

THE U.S.-JAPAN TRADE AGREEMENT: A FAILURE FOR CLINTON, A VICTORY FOR AMERICA

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While the recent U.S. automotive trade settlement with Japan is a failure for President Clinton, it is nevertheless a victory for America. A trade war has been averted. For more than a year, the Clinton Administration tried to force the Japanese government to agree to enforceable numerical targets for U.S. exports. Arguing that quotas would be inconsistent with free trade principles, Japan flatly refused Clinton's demand. In the end, President Clinton backed down. The automotive trade dispute was settled without mandatory targets.

However, the President's failure to force Japan to consent to managed automotive trade is a win for the American people. Managed trade harms consumers through less choice and higher prices. Moreover, managed trade hurts workers in companies or industries that government bureaucrats do not favor.

THE AGREEMENT

The main result of the recent U.S.-Japan trade settlement is to avert American imposition of 100 percent punitive tariffs on 13 models of Japanese luxury auto imports. Other key provisions of the agreement are:

- ☞ **Auto Parts Purchases by Japanese Automakers.** For months the Clinton Administration insisted that the Japanese government be involved in the enforcement of Japanese private sector plans to increase the purchase of American-made auto parts. At Geneva, U.S. Trade Representative Mickey Kantor was forced to drop this demand and accept voluntary, non-binding purchasing plans tabled by Japan's five largest automakers. To underscore the non-binding nature of the plans, the Japanese government made it clear in a joint U.S.-Japan statement that "Ambassador Kantor's estimates [of Japanese purchases of U.S. auto parts] are his own and neither shared by the minister [Ryutaro Hashimoto] himself nor the government of Japan."
- ☞ **Access to Japanese Dealers.** Japan's Ministry of International Trade and Industry (MITI) will send a letter to Japanese dealers reaffirming their right to carry foreign cars. Despite a letter Kantor issued forecasting that American automakers would establish 1,000 new dealership franchises by the year 2000, nothing is binding on the part of the Japanese government.
- ☞ **Deregulation of the Replacement Parts Market.** The Ministry of Transport (MOT) will conduct a one-year review of a "critical auto parts" list that limits the use of some foreign parts for safety reasons. The purpose of this review is to remove parts that are not central to safety concerns. As a first

step, MOT agreed to remove struts, shocks, power steering, and trailer hitches from the list. Finally, MOT will allow specialized repair garages to establish businesses in Japan.

These developments come on the heels of two years of negotiations. From the inception of "The United States-Japan Framework for a New Economic Partnership," signed on July 10, 1993, President Clinton has demanded that Japan agree to enforceable "quantitative targets" to increase a variety of American exports. The Framework Agreement established five major areas, or "baskets," in which the U.S. and Japanese negotiators would seek individual binding agreements. The areas covered were telecommunications, medical technology, flat glass, insurance, and automobiles and auto parts. The U.S. and Japan reached a settlement in the first four areas on October 1, 1994, and an automotive accord was reached on June 28, 1995. In all of these agreements, Japan rejected numerical targets. Thus, what Kantor finally agreed to is at odds with what he sought in 1993 when he said that "We will measure the success of these agreements in qualitative and quantitative terms."

THE LESSONS FROM CLINTON'S FAILURE

There are three lessons that the United States should learn from Clinton's failure:

- ① **Enforceable trade targets or quotas are inconsistent with free trade and should never be an object of American policy.** Demands for quotas undermine U.S. prestige in the world trading community, isolate the U.S. from its allies, and violate American commitments in international trade agreements.
- ② **Industry-by-industry trade liberalization negotiations with Japan have seriously disrupted America's economic, political, and security partnership.** While these negotiations have yielded some progress in opening the Japanese market to American exports, the costs are high, and the potential for stumbling into a destructive all-out trade war is great.
- ③ **The root causes of the U.S. trade deficit with Japan are not protectionism, but factors that are beyond the control of governments.** Japan is a country of 125 million people. America is a country of 250 million people. The average Japanese buys about the same amount of goods and services from Americans as Americans buy from Japanese. One reason the deficit exists is that there are twice as many Americans as there are Japanese.

PUTTING TRADE RELATIONS BACK ON TRACK

Rather than threaten to impose unilateral trade sanctions on such countries as Japan, the Clinton Administration should look for ways to protect the interests of all Americans, not just those U.S. industries which spend millions lobbying in Washington. The Administration should:

- ✓ **Negotiate a comprehensive free trade and investment agreement with Japan by the year 2000.** President Clinton and Prime Minister Murayama have agreed to the goal of "free and open trade and investment in the Asia Pacific no later than the year 2020." This pledge was made at the Leaders' Meeting of the Asia-Pacific Economic Cooperation (APEC) forum in Bogor, Indonesia, on November 15, 1994. President Clinton should join Congress to offer the Japanese a comprehensive free trade and investment agreement with the United States.
- ✓ **End the practice of using taxpayer dollars and the U.S. government as public relations for selected U.S. businesses.** American taxpayers deserve more from their government than to have their hard-earned money spent to win contracts for specific U.S. companies. While Ford Motor Company, General Motors Corporation, and Chrysler Corporation might have benefited from a 100 percent tariff on imported luxury automobiles, the American people would have been harmed. For example, American manufacturers who supplied Japanese automakers with parts for the targeted luxury imports found their orders canceled. Garden State Tanning in Williamsport, Pennsylvania, recently laid off 550 work-

ers when Toyota was forced to suspend its purchase of leather upholstery for Lexus cars. Had the sanctions taken effect, thousands more Americans who sell, maintain, and service these autos would have lost their jobs.

- ✓ **Refrain from using bilateral trade retaliation that isolates America from the international economy.** Clinton's threat to impose unilateral trade sanctions against Japan does little to improve American living standards and America's reputation as a free trade leader. In fact, it does the opposite. For example, Japanese Minister Hashimoto skillfully rallied world public opinion against the U.S. when the Clinton Administration did not take its case against Japan to the World Trade Organization before threatening sanctions, a clear violation of international trade agreements. Hashimoto isolated the United States from its trading partners in Europe and Asia and painted Japan, not America, as the defender of free trade.

CONCLUSION

The Framework Agreement is a failure for Clinton. But Clinton's failure is America's victory. Forcing Japan to purchase more American autos and auto parts would have run counter to American interests—for example, by forcing the Japanese government to become a bigger player in Japan's private sector. It would not have reduced the influence of Japan's bureaucrats in making private sector economic decisions. And it would not have resulted in increased American exports to Japan.

President Clinton took America down the dangerous path of a trade war with its second largest trading partner and largest overseas market. His purpose presumably was to force the Japanese to buy more American goods. In the end, he failed to get this commitment. Instead, America's image abroad as a dedicated free trade partner has been tarnished. Fortunately, this loss for the Clinton Administration is victory for American consumers.

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