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Item Type	Working Paper
Authors	Katzner, Donald W.;Nikomarvo, Mikhail J.
DOI	10.7275/1069119
Download date	2025-07-27 11:25:58
Link to Item	https://hdl.handle.net/20.500.14394/22364

DEPARTMENT OF ECONOMICS

Working Paper

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Working Paper 2005-16



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Post-War Automobile-Trade Negotiations between
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Abstract:

This paper traces the history of the failed automobile-trade negotiations between Japan and the United States from the 1970's to the mid 1990's. It attributes the failure of those negotiations to a lack of understanding on both sides of not only what was motivating the other side, but also the unalterable cultural, social, and economic constraints under which the other side operated.

JEL classification: F13

Key Words: automobile industry, US-Japanese trade negotiations.

Exercises in Futility:
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In commenting in an Op-Ed piece in the January 7, 1992 edition of *The New York Times* on the then up-coming trade talks between Japan and the United States, A. M. Rosenthal perceptively wrote:

President Bush [Sr.] lands in Tokyo with 21 top American business executives and a full cargo of economic evasion, self-delusion, bombast, and prefabricated agreements that cleverly avoid the realities of the problems between the United States and Japan.

But that's all right -- it will be fair trade at best. The Japanese will meet him with their own complete product line of economic hypocrisy, including that new and fast-growing speciality, contempt lightly camouflaged as compassion.

So the mission will leave the United States and Japan in exactly their present positions -- the Japanese using their skills, social strengths, history and every trick in the trade to remain powerful and growing, the Americans wasting their own rich talents and national heritage, looking up now and then for a good cry.

The reason for the failure will be that neither the U.S. nor Japan talk candidly to each other or to their own people about the core reasons for the problems and what can be done to solve them.

And, just as important, both sides do not acknowledge that not everything can be solved. Some problems between them are deep in national social contracts that neither intends to change .

For almost 25 years prior to this session in Tokyo, the United States and Japan had been talking seriously about automobile-trade issues; and for the same almost 25 years nothing of any substance had happened as a consequence of the negotiations. Throughout the period, the Japanese stood accused of unfair trade practices of one sort or another. In response to American pressure, Japan agreed to a number of measures, each supposedly directed towards the resolution of particular problems. Yet each turned out to have little or no effect. By 1997, when the problems seemed to have melted away on their own (Japan was mired in a deep and continuing recession, the outlook for American automobile manufacturers had improved independently of the results of any negotiations, and China had passed Japan as the leading source of the U.S. trade deficit), an unblemished, more-than-25-year record of failed automobile-trade negotiations had been established.

Why is it that so much effort and energy devoted to negotiations over so many years never produced anything substantial? There are, no doubt, a variety of possible reasons for this failure. For example, since there was much at stake in terms of jobs and economic performance in the automobile industries of the two countries, the lack of negotiation progress could be attributed to a willingness by each party to mislead and prevaricate to achieve their respective ends. The present approach, however, presumes that the negotiations were undertaken with normal honesty and good faith on both sides and interprets their failure in terms of the fundamental cultural, social, and economic differences between the two countries.² It suggests, in particular, that the negotiators either ignored or did not understand what was motivating the other side, and the

unalterable cultural, social, and economic constraints under which the other side operated. This, in turn, led to unproductive interaction and eventual failure.

The paper begins by presenting some background information. It then describes the history of automobile-trade negotiations between the 1970's and mid 1990's, and concludes by interpreting and evaluating that history as indicated above.

I

For most of the 20th century, the automobile could be seen as the trademark of American industry, ingenuity, culture and power. More than anything else it exemplified the essence of Americanism to the rest of the world. In the wake of the innovative revolution in automobile production in the early decades of the 1900's, the United States achieved a seemingly insurmountable superiority in efficiency and technology over all other car manufacturers of the world. In the 1960's, the Big Three American auto manufacturers of Ford, General Motors and Chrysler gave birth to the multinational corporations that dominate today's global economy by procuring large market shares in countries such as Great Britain and Australia. It was therefore a shock, not only to U.S. automobile producers but also to the prestige and psyche of America in general, that the fairy-tale of the U.S. car industry seemed destined for an unhappy ending in the 1970's and 1980's.

The initial problems confronting American automakers were domestic and directly correlated with the general decline in U.S. worker productivity in relation to foreign laborers in the late 1960's. Such a trend was indigenous to the entire manufacturing sector of the U.S. economy. As American products became less price-competitive with foreign ones, U.S. companies began to feel the pressure from increasing

domestic market shares held by imported manufactured goods. The inauguration of the U.S. government's policy promoting free trade as fundamental to world prosperity only made matters worse. Indeed, U.S. markets had become the most attractive in the world for foreign manufacturers, not only because of the unparalleled size and wealth of the American economy, but also because it was much easier to enter those markets than the traditionally more restricted ones of Europe and Asia. Such was the environment surrounding the U.S. auto industry in 1967 when, facing falling profit margins and declining domestic market shares, it appealed to the United States government for political aid to keep the foreigners out.

Of course, the free trade policy stood in the way of any overt protectionist action the U.S. government could take. But it was able to use that policy as a bargaining chip to open up foreign markets to squeezed American automobile manufacturers. At the time, the most appealing market in the world outside of the U.S. was clearly in Japan. Japan had rebuilt its economy in the twenty years after World War II, and its yearly GNP was second only to that of the U.S. This Japanese economic recovery emerged, in part, from a protectionist trade policy that favored the growth of domestic industry over consumer welfare. Indeed, the United States government had initially promoted protection of weak Japanese industries as a means for that nation to recover from the destructive losses of the War. But by the late 1960's many American observers believed that the Japanese automobile industry was on firm footing as evidenced, in part, by its increasing penetration into American and European markets. Rather than harboring the development of weak industries, in their view the protectionist policy now acted as a barrier to free trade and competition.

Although the exact strength of the Japanese automotive industry in 1967 is difficult to gauge, the degree of protection it enjoyed is not. At that time, Japan levied a tariff of 30%-40% on foreign imports, taxing the smaller cars at the higher rate. A further domestic commodity tax was added that applied to both imported and domestically produced cars, and that varied between 15% and 40%.³ The latter discriminated against larger cars by considerably more than they were favored in the tariff. Thus, the typically large American cars would be taxed at 40% (plus the tariff), while the small domestic Japanese cars that made up practically all of Japanese production at the time (and were not subject to the tariff since they were produced domestically), would only be subject to a tax of 15%. In addition, a semi-annual automobile tax was assessed on large cars at a rate of five times that applied to small ones.⁴ The effects of these and other obstacles (to be noted below) to importing automobiles can be measured by the fact that, in 1966, Japan imported a mere 15,244 cars, 485 trucks, and 3 buses against a total domestic production of 2,286,399 vehicles.⁵ Efforts to reduce the barriers and increase the importation of American cars would occupy more than 25 years of strenuous and vain negotiations.

