214 Massachusetts Avenue, N.E.
Washington, D.C. 20002-4999
(202) 546-4400
http://www.heritage.org

The Heritage Foundation

F.Y.I.

No. 95
April 11, 1996

BILL CLINTON AND JAPAN: GETTING THE RECORD STRAIGHT

James J. Przystup
Director, Asian Studies Center

Robert P. O'Quinn
Policy Analyst

President Bill Clinton will visit Japan on April 16-18 to meet with Prime Minister Ryutaro Hashimoto. The major purpose of his trip will be to reaffirm the U.S.-Japan Security Alliance. Challenges now facing both the United States and Japan in Asia, from tensions on the Korean Peninsula to China's increasingly aggressive conduct toward Taiwan and in the South China Sea, make a reaffirmation both timely and necessary. It is even more necessary because for the better part of the Administration's first two years, Bill Clinton's Japan policy has put this critical relationship at risk.

The Clinton Administration came into office committed to forging a new U.S.-Japan relationship. Its Japan policy, however, was based on a number of miscalculations. The first was that security issues could be de-emphasized in the U.S.-Japan relationship after the collapse of the Soviet Union. The second was the over-emphasis placed on reducing the bilateral trade deficit. Trade policy, originally viewed as but one part of an overall Japan strategy, quickly expanded in time and effort to become almost the entirety of the Administration's approach to Japan. In effect, Japan policy became an extension of the 1992 campaign theme, "Its the economy, Stupid." Seeing Japan through a mid-1980s time warp as an immutable economic juggernaut, the Clinton team was committed to applying intense external pressure to get its way. The final miscalculation was that, in the post-Cold War world, this pressure could be applied with little collateral political damage.

Unfortunately, the Administration was wrong across the board. Security in today's post-Soviet world remains important, as North Korea's quest for nuclear weaponry and China's aggressive behavior toward Taiwan have reminded Americans and Japanese alike. Moreover, Japan's economy was not immutable. By 1993, it was undergoing significant structural change, the result of a five-year recession brought on by the collapse of its wildly inflated late-1980s economy and a skyrocketing appreciation of its currency, the yen.

While in Tokyo, President Clinton will try to take credit not only for improved U.S.-Japan economic relations—in particular, the reduction of America's trade deficit with Japan—but for the improving security relationship as well. This will be credit not deserved. After damaging U.S.-Japan relations with the threat of a trade war, the President saw his mistake and corrected course. Better late than never. But solving a problem which the President himself caused is hardly the best way to conduct foreign policy.

Economics in Command

The Clinton Administration got off on the wrong foot early in dealing with the Japanese. Downplaying the U.S.-Japan Security Alliance, the Administration quickly placed economics and trade at the top of its agenda with Tokyo. The centerpiece of its strategy was its New Economic Framework, a combination of economic and trade policies hastily cobbled together in Tokyo in July 1993. In effect, the New Economic Framework was an attempt to manage trade with Japan.

Through a series of negotiators the Clinton Administration attempted to pressure the Japanese government into accepting targets for American exports to Japan. The Framework negotiations essentially were geared to redeeming the President's promise to produce results in such politically sensitive sectors as computers, telecommunications, automobiles, and auto parts. Fearing that failure to meet such quotas would make Japan a target for trade sanctions, Tokyo refused to go along.

From the outset, the Framework talks were acrimonious, marked by a high degree of suspicion, mistrust, and unprecedented personal animosity. They did not improve with age. At the February 1994 summit between Bill Clinton and then-Japanese Prime Minister Morihiro Hosokawa, the Japanese found that they could and did say "no" to the Administration's demands for managed trade. By the spring of 1995, the Administration was poised for a trade war with Japan, threatening a 100 percent tariff on the import of Japanese luxury automobiles unless Tokyo relented and signed up for managed trade.

In both countries, the media duly reported on and expanded on the tactics and personalities of the negotiators and their countries. In both countries, the media retreated to familiar stereotypes—the untrustworthy, scheming Japanese versus the unreasonable, demanding Americans.

In the end, trade agreements were signed but none contained enforceable quotas. Typical was the conclusion of the auto parts negotiations. Two days after insisting that the government of Japan had to be part of an agreement to guarantee compliance of Japanese auto companies, U.S. Trade Representative Mickey Kantor was forced to back down. To underscore the extent of the Administration's retreat, the Japanese negotiator, Ryutaro Hashimoto, now Japan's Prime Minister, made clear at a joint press conference that Kantor was speaking solely for himself with regard to expectations for growth in American exports to Japan. The Japanese government, he emphasized, was not guaranteeing the deal.

