On a collision course with Japan

By Herman Schwartz and Leonard Schoppa

The United States and Japan are headed for a collision in their current dispute over auto 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 a negotiating position similar to those 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 tariff on $6 billion worth of Japanese luxury cars. Japanese policy makers, on the other hand, expect that predatory 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 Halius summit in mid-June as following this familiar pattern.

But like many 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 widely similar to past trade disputes.

The U.S. believes it can use pain, or foreign trade restrictions, 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.

Canada 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 up the highly inefficient local agricultural market, both to change sugar costs and to free trade businesses with the U.S. Politicians like Tomiichi Murayama and Yasuhiro Nakasone were able to extend their influence as prime minister through their support for the “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 get Japan's powerful vested interests to act.

This case, though, is different. The U.S. is attacking one of the core industries of Japan, and industries of Japan, American demands for Japanese auto firms to adopt “voluntary” parts-purchase plans and encourage their dealers to adopt American auto directly clash with Japan's national system of interlocking corporate ties. Many observers inside and outside Japan worry that the sanction creates one of the nation's major competitive advantages—and the automotive 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 at the same time.

The end of the Cold War increases Japan's sensitivity to such demands. The Soviet is no longer a threat, and Japan will lose millions of dollars that go to its North Korean trade partner, a major force for Japanese sales. The U.S. needs to keep its military presence in Japan and its strong defense posture.

On the other hand, the Bush administration is facing serious economic problems, and it needs to keep the Japanese economy healthy. The EU needs to have a strong Japan market. The trade war would hurt both sides.

Clinton, too, cannot back down now without losing the credibility he still possesses.

Given the above, it is hard to see either side reversing ahead of the impending collision. Japanese auto firms are likely to offer something ahead of the Halius summit in mid-June, perhaps a “forward-looking” plan 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 take next, however, both will be wise to shift their focus from their immediate shibboleths to their long-term goals to create a functioning liberal trade regime. The U.S. needs to realize that going into a state of mutual hostility and friction with the world's second-largest economy will only strengthen and frustrate the U.S. goal of bringing more stability to the world economy.

—Herman Schwartz and Leonard Schoppa in the Department of Government and Foreign Affairs at the University of Virginia.