The Japanese justified the taxes and tariffs with the argument that they were necessary to further the growth of their industries; the aggrieved Americans claimed they were unfair trade practices. The Japanese insisted that the non-tariff tax differential between large and small cars was not meant to prevent American producers from selling cars in Japan. They argued that large cars were luxury items, and that, since Japan's infrastructure consisted at the time of very narrow streets and highways, it was appropriate for larger vehicles to be taxed at higher rates.⁶ Moreover, unlike the U.S. car

industry, which centered around three very large manufacturers, Japanese production was segmented among many smaller companies (Toyota, Honda, Mitsubishi, Isuzu, Suzuki, Datsun, Toyo Kogo). MITI (the Japanese Ministry of International Trade and Industry) thought that the small Japanese companies would be at a considerable disadvantage competing against the large American companies in a free market.⁷ The Japanese thus began to reorganize their auto industry in an effort to make it strong enough to withstand future foreign competition. Japan pleaded for time for the reorganization process while the U.S. sought quicker trade liberalization via tariff reduction. Due to the high profits of Japanese automobile manufacturers, the United States did not see any need for Japanese reorganization. Japan responded with only partial liberalization in the area of automobile parts and promised further liberalization in the future.

II

Negotiations in the 1970's

In the early 1970's, American automobile-trade demands presented to the Japanese were still modest, as worries over international currency stability overshadowed particular automobile issues in the wake of the demise of the Breton-Woods system of setting currency values. When President Richard Nixon floated the dollar in 1971, it was hoped that the ensuing rise in the domestic prices of imported goods and fall in the foreign prices of U.S. export goods would substitute domestic consumption for imports and spur American exports. Nevertheless, the U.S. government exerted pressure on Japan to increase further the value of the yen in order to decrease Japan's trade surplus still more. Since this measure would also have made the Japanese domestic economy more vulnerable to foreign imports, Tokyo responded with a proposal of voluntary export

curbs.⁸ Through a program worked out with industry officials, MITI imposed export controls on passenger cars, special cars and trucks, chassis, and motor cycles.⁹ Although the exact form and extent of these export controls were not disclosed, the measures succeeded in mollifying the United States for the time being.

Apart from preventing further inroads of Japanese vehicles into U.S. markets, the export controls had no tangible impact in the United States. But the Japanese economy felt the jolt immediately. In particular, a marked slowdown in the growth of the Japanese automobile industry from 64% in 1971 to 10.5% in 1972 ensued. In addition to the export controls, growth was further hindered by two 16% increases in the dollar price of the yen during two upward revaluations, first in the December 1971 Smithsonian Agreement and again in February of 1973.¹⁰ The recessionary impact of the OPEC oil embargo of 1973 also played a role. The net effect was a temporary stagnation in the Japanese automobile industry in the first half of the 1970's.

With the domestic automobile market thoroughly saturated by the mid 1970's, export controls were dropped and Japanese producers turned to exports for growth.¹¹ This led to an expansion of global Japanese car exports from 2,680,000 units in 1975 to 3,710,000 units in 1976 and to the expectation of over four million units for 1977.¹² By 1977, the U.S. trade deficit with Japan was \$8 billion and Japan's world-wide current account surplus stood at \$10 billion. Even accounting for Japan's own deficit as a consequence of inflated oil prices and other energy costs due to the 1973 OPEC embargo, the impact of this surplus on nations with weaker economies that were still reeling from the high energy costs induced by that embargo was substantial.¹³ As a result, Japan faced building resentment around the world. Regardless, by the late 1970's, Japan had

successfully utilized its exports to overcome the externally imposed energy cost increases from earlier in the decade along with the recession that had accompanied them.

Pressure on Japan from the international community, led by the United States, to decrease its large trade surplus began to rise. But President Jimmy Carter, rejecting the Japanese export control solution of the early 1970's, opposed trade barriers of any sort on imported automobiles.¹⁴ Instead, the United States pushed the Japanese to reduce tariffs and other barriers that interfered with free trade. It also urged Japan to stimulate its domestic economy, hoping thereby to boost the Japanese demand for imports.¹⁵ American leaders believed that an increase in demand for U.S. goods would revive its struggling manufacturers such as automobile producers. Charles Varik of the House Ways and Means Committee stated that the United States wanted Japan to turn its surplus into a deficit in two years in order to halt import related plant closings in the U.S.¹⁶ Such demands were, of course, rather outlandish, but they reflected the enormous pressure on Japan to take action.

The Japanese response, however, failed to meet American expectations. Nobuhiko Ushiba, the Japanese Minister of External Economic Affairs, blamed the appreciation of the yen for both the poor Japanese performance in resolving the trade imbalance and the need to export. Nevertheless, he promised a 7% growth in the Japanese economy for 1978 (up from a projected 5.3% rate in 1977).¹⁷ The effect on American exports to Japan, however, was expected to result in only a meager \$735 million increase.¹⁸ The Japanese made another concession in 1977. They lifted the automobile import tariff.¹⁹ Perhaps as a consequence of these measures combined, by July of 1978 there was an increase in imported automobile sales in Japan of 16% from the same month in the previous year.

However, that figure still meant that only 4,856 foreign cars were sold in Japan that July.²⁰ Thus the concessions that Japan gave to the Carter administration turned out to have negligible effect. The U.S. was unable either to check the penetration of Japanese automakers into the U.S. market or to induce the Japanese to significantly increase their purchases of American cars.

Reagan and Japanese Trade Policy

The 1970's exposed the widespread mismanagement within the U.S. automobile industry as the Big Three continued to produce large, fuel-guzzling behemoths despite the huge increases in the price of gasoline as a consequence of the OPEC oil embargo of 1973 and the drastic production cuts by Saudi Arabia and Iran (the latter due to internal political turmoil) in 1979-80. The consumer market logically switched to the smaller, cheaper, and much more fuel-efficient Japanese cars. By 1980, the Japanese held 25% of the U.S. domestic automobile market. Remarkably, it was the Japanese growing market share and not the U.S. producers ineptitude that was blamed for the declining profits and increased unemployment in the U.S. automobile industry.²¹ And the "restrictive" nature of the Japanese domestic car market (even in the absence of tariffs American manufacturers were having considerable difficulty selling cars in Japan) was held up as the cause of the U.S. auto industry's inability to export. In reply, the Japanese observed that American manufacturers did not seem to be interested in designing vehicles suitable for the Japanese market.²² That market required (1) small fuel-efficient cars to negotiate the narrow Japanese streets and to compensate for the now high price of gasoline, and (2) the placement of the steering wheel on the right-hand side of the vehicle to accommodate

the Japanese practice of driving on the left side of the road. Indeed, the Big Three ignored the needs of both the Japanese and the United States car markets, and it was primarily this that prevented U.S. manufacturers from advancing in the Japanese auto market and allowed the Japanese automobile producers to establish a firm foothold in the United States.

