

#### **JPRI Critique, Vol II, No. 8 September 1995**

**Needed: A Japan Strategy**  
**by Chalmers Johnson**

The fiasco of the Japanese-American auto agreement, hammered out in the middle of the night on June 28 in Geneva, signifies the need for new American thinking on Japan. The American threat to impose almost \$6 billion worth of trade sanctions on imported Japanese luxury automobiles proved to be hollow, and neither the threat nor the agreement that was reached was part of an integrated strategy toward the superpower of the Pacific. The seeming concessions Japan made at the final moment--to manufacture more cars in Japanese-owned plants in North America and perhaps to buy some more American auto parts--were already in the works, dictated by the high value of the yen, not by anything the American negotiators said or did. Japan was the clear victor in this episode between the two increasingly estranged allies.

Japan profited more from the Cold War than any other nation. It has every incentive to try to perpetuate its Cold War relationship with the United States as long as possible. During the Cold War, fearing that Japan might be tempted toward neutralism and wanting to use Japan as a model of development to counter the appeal of Chinese communism in Asia, the United States allowed Japan to rig its domestic market in ways that it permitted no other ally. The U.S. also encouraged Japan to export to the American market, and it facilitated transfer to Japan of a vast array of American technologies, even though Japan refused to allow the American owners of these technologies to invest in Japan or sell their products directly to Japanese consumers.

In return, Japan gave the United States basing rights; there are still close to 50,000 American troops stationed in Japan fifty years after the end of World War II. It also passively supported American foreign policy in East Asia, even when it disagreed with the United States (as in China and Vietnam).

Japan has no reason to change these relationships if it doesn't have to. From Japan's point of view it adjusted to the world created by its conqueror, and it well remembers the long years of American condescension about Japanese economic growth and American ignorance about *keiretsu*, political corruption, extortionate consumer prices, and non-tariff-barriers to imports which helped achieve high-speed economic growth.

In short, the Americans helped create and nurture what is today their single most important competitor, and they are still befuddled by what to do about Japan now that Cold War is over. It was precisely this situation that American voters expected a president elected on

the slogan of “it’s the economy, stupid” to address. But the reality two years after the start of the Clinton administration remains a muddle. Even though the disastrous American trade deficit is caused primarily by imports from Japan, China, and Taiwan, the Clinton administration appointed lawyers and economists to deal with it, rather than people with language ability and experience in China and Japan. Mickey Kantor, the U.S. Trade Representative, is in a long tradition of on-the-job training that extends back at least to the Carter administration’s Robert Strauss, who ended up working as a lawyer for Japanese investors in the U.S. Even though the Clinton administration proclaimed that it was taking Japan seriously, there was no coordination among its various policies, no coherence to any individual policy, and no long term vision of how to adjust to the rise of both Japanese and Chinese power in the Pacific. There was only the illusion of policy, manipulated by media specialists for short term political effect.

In February 1995, for example, the Department of Defense unilaterally pledged to keep 100,000 American troops in Japan and Korea for the next twenty years. This had the effect of giving up the United States’ only real leverage in the area and saying to Japan’s trade negotiators that they could hang tough without endangering America’s security guarantee. That is exactly what Mr. Hashimoto did in the auto talks.

The administration also fought hard to get the Uruguay Round of trade negotiations completed in the face of dogged Japanese resistance, only to see the Japanese use the resulting World Trade Organization against the United States in the auto negotiations.

Domestically, the Republican Party has threatened to gut what little support the U.S. government gives its own industries by abolishing the Department of Commerce, and the Republican “Contract with America” nowhere mentions international trade or international investment. Such a contract is somewhat like a political platform in 1954 that failed to mention world communism or the Cold War. The Japanese could be forgiven for wondering why, in this context, Mr. Kantor threatened them with sanctions on luxury cars. They explained it to themselves in terms of political payoffs to domestic American industries and not as basic American foreign policy.

Over the past quarter of a century the United States has succeeded only twice in changing the environment of Japanese decision-making. The first was the “Nixon Shocks,” carried out by President Nixon and Treasury Secretary Connally in 1971 to force Japan to give up its artificially undervalued yen. The second was the semiconductor agreement of 1987. It is worth recalling that in 1987 the American semiconductor industry was headed for the same graveyard in which the whole American consumer electronics industry is buried. This situation was turned around by the semiconductor agreement, which demanded and got twenty percent of the Japanese market for imports, and by domestic company reforms, including the creation of a joint research consortium. Today both Japan and the United States enjoy thriving semiconductor industries. The competition between them gives rise to the innovations and price reductions that are occurring, for example, throughout the computer and telecommunications industries.

It is therefore surprising that the Japanese have vowed never again to enter into such an agreement, and American newspapers, such as the *Wall Street Journal* and the *New York Times*, editorialize against negotiated market shares among different kinds of capitalist systems. This suggests to me that the Japanese in 1987 actually wanted to destroy the American semiconductor industry rather than achieve a healthy trading relationship with the United States, and that Americans are still so deluded by economic ideology they are unable to recognize their own success.

In the recently concluded auto talks, a fundamental American error was to enter into negotiations at all. It would have been better if the administration had just imposed tariffs on imported luxury cars. The Japanese have for years been advising the Americans that they consume too much and save too little and that the Japanese-American trade imbalance is caused by poor macroeconomic fundamentals in the United States. Starting to cut consumption of Japanese luxury cars was an excellent symbol of what needs to be done elsewhere in the American economy. In any case, the auto talks were never really about automobiles since the Americans gave away a quarter of their domestic automotive market to the Japanese twenty years ago. A few more assembly jobs in Japanese factories in the midwest today will never compensate for the jobs lost when the midwest was turned into the first American “rust belt.”

There is also great danger for Americans in accepting negotiated “deals” that are vague and unenforceable. A good example was the construction industry agreement of 1993, one of the 15 agreements with Japan for which the Clinton administration takes credit. Even if one wants to blame the American automobile industry for not building good cars tailored to the Japanese market, there is no question that the American construction, engineering, and architecture industry is among the most experienced and successful in the world. Japan is the site of some of the largest public works projects on earth and will continue to be well into the next century. The Los Angeles and Kobe earthquakes of 1994 and 1995 revealed that the Americans build better freeways than the domestic Japanese construction industry does; and anyone who has ever flown into Tokyo’s Narita Airport knows that the Japanese could use some help with airports. And yet the American construction industry has been totally shut out of this market, despite the 1993 agreement.

In June 1995, Austin Construction Co. announced that it was closing its last office in Japan, having managed to win just one significant project after six years in the market. Only two American firms remain in Japan-, with no work to do. Meanwhile, the American ambassador to Japan and his wife were photographed with officials of Obayashi Construction breaking ground for the ambassador’s new residence. It seems that the Americans cannot even find an American contractor to build their own embassy buildings.

The Americans need to craft a new policy toward Japan. Elements in it would revision of the Japanese-American Security Treaty (last modified in 1960), strong incentives for the Japanese government finally to make trans-Pacific trade *mutually* beneficial, and further attention in the United States to fiscal reform and industrial and educational development. Without that the relationship will continue to deteriorate, with periods of drift and

inattention punctuated by bitter and unproductive disputes such as the recently concluded auto talks.

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