clinton has no choice but to use foreign economic policy to show he still affects the domestic economy. The World Trade Organization's dilatory timetable means he can milk this issue well into the 1996 campaign. Clinton, too, cannot back down now without destroying what little credibility he still possesses.

Given the above, it is hard to see either side swerving ahead of the impending collision. Japanese auto firms are likely to offer something ahead of the Halifax Summit in mid-June, perhaps a "forecast" outlining their plans to buy more North American parts for their North American operations, but the concessions are likely to be far short of the market access in Japan that Clinton wants and needs.

It is probably too late to avoid a collision in the current game of chicken. The U.S. will impose sanctions. Japan will come up with its own counter-sanctions (probably on imports of U.S. agricultural goods), and the two sides will square off before the World Trade Organization. As they ponder what moves to make next, however, both would be wise to shift their focus from their immediate stakes in this battle to their longer-term stakes in a functioning liberal trade regime. The U.S. needs to realize that going it alone will only breed hostility and fritter away the little global political capital the U.S. has. Japan needs to realize that it can no longer get away with forcing other nations to absorb the costs of maintaining the nation's elaborate social safety net.

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