But apart from refusing to provide appropriate cars in the Japanese market, there was another reason why U.S. manufacturers were not selling many automobiles in Japan. For doing business successfully in Japan necessitates the establishment of long-term relations between manufacturers, wholesalers, and retailers. That system is grounded in the obligation-and-loyalty fundamentals of Japanese culture.²³ But American car manufacturers were not willing to take the time, energy, and money to enter into those relations in Japan and play the economic game according to Japanese rules. And even if it could, Japan was unwilling, with good reason, to alter major cultural tenets and economic structures to accommodate American demands. (The U.S. certainly would not do the same for the Japanese.) These facts were either not understood or ignored by both American automobile manufacturers and American negotiators who could only lamely, and repeatedly, accuse the Japanese of having closed their domestic markets to foreign producers and of engaging in unfair trading practices.

Ronald Reagan made the car industry a political issue in the 1980 presidential election. President Carter, in response to Reagan's promise of a tougher stand on Japanese imports, exerted pressure on Japan for greater concessions. If increasing the selling of American cars in Japan was not possible, then access to Japan's lucrative automobile-parts market by U.S. parts manufacturers was an acceptable alternative. Japan acquiesced

by removing its tariff on imports of automobile parts and agreed to increase purchases of American parts to \$130 million (thrice the 1978 level).²⁴ These, however, were small concessions; they helped neither U.S. manufacturers nor Carter's re-election bid.

U.S. car producers tried on their own to improve sales and profits by making strategic alliances with their Japanese counterparts. Chrysler, the weakest of the Big Three, had had a working relationship with Mitsubishi since 1971. Each would use the other's distribution network to sell their cars in the other's market. By 1980 the two were engaged in a joint venture to produce the subcompact models of Chrysler's U.S. line. These models included the Colt, Challenger, Champ, and Sapporo, and accounted for 20% of Chrysler's domestic sales.²⁵ Nevertheless, Chrysler was not able to achieve much success selling its cars through Mitsubishi in Japan. Strong government action seemed the only viable alternative.

The ascendancy of Ronald Reagan to the American Presidency strained U.S.-Japanese relations still further. Both Japanese and American leaders had to answer to their own constituencies and did not wish to seem weak on such an important issue. Reagan also had to deal with the official U.S. policy of free trade. On the advice of his Cabinet-level automobile task force, the American President decided to encourage (but not force) Japan to voluntarily limit its shipments of Japanese vehicles to the United States.²⁶ Reagan hoped this would free up a greater share of the U.S. car market for domestic manufacturers and allow him, since the imposition of formal import quotas was neither involved nor threatened, to avoid being perceived as a supporter of protectionism. Japanese Foreign Minister Masayoshi Ito said that Japan would only respond to a specific request.²⁷ The United States made a semi-official request, and the Japanese agreed to

institute a three-year export quota of 1.68 million vehicles that would start in 1981.²⁸ The Japanese policy of export restraints from a decade earlier had been resurrected.

At this point the United States was actually attempting to buy time. The American automobile manufacturers had convinced the U.S. government that their industry needed relief from foreign competition. That relief, which would increase domestic sales through the accompanying import reduction, would provide sufficient revenue to finance the retooling costs required for the production of smaller, more fuel-efficient cars.²⁹ The agreement, negotiated by United States trade representative Bill Brock and Japanese Cabinet officials, was meant to secure the necessary breathing room. The initial 1.68 million quota for 1981 was below the 1980 import total of 1.8 million Japanese cars -- though not as far below as the auto industry had hoped. In year two of the agreement, the quota would increase only if the size of the U.S. domestic car market expanded. The Japanese government was allowed to set its own limit for the third year.³⁰

The agreement was exceptionally unpopular in Japan and received unusually vociferous criticism. Nevertheless, Japanese authorities had little choice but to come to such a compromise. The U.S. automobile manufacturers had demanded much more, and they had support in the U.S. Senate which was considering the Danforth-Bensten Bill. The latter, were it enacted, would have instituted a significantly more drastic reduction in Japanese imports.³¹ The export-quota deal was expected to allow U.S. automakers immediately to raise domestic car prices by 3%, increasing costs by \$200-\$400 per small car for the consumer.³² Ryoichi Hirono, professor of economics at Seikei University, concluded that the agreement was of benefit to only “a handful of politicians, some lazy managers and certain irresponsible trade officials.”³³

Indeed, the export of Japanese automobiles to the United States was becoming a significant political issue in the two countries. After Japan announced that it would not increase its 1981 quota limit in 1982, its Foreign Minister, Yoshio Sakurauchi, warned that the Japanese were beginning to think that the United States was using Japan as a scapegoat for its domestic economic problems.³⁴ He responded to the repeated charges that Japanese markets were closed to U.S. producers with the assertion that such a view was based on outdated perceptions.³⁵ The rhetoric on both sides of the Pacific was heating up.

The merits of the voluntary system for limiting cars exported to the United States were ambiguous. With the system fixing only the number of cars exported to the U.S., the Japanese began to focus on bigger and more expensive models.³⁶ They were thus able to increase the value of vehicle shipments to the U.S. while conforming to the voluntary limit. But now American automakers were threatened with being squeezed in the higher price-range vehicle market, an area where they were traditionally most successful. And, in addition to the possibility of falling victim to the repositioning of Japanese imports to higher quality products, U.S. producers were not even making headway in recovering their domestic market shares. Despite this, the Reagan Administration still wanted to extend the restraints on Japanese motor imports that were to expire in March of 1983.³⁷

President Reagan met with Japanese Prime Minister Yasuhiro Nakasone in Washington on January 18, 1983 primarily to discuss automobile trade and related matters. The Japanese Prime Minister assumed a tone of appeasement. He suggested that a solution to the trade problem lay in joint ventures between American and Japanese manufacturers. He explained the Japanese success as a by-product of its ambitious and

hardworking labor force. Mr. Nakasone also asserted that the new generation in Japan looked toward an active, cooperative role in the world. He pointed out that Japanese school children learned English and studied matters that relate to the selling of Japanese products in the U.S. -- something that American school children did not do with respect to Japan.³⁸ Despite proclaiming that the two leaders were able to avoid a trade war, the conference itself achieved very little in resolving the U.S.-Japanese automobile issue.

The failure of the quota system to initiate recovery of the U.S. automobile industry was clear in 1983. Nevertheless, American manufacturers still insisted upon an extension of the quotas. MITI Minister Sadanori Yamanaka said that Japan would continue to hold its automobile exports to the U.S. at 1.69 million vehicles. This, again, was a response to an explicit threat that Congress might act to drastically reduce car imports from Japan.³⁹ Bill Brock had remarked that such measures were necessary because the U.S. market was much more open to Japan than those of other industrial nations. In fact, while Japanese cars accounted for 23% of the U.S. market, they were held to only an 11% share in the United Kingdom and a mere 3% share in France.⁴⁰ The U.S. market was clearly a major attraction to Japanese producers.

The grievances of American automobile firms against Japanese producers continued to mount. Ford, Chrysler and AMC (the American Motor Company) complained that the weak Japanese yen (in relation to the dollar) gave superior profit margins to Japanese motor companies selling cars in the United States. In addition, they cited the Japanese practice of giving tax breaks on exports as further evidence of the unfair cost advantage that Japanese firms held in relation to their American counterparts.⁴¹ It was estimated that Japanese assembly costs were lower than those of

U.S. firms by \$1,500-\$2,000 per car sold on the U.S. market.⁴² American motor manufacturers also claimed that restrictions such as the voluntary quota agreement would be needed for years if the U.S. auto industry was to survive. Ford's President Donald E. Peterson threatened that, since Ford was losing money on its best-selling subcompact (the Escort), the replacement for that car would be built outside North America where assembly costs are lower.⁴³ Japan announced that it would renew the voluntary export quota but raised the limit to 1.85 million units for the 1984 fiscal year.⁴⁴ The adverse reactions of Ford, Chrysler and AMC to this announcement put more political pressure on the Reagan Administration to deal with Japan, and threatened to escalate trade tensions between the two economic powers still further.

However, dissension appeared for the first time among American automakers over the value of the quota system when General Motors failed to ally with rest of the U.S. industry in opposing a complete lifting of the Japanese self-imposed export quotas. A company that historically focused on the manufacture of upscale, luxury cars, GM did not feel threatened by smaller, cheaper, low-end Japanese imports. If anything, it feared that the import limitations were pushing the Japanese into the luxury car market, portending increased competition there. General Motors also had established strong working relationships with Isuzu and Suzuki and wished to reduce the import barriers so that it could import more cars assembled by them to sell in the U.S.⁴⁵

General Motors had also come to the conclusion that it would be very difficult to out-compete the Japanese in the small-car, low-end market. Even with a substantial increase in American productive efficiency, the Japanese would still have considerable cost advantages due not only to the weak yen and export tax breaks in Japan, but also to

the difference in “social systems.” The latter, no doubt, stemmed from the social and cultural differences between the two countries alluded to earlier.⁴⁶ These would include the closer working relationship between producers and suppliers in Japan, the loyalty of the Japanese labor force in contrast with the strength and adversarial nature of labor unions in the United States, the closer associations between banks and businesses in Japan, and the greater governmental involvement in industry in Japan. The difficulty of entering the Japanese domestic car market was clearly enhanced by such social and cultural factors. General Motors gave up the fight because it did not seem worth the effort; and it was a fight that GM did not think it needed to win.

The division within the U.S. automobile industry served temporarily to ameliorate tensions between the Reagan administration and the Japanese leadership. For the next two years Japan continued to renew the voluntary export quotas for its cars. However, pressure from the U.S. motor industry continued to mount. Since it could do little to close up the American automobile market to Japan, the U.S. government reverted to an old strategy: develop a significant American share of the Japanese car-parts industry. But a familiar problem had to be overcome, namely, the close relations between Japanese manufacturers and their Japanese suppliers.⁴⁷ In order to break those relations, the Americans represented U.S. auto parts (if not their cars) to the Japanese as cost-efficient and of high quality. The latter responded that U.S. parts were not only inferior, but also more expensive than domestic parts.⁴⁸ In fact, the vehicle parts produced by U.S. companies were different from the leading Japanese brands. The U.S. versions were not necessarily poorer in quality but, because the Japanese manufacturers bought parts only from suppliers from whom they had established long-term relations, U.S. parts had never

had the opportunity to be tested comprehensively in Japanese cars. In this case it was the Japanese production system that inadvertently reduced American manufacturers' ability to compete.

There were signs in the late 1980's that Japan's domestic market might be inching towards greater liberalization. Such hopes, however, soon turned out to be overly optimistic. The economic expansion in Japan in the mid-1980's was accompanied by an increase in the value of the yen and a simplification of automobile testing that made it easier for foreign cars to pass. That, in turn, produced an enlargement of Japan's global imports by 25% in 1986.⁴⁹ The trade imbalance between the U.S. and Japan, though, could not be masked by this surge. In 1985, the United States sold \$190 million worth of car parts to Japan (not much different from the amount negotiated five years earlier), while Japan exported a whopping \$5.2 billion worth of Japanese parts to the United States.⁵⁰ American negotiators, in an effort to bridge the parts-trade deficit, attempted to force the Japanese to establish concrete numerical goals for increasing the purchase of American parts by Japanese automakers. But, unlike the early 1980's, the Japanese refused to yield to American pressure and exert governmental control in this way over private industry. In August of 1987, the only concessions American negotiators were able to obtain from the Japanese were promises to increase the promotion of American parts in Japan.⁵¹

The Bush Administration and Japan

The failure of the Reagan administration to find a solution to the automobile impasse between the U.S. and Japan put more pressure on President George H.W. Bush

(the older George Bush) to resolve it. His efforts seemed to be helped by the ascension of Japanese Prime Minister Toshiki Kaifu. The new Prime Minister wanted to internationalize Japanese society by, among other things, deregulating industry, increasing enforcement of anti-trust laws, using land more effectively, and enhancing the efficiency of the distribution system.⁵² Although these measures had been pushed by the United States since the 1960's, Kaifu nevertheless maintained that they were not intended as concessions to the United States but, rather, as general improvements for the betterment of Japanese life. Regardless of the motivation, however, a feeling of hope emerged among American negotiators and observers that a productive agreement was now within reach of the two economic powers.

American optimism again proved premature, and the misunderstandings of different modes of operation and cultural values are apparent: The March 1990 talks between the U.S. and Japan yielded as little as previous endeavors. But the two sides did exchange accusations. The Americans contended that the Japanese permitted monopolistic practices in Japan, keeping domestic prices high and reducing consumption. The Japanese retorted that the American public did not save enough and failed to properly invest in research, education, and development.⁵³ There seemed little incentive for either side to compromise. James C. Abegglen, president of a Tokyo consulting firm, pointed out that the trade imbalance between the U.S. and Japan was an American domestic problem (the same conclusion GM came to earlier).⁵⁴ There was no guarantee that changes in the Japanese system would actually lead to higher U.S. exports. It was unlikely, then, that America's domestic problem could be solved through international negotiations.

It is important to realize that the challenges faced by the Americans and the Japanese in establishing a fair economic relationship changed significantly in the ten years between 1980 and 1990. When Reagan assumed office, he was pressured by American manufacturers to curb Japanese penetration of the U.S. domestic market. That was the goal of the quota agreement for automobiles. By 1990, however, the American public had become worried over the growing trade imbalance between the United States and the rest of the world -- particularly Japan. The U.S. trade deficit with Japan had reached \$49 billion by 1989.⁵⁵ America seemed to be losing its footing as the world's most powerful economy, and the trade deficit was the primary culprit. Furthermore, despite the metamorphosis to an intrinsically new trade problem, the apparent closedness of Japanese markets to foreign producers was once again declared the underlying cause of Japan's advantage in trade.

The new trade environment had two unfamiliar features. First, rising unemployment and falling manufactured output, caused by a declining domestic automobile market share held by American companies, were no longer major issues since most Japanese car companies had set up production facilities in the United States. The small, durable, and inexpensive automobiles for which the Japanese were famous were now produced within U.S. borders. The Japanese produced the higher-end vehicles domestically and exported them to the U.S. to make up the bulk of the voluntary export quota. During this era, Japanese car manufacturers made significant inroads into the luxury car market with the introduction of the Lexus brand by Toyota, the Acura line by Honda, and the Infiniti cars of Mitsubishi. The number of vehicles imported from Japan did not increase significantly from the early 1980's, but their combined value rose

enormously. The Japanese, earning large profit margins on luxury exports sent to America from Japan, were content with lower margins on U.S.-built Japanese cars. Regardless, the high value of U.S. automobile imports was one of the underlying causes of the immense trade deficit the United States had with Japan.

The second feature of the new trade environment was the Japanese motor producers' insistence on importing from Japan a large percentage of the parts that went into their U.S.-built models. Despite the fact that these automobiles were officially made or assembled in the United States, up to half of their components were manufactured outside the U.S. and shipped from Japan (replacement parts followed a similar pattern). Thus the increased domestic production of automobiles in the U.S. exacerbated the trade imbalance with Japan. In addition, while the Japanese built entire production and distribution networks in the United States during the 1980's, American car manufacturers achieved no increase in market share in Japan. The fate of American car-parts producers was even worse because now a large number of U.S. built vehicles did not use exclusively American parts. Not only were American parts manufacturers not able to expand in Japan, but they also lost some of their U.S. market share to Japanese parts producers.

With the pressure to reduce the trade deficit mounting, President Bush was forced, like past presidents, to try to pry open Japanese markets for U.S. producers. In this regard, the stated goal was "to make it as easy for Americans to do business in Japan as for the Japanese to do business [in the U.S.]."⁵⁶ He persuaded the Japanese to remove some restrictions on retail stores and to alter tax policies so that more land would be made available for commercial and residential use.⁵⁷ However, these were not actually

concessions since they were consistent with Kaifu's domestic reform program. At the same time, of course, they would also serve American (or any other foreign) interests that wished to establish retail distribution networks in Japan. Land, in particular, would become easier to acquire for the purpose of building automobile dealerships. Even so, up to this point Bush, like his predecessors, failed to procure any specific concessions from the Japanese that would reduce the U.S.-Japan trade imbalance. To obtain such concessions, President Bush went to Japan in January of 1992.

The trip was a make-or-brake endeavor for Bush in so far as his Japanese trade policy was concerned. In 1991, the U.S. trade deficit with Japan still stood at \$43.4 billion and accounted for 66% of the entire world-wide U.S. trade deficit.⁵⁸ Three quarters of the deficit with Japan was directly related to automobiles and car parts.⁵⁹ The publicly stated goal of the trip was to eliminate impediments to free trade and to end exclusionary business practices in Japan.⁶⁰ But the public agenda was not what the Americans actually asked of the Japanese. Rather, the U.S. delegations requested, and the Japanese agreed, to help reduce the U.S. trade deficit by hindering the free flow of trade through the provision of subsidized loans to, and voluntary import targets for Japanese corporations. MITI Vice Minister for International Affairs, Noboru Hatakeyama also promised a “moral campaign” in Japan to spur imports from the U.S.

The difference between the results of these negotiations and all prior ones was the specific, numerical guarantees, however small, that Bush was able to elicit from the Japanese. They included an agreement to increase the purchase of U.S. cars and auto parts from \$9 billion to \$19 billion by 1995. Japan would similarly increase the percentage of U.S. parts-components in U.S. built Japanese cars from 50% to at least

70%. Japan also promised to revise its domestic testing standards for automobiles to reduce the difficulty that foreign cars encountered in passing those tests. Finally, in perhaps the most frivolous but highly symbolic promise of all, the Japanese agreed to help the Americans boost their sales up to 36,000 cars in the Japanese domestic automobile market. The promise was practically devoid of economic significance because the 36,000 cars would, at the time, amount to a market share of 0.7% of the 5.1 million cars in the Japanese new car market.⁶¹

During the 1992 election campaign, the Republican Party hailed Bush's trip to Japan as a great victory. Nevertheless, the Japanese promises fell far short of American expectations and of any significant reduction in the U.S.-Japan trade imbalance. The increased imports from the U.S. were not nearly enough to make up the annual U.S. trade deficit with Japan. Harold Poling, chairman of the Ford Motor Company, asserted bluntly that in so far as the auto industry was concerned the agreements were inadequate.⁶² There was, indeed, a sincere attempt by the Japanese to make market entry easier for foreign firms. But in order to meet the agreed-on goals of increased import purchases of U.S. autos and parts (which they could not and did not reach), the Japanese would have had to disrupt, to some extent, their highly-valued (by them), long-term relations between manufacturers and suppliers, and undertake what amounted to managed trade.⁶³ Although there were some minor gains, history has shown that the Bush agreements failed both to open up Japanese markets significantly to U.S. manufacturers and to reduce the trade deficit between the United States and Japan. A.M. Rosenthal, who was quoted at the start of this paper, was right, and by the end of Bush's term of office, little had changed since 1967.

The Final Negotiations on Automobiles under President Clinton

The last serious automobile-trade talks of the 20th century involving the U.S. and Japan arose between 1993 and 1995 during President Bill Clinton's first term. This time a trade war nearly erupted as America came within minutes of instituting a defensive tariff against Japanese luxury cars. The trade imbalance remained a heated topic, and Clinton tried to employ Bush's strategy of persuading the Japanese to agree to concrete numerical import targets that would open up specific markets and generally reduce their trade surplus with the United States. The Japanese responded by arguing that such targets would violate the spirit of free trade.⁶⁴ In return, the Americans, reverting to their old positions, maintained that existing domestic market restrictions already made Japan a non-free trade economy. These allegations dominated the discussions of June 1993 and no agreement was reached.

The problems facing President Clinton were similar to those with which the previous Bush administration had to deal: Japanese firms were now producing cars within the borders of the United States, making quotas obsolete. And Japan's trade surplus with the world had grown to \$100 billion by 1993. Possibly believing he was faced with no other viable alternative, Clinton turned to pressuring the Japanese into buying more American products. In terms of automobiles, this meant increasing Japanese purchases of U.S. vehicles and parts.⁶⁵

President Clinton, following his predecessors, thought that protectionism in the form of Japanese domestic market regulations and restrictions was keeping American firms from achieving economic success in Japan, and that, in turn, was responsible for the

one-sided trade and the U.S. trade deficit. Japanese Foreign Minister Kenichiro Sasae disagreed, pointing to the U.S. budget deficit and Japan's recession as more likely causes.⁶⁶ The American President refused to be swayed by such a response and insisted on targets to force the Japanese to meet American expectations. The latter included lowering Japan's world-wide trade surplus from 4% to 1.5% of that nation's Gross Domestic Product (GDP) and increasing imports from 3% to 4% of its GDP.⁶⁷ The Clinton administration also wanted Japanese companies to increase U.S. car-parts purchases by 20% over three years.⁶⁸ Clinton viewed the failure of his Republican predecessors to solve the trade imbalance problem as a result of an inability to evaluate whether Japan was actually taking steps towards reducing the surplus and whether those steps were, in fact, successful. He backed up U.S. pressure by threatening to impose restrictive tariffs on imported Japanese automobiles, such as, for example, increasing the minivan import tariff from 2.5% to 25%.⁶⁹ For the first time it seemed that the United States would openly disregard free trade in favor of appeasing domestic constituencies.

Talks were resumed in January of 1994. The same allegations and misinterpretations dominated these meetings. One observer was driven to remark that “there [was] not even agreement on the nature of the problem.”⁷⁰ The United States wanted more retail dealerships in Japan to carry American-made cars, and demanded quantified import guarantees. The Japanese retorted that the only way to achieve such specific targets was through the unacceptable use of managed trade (that is, by interfering with their culturally grounded long-term relations between manufacturers, wholesalers, and retailers), and the Japanese government was not willing to engage in this practice. Prime Minister Morihiro Hosokawa did see a need for deregulation and a shift of

economic power from producers to consumers.⁷¹ He even acknowledged that the purchase of automobiles and insurance ought not to be dictated by the traditional Japanese system of long-term relations at the retail level between buyers and sellers, but merely by price and quality. Nevertheless, the Prime Minister was not able to reach an agreement over how to deregulate Japanese markets or open them to foreign firms and investors. The two leaders agreed to meet every six months in an attempt to iron out their difficulties. On both the American and Japanese sides, political considerations seemed to prohibit a more rational discussion of possible trade resolutions.

By 1994, Japan was mired in its worst post-World-War-II recession. With the yen relatively weak, it had been attempting to revive its domestic economy with increased exports. This policy had caused the U.S. trade deficit with Japan to balloon to \$60 billion in 1993.⁷² The climate in which trade negotiations between Japan and the United States were taking place had deteriorated accordingly. In the United States, the massive trade deficit was draining the morale of the American public and becoming a major political issue. In Japan, any acceptance of trade targets would breed popular resentment. Japan was also concerned that if it signed an agreement that called for specific targets, and if it were unable to meet those targets, then the U.S. would judge that it had legal grounds for retaliation. In this regard, Japan was fearful of repeating a similar disastrous situation of a few years earlier involving an agreement with the U.S. over semiconductors.⁷³ Clearly, a great deal of mistrust had developed on both sides of the negotiating table.

On October 1, 1994, the two nations were finally able to reach an agreement that partially opened some Japanese markets to U.S. producers. The markets covered included insurance, glass, and medical and telecommunications equipment.⁷⁴ Again, the U.S.

delegation had to settle for only minor concessions while the main issue was ignored: American car manufacturers still seemed to be, from their perspective, largely frozen out of the Japanese markets for automobiles and replacement parts. This was especially significant since, by then, automobiles and related products accounted for \$40 billion of Japan's \$60 billion surplus with the U.S.⁷⁵ American car makers contended that their Japanese counterparts pressured dealers there not to stock U.S. cars. In their view, Japanese dealers were not free to enter into franchise agreements with U.S. automobile producers.⁷⁶ Japanese Trade Minister Ryutaro Hashimoto proposed a dealership match-making scheme in which both American and Japanese officials would survey each Japanese dealership and ascertain what their managers actually wanted.⁷⁷ The American negotiators rejected this proposal on the grounds that it would take too long to implement, and held no guarantee of resolving the problem. The Americans were looking for concrete promises while the Japanese proposed further investigation.

The tariff that President Clinton had threatened to impose on Japanese automobiles – “Super 301” -- was the most drastic measure available to him.⁷⁸ This unprecedented pressure exerted on Japan was the only reason the October 1st agreement was reached. Although the U.S. gave up its effort to increase American producers' share of the Japanese automobile and replacement-parts markets, it nonetheless retained the right to revisit that issue with possible future sanctions.⁷⁹ The tariff sanctions, had they been invoked, would have been, in part, a response to American exclusion from the Japanese \$40 billion car-parts market where, in 1994, the U.S. held a meager 1.2% share.⁸⁰ The Japanese had refused any concessions in this area, claiming that American

demands would force Japan to end an automobile inspection system that saved Japanese lives.⁸¹

Several months later, in the spring of 1995, United States trade representative Mickey Kantor met with Minister Hashimoto specifically to discuss automobile trade issues. The American side entered these negotiations with three straightforward demands:

1. Japanese auto dealers would sell Ford, Chrysler, and GM vehicles.

Since it was very time-consuming and expensive for foreign firms to establish their own distribution networks in Japan, this would quickly and cheaply open the Japanese retail market to American automobile manufacturers.

2. Restrictions on imports of automobile parts would be reduced. The repair car-parts market was especially lucrative in Japan where all operational automobiles had to undergo frequent and extensive testing, and subsequent repairs.

3. Japanese car companies were to sign voluntary agreements to greatly increase American parts usage in their vehicles.⁸²

It was the third demand that drew the most strenuous objections from the Japanese negotiators. Minister Hashimoto insisted that the Japanese government should dictate neither the quantity nor the source of purchases made by private companies.⁸³

Despite the trade agreement of October 1994, the U.S. renewed its threat of severe trade sanctions, and Japan responded with its own threats to appeal any such impositions to the World Trade Organization. American negotiators claimed that the Japanese inspection system discriminated against the U.S. because the auto manufacturers own the garages in Japan and use the parts made by their Japanese suppliers for the repairs

required by the inspections.⁸⁴ The U.S. demanded increased purchases of American car parts, but the Japanese repeated their insistence that any changes in their inspection system would undermine safety standards.⁸⁵ Clinton then threatened Japan with \$5.9 billion worth of tariffs on 13 Japanese luxury car models if an agreement was not reached by 12:01A.M. on June 29, 1995.⁸⁶ Polls indicated that the President had the support of 70% of the American public on this issue.⁸⁷ A trade war loomed on the horizon.

Negotiations went down to the wire, with both sides recognizing the need to avoid a trade war. An agreement was finally reached at two o'clock in the morning on the 29th of June -- two hours after the sanctions were supposed to have gone into effect. The deal featured four main points: (1) Japanese auto manufacturers in the U.S. would increase production by 25% to 2.65 million vehicles by 1998; (2) Japan would import \$2 billion more in American car parts; (3) MITI would send a letter to all Japanese automobile dealers confirming their right to sell foreign cars; and (4) Japan would deregulate its automobile repair and inspection systems.⁸⁸ The Japanese agreed to specific targets only with the provision that no means of enforcing them would be available to the U.S. Clinton hoped that the mere existence of specific target numbers would provide enough incentive for the Japanese to meet them.⁸⁹ It might be said that, with this agreement, Clinton achieved his publicly-stated goal of obtaining such targets. But without recourse to enforcement, the deal was as weak as its predecessors.

There were two important repercussions to this last set of U.S.-Japanese negotiations. First, Japan had finally had enough of American hard line negotiating tactics that involved the threat of tariffs. In 1996, Japan decided to scrap all efforts at one-on-one trade negotiations with the United States in favor of dealing through multinational

organizations like the World Trade Organization. In so far as trade negotiations with the U.S. were concerned, the era of bilateralism was over.⁹⁰

Second, American automobile manufacturers at last began to engage the Japanese car market in a serious way. After 30 years of refusing to allocate sufficient investment funds to make headway in entering that market, they finally announced plans to open sales outlets in, and build cars specifically for it. In particular, the latter meant, in part, providing automobiles with the steering wheel on the right-hand side of the vehicle. At the 1995 Tokyo Motor Show, Chrysler unveiled five new right-hand-drive models. It also planned to begin exporting right-hand-drive Jeep Grand Cherokees to Japan from Austria and to recruit enough Japanese dealerships to expand its sales outlets in Japan from 100 to 500 over the next five years. The company hoped for an increase in yearly sales in Japan from 16,200 in 1995 to 100,000 in 2000.⁹¹ Ford announced plans to begin exporting right-hand-drive versions of the Taurus and Explorer to Japan. It also intended to increase its sales outlets in Japan from 310 to 700 by the year 2000, with anticipated annual sales increases from 56,000 to 200,000.⁹² General Motors, too, announced plans for a new, right-hand-drive version of the Chevrolet Cavalier to be made in cooperation with Mazda and to begin exporting to Japan a right-hand-drive version of the Saturn. GM hoped to increase its sales in Japan from 55,000 per year to 100,000 by the new millennium.⁹³ The U.S. car industry thus projected ambitious increases in Japanese sales from just over 100,000 in 1995 to 400,000 by the year 2000. (Ford was the only American manufacturer to export right-hand-drive vehicles to Japan prior to 1995. Only two models were involved: the Probe [manufactured in Michigan] and the Mondeo [assembled in Belgium].⁹⁴)

III

The pledges to focus on selling cars and parts in Japan after the 1995 agreement were especially refreshing considering the fact that American manufacturers had made only half-hearted attempts to enter the Japanese car and parts markets in earlier decades. General Motors was the first to admit that it had never really tried to compete in Japan. G. Richard Wagoner, Jr., President of North American General Motors operations openly confessed that not aggressively pursuing the Japanese market had been a big mistake.⁹⁵ William Raferty, consultant to the auto-parts industry, found in a survey that two out of three U.S. parts makers were more preoccupied with cutting costs and competing domestically than in exporting to Japan.⁹⁶

As suggested above, none of the Big Three U.S. car manufacturers had made any serious financial investments in Japan. While the Japanese spent billions of dollars to adapt to the American market, the U.S. automakers merely exported to Japan what they produced for the U.S. or other established markets. Early on, both Ford and GM had invested heavily in production plants and distribution networks in Europe, allowing them to obtain a combined 25% of the market share there. But in Japan, no such effort was made until Chrysler announced plans to purchase an existing Japanese distribution company in 1995.⁹⁷ The American car-parts industry had similarly neglected Japan.

The excuse for such neglect given by the American firms was that the existing trade barriers indigenous to Japan discouraged them from even making an effort. The Motor and Equipment Manufacturer Association attributed the listless attitude to

frustration from being shut out of Japanese markets.⁹⁸ Exactly how a company could be shut out of a market it never seriously tried to enter remained unclear. And the hollowness of the American claim was further exposed by the considerable greater success of European manufacturers in exporting automobiles to Japan.⁹⁹ Nevertheless, the makers of American cars and parts succeeded in convincing the American public and government that Japan was actively excluding them from its markets. It could be argued that the American automobile industry wanted the U.S. government to give it an investment-free ride into Japanese markets by forcing the Japanese to accept American business customs and American products that were neither consistent with Japanese economic and cultural traditions nor suited to the Japanese situation. But in the free-enterprise environment of the American economy, it was not the government's fight. And, in any case, the American side could not win on these terms.

There were (and still are in many quarters) numerous elements of Japanese society and the structure of its economy that could not be changed through negotiation. The elements themselves, as well as the fact of their unchangeability, do not seem to have been understood by the Americans (businessmen, negotiators, and the public). To repeat the example most frequently cited above, the Japanese business tradition warrants the maintenance of close, long-term relationships between firms and their suppliers to a far greater extent than in the United States. In that tradition, firms and suppliers would often agree on long-term contracts that, in the case of automobiles, would turn out to act as a structural impediment to trade.¹⁰⁰ Bound by those long-run contracts that often involved specially designed parts, it was very difficult for Japanese manufacturers to switch suppliers and virtually impossible to do so in the short term. Therefore, when American

trade representatives would demand greater Japanese purchases of U.S. parts for the following year, the Japanese could not really give in. Furthermore, whereas in the United States manufacturing practices tended to require the stockpiling of inventories of parts, Japanese producers worked on the so-called just-in-time system.¹⁰¹ In the case of the latter, parts would arrive on the day they were needed, sometimes necessitating multiple daily deliveries from the same supplier. Such a system posed a logistical nightmare for prospective international suppliers whose order-taking and delivery-times virtually precluded their participation in it.

The *Keiretsu* system in Japan inadvertently served as another “protectionist” source against foreign competition. This system of interlocking companies and groups of companies had been in operation, in one form or another, since the 19th century. Related firms would buy and sell exclusively from each other. They would set prices, restrict the flow of goods, and do their best to prevent outsiders from entering their markets.¹⁰² Although widely accepted in Japan, such business practices seemed unfairly monopolistic to Americans. Moreover, the latter thought this, like the Japanese reliance on long-term relations and contracts, to be an economic issue and not one pertaining to social organization. They and their negotiators failed to realize that international diplomacy cannot alter the culture of a nation. Asking the Japanese to surrender these practices would be like asking Americans to abandon the pursuit of their self interest or the maintenance of equal opportunity for all. It was just not going to happen.

In general terms, then, the Americans viewed themselves as victims. Japan had taken advantage of America's open markets and its generosity. All they wanted was for Japan to reciprocate by playing by the same rules as, in their minds, everyone else. But

Japan refused to do this by unfairly closing off its markets to foreign competition.¹⁰³ The oversimplifications and misunderstandings in this position are obvious.

Japan, on the other hand, was blinded by its own oversimplifications and misunderstandings. The Japanese felt that they were smarter and more diligent than their competition, but were rewarded with only scorn and threats. They had, from their perspective, been as fair to other countries as other countries were to each other. They had been used as the scapegoat for U.S. economic failures.¹⁰⁴ And the Japanese reacted with contempt to what they perceived those failures to be. They believed that their superior cultural ethos had been the agent of their success, and that “virulent racism” on the part of the Americans was the underlying cause of trade frictions with the United States.¹⁰⁵ Apart from its oversimplifications and misunderstandings, this stance was as hypocritical and arrogant as that of the U.S. towards Japan.

Japan had also been both insensitive and insular. It had sought to make up for its dependence on foreign sources for raw materials and to recover from economic hard times through exporting. But it ignored the adverse effects of this strategy on other countries, and the costs of the consequent difficult relations with its trading partners. Japan did not fully recognize the perception by foreigners (and the extent to which that perception was an actual domestic reality) that its markets were unusually hard for them to penetrate. And it attempted to deflect criticism with, in part, the dubious claim that macroeconomic elements, such as the relatively low savings rates in the U.S., were the main cause of the large U.S. trade deficits.¹⁰⁶

The negotiators on both sides failed to see that there were two equally fundamental problems: (1) the difficulties encountered by foreign producers attempting to

enter Japanese markets, and (2) the shortcomings of U.S. industry that permitted Japan to export so successfully to the United States.¹⁰⁷ They also failed to recognize the underlying cultural differences that were the primary cause of those problems and that made their resolution so difficult: An emphasis on “rights versus obligation, on autonomy versus interdependence, on the pursuit of happiness versus personal sacrifice, and on the priority of the individual versus that of the group.”¹⁰⁸ The sources of the imbalance of trade between the U.S. and Japan were thus domestic and internal, one arising in each country, and stemmed from the particular structural organization of the U.S. and Japanese economies. Each government should have devoted its energies to addressing these issues with respect to the underlying cultural backgrounds of the other. But they did not, and thereby brought the United States and Japan to the brink of a trade war.

There are many lessons that can be drawn from the failed automobile-trade negotiations between the United States and Japan during the 2nd half of the 20th century. The one emphasized here is the absolute necessity in any cross-cultural negotiations for both sides to understand the cultural and social backgrounds of each other, and the constraints imposed by those backgrounds on what can be accomplished. In any particular case, it may not be possible to resolve all issues, or even very many of them. And what agreements are reached may require a considerable amount of time and effort to attain. But surely, negotiating from positions in which each side understands the constraints under which the other operates is the best way to reduce tensions, avoid disasters, and achieve the most progress.

The deep cultural, social, and economic divide separating the U.S. and Japan, a lack of understanding of which, in particular, seems to have played a major role in

preventing the Japanese and American automobile negotiators from reaching meaningful agreements during the 1970's, 1980's, and 1990's, has not gone away. It will almost certainly arise in a variety of contexts and come to the fore implicitly, if not explicitly, in future Japanese-American relations. We can only hope that the individuals on both sides entrusted with resolving the specific problems that arise will remember the failure of the automobile negotiations of the latter part of the 20th century, and will, as a result, be sensitive to the unchangeable cultural, social, and economic practices and constraints that separate the two countries. Trade wars, if the issues are economic, hurt everyone and can be devastating -- as the experience of the 1930's suggests. It was George Santayana, the Spanish-born philosopher, who, in *The Life of Reason* (volume 1, p.284) wrote, "Those who cannot remember the past are condemned to repeat it."

Footnotes

¹ The authors would like to thank Charles Yuji Horioka for his considerable help.

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¹² *Ibid.*

¹³ "Japan to Try to Trim Its Trade Surplus with U.S., Says It Would Accept Deficit," *The Wall Street Journal*, December 14, 1977, p. 5.

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²⁵Reginald Stuart, "Chrysler, Mitsubishi Hold Talks," *The New York Times*, May 28, 1980, p. D7.

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²⁸Mike Tharp, "U.S., Japan in Car Pact," *The New York Times*, May 1, 1981, p. A1.

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³³*Ibid.*

³⁴Clyde H. Farnsworth, "Japan Sets Car Export Ceiling," *The New York Times*, March 24, 1982, p. D1.

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⁶⁶Jeffrey Birnbaum and Bob Davis, "Clinton Blasts Closed Markets of Japanese," *The Wall Street Journal*, March 24, 1993, pp. A3, A4. The article gave no indication of why Sasae might have thought that the U.S. budget deficit would have had an impact on its trade deficit.

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⁸⁸Helene Cooper and Valerie Reitman, "Adverting a Trade War, U.S. and Tokyo Reach Agreement on Autos," *The Wall Street Journal*, June 29, 1995, pp. A1, A6.

⁸⁹*Ibid.*

⁹⁰Andrew Pollack, "Japan's New Tack on Trade: No More 1-on-1," *The New York Times*, July 30, 1996, p. D1.

⁹¹Robert L. Simison, "U.S. Auto Makers Revamp Lineups, Strategies to Expand in Japanese Markets," *The Wall Street Journal*, October 25, 1995, pp. A3, A6.

⁹²*Ibid.*

⁹³*Ibid.*

⁹⁴*Ibid.*, p. A6.

⁹⁵James Bennet, "Big 3 and Japan," *The New York Times*, June 28, 1995, p. D4.

⁹⁶Pamela Sebastian, "Auto Parts Makers," *The Wall Street Journal*, October 6, 1994, p. A1.

⁹⁷James Bennet, "Big 3 and Japan," *The New York Times*, June 28, 1995, p. D4.

⁹⁸Pamela Sebastian, "Auto Parts Makers," *The Wall Street Journal*, October 6, 1994, p. A1.

⁹⁹For example, in 1988 total automobile imports into Japan amounted to 150,629 units, of which 127,309 were European. Only 21,124 units came from the United States. Thus, in that year, Europe had exported six times as many cars to Japan as the U.S. (Source: <http://www.country-data.com>.)

¹⁰⁰Robert C. Feenstra, *The Effects of U.S. Trade Protection and Promotion Policies* (Chicago: University of Chicago Press, 1997), pp. 14, 15.

¹⁰¹*Ibid.*

¹⁰²Steven Weisman, "Trade Talks Fail to Produce Gains for U.S. or Japan," *The New York Times*, March 16, 1990, pp. A1, D2.

¹⁰³Stephen D. Cohen, *An Ocean Apart: Explaining Three Decades of U.S.-Japanese*

Trade Frictions (Westport: Praeger, 1998), p. 82.

¹⁰⁴*Ibid.*, pp. 37, 51.

¹⁰⁵Shintaro Ishihara, *The Japan that Can Say No*, translated by Frank Baldwin, Simon & Schuster, New York, 1989, pp. 28, 107.

¹⁰⁶Stephen D. Cohen, *An Ocean Apart: Explaining Three Decades of U.S.-Japanese Trade Frictions* (Westport: Praeger, 1998), pp. 90-91.

¹⁰⁷*Ibid.*, p. 212.

¹⁰⁸Janet T. Spence, "Achievement American Style -- The Rewards and Costs of Individualism," *American Psychologist* (December 1985) p. 1288.