Bill Clinton set out to build a new U.S.-Japan relationship. But by placing economics at the center of his Japan policy, he short-changed the vital U.S.-Japan security relationship. And by resorting to threats of a trade war, the President caused a significant erosion in Japanese support for relations with the U.S. In short, his policies have been counterproductive for the strategic interests of the U.S.

Administration Claims and Japan's Economic Realities

The Clinton Administration is claiming that its trade policies are responsible for the recent decline in Japan's trade surplus with the United States. This is political spin of the highest order and represents a striking example of the logical fallacy known as *post hoc ergo propter hoc* (literally, "after this, therefore because of this"). The root causes for this decline are to be found not in Washington, but in the impact of global economic forces operating on Japan. In reality, a substantial appreciation of the yen and high Japanese production costs are the main causes of America's declining trade deficit with Japan.

The major factor driving down Japan's trade surplus is the soaring value of the yen. In Japan, this is known as *endaka*, which means an increase in the value of the yen against other currencies. From 158 yen = $1 in April 1990, the yen appreciated to a high of 79 yen = $1 in April 1995. Today, it stands at approximately 108 yen = $1, still substantially higher than it was in 1990. The appreciation of the yen has had a double effect: While making Japanese exports more expensive, it also has made imports cheaper. And Japanese consumers have responded to market signals by buying more imports, including those from the U.S.

Imports began to surge in April 1993. Japan's imports climbed by 22.3 percent in 1995. Semiconductors and electronic devices went up 66.6 percent, while automobile imports grew by 40.6 percent. Meanwhile, internationally, Japan's now higher-priced exports grew more slowly, by 12.0 percent, while exports of American-bound automobiles actually fell by 13.9 percent.

The *endaka* also is causing Japanese manufacturers to restructure fundamentally the way they do business. Under unrelenting pressure to cut costs, Japanese firms are beginning to open their traditional clubby business networks, known as *keiretsu*, to foreign suppliers. American and other foreign venders are now aggressively marketing their components to Japanese firms.

For example, Delphi, a General Motors parts subsidiary, hired Nissan and Toyota executives who then persuaded their former employers to designate Delco batteries as "authorized" parts for automobiles made by these Japanese companies. Consequently, Nissan and Toyota dealers now stock Delco batteries. In another instance, Tenneco, a *Fortune* 500 corporation with interests in automotive parts, energy, packaging, and shipbuilding, recently reached agreements with Toyota and Japan Energy to carry U.S.-made Monroe and Rancho shock absorbers at Toyota's 5,000 affiliated garages and at Japan Energy's 6,000 gas stations.

To stay competitive, Japanese manufacturing firms are closing plants in Japan and moving to lower-cost production sites in the United States, Britain, and Southeast Asia. For example, Toyota is now investing billions in new plants, not in Japan, but in the U.S., Britain, and Thailand. While shedding jobs in Japan, Fujitsu, a leading Japanese electronics manufacturer, is building semiconductor plants in Oregon and Britain. Increasingly, Japanese firms are supplying overseas markets through local production rather than exports. Japan's Ministry of International Trade and Industry (MITI) estimates that in 1995 the value of goods produced by Japanese companies overseas exceeded the value of their exports for the first time in history.

Moreover, "reverse imports"—products made abroad by Japanese firms and then exported for sale to Japan—are becoming common in America. For example, Honda is now a net exporter of motor vehicles to Japan. In 1995, Honda exported some 45,000 Accord coupe, Accord wagon, and Civic models from North America to Japan. In sum, cost-conscious Japanese corporate decisions, not U.S. government policy, are driving down Japan's trade surplus with the U.S.

By attempting to manage trade through quotas or targets, the Administration's trade policy was playing directly against economic forces that are working to transform, open, and deregulate Japan's economy. Trade quotas, both to expand imports and to restrain exports, empower the Japanese bureaucracy to decide which firms must buy more of a targeted import and which firms must be prevented from making profitable sales overseas. Such an expansion of governmental control would reregulate rather than deregulate Japan's economy.

POLITICAL COSTS

The Clinton Administration's trade war with Japan from 1993-1994 took a political toll on the U.S.-Japan relationship. According to polls conducted by the United States Information Agency in June 1995, during the auto and auto parts negotiations, 39 percent of Japanese respondents saw trade conflicts as eroding the alliance, while 30 percent saw the alliance as strong. By contrast, in May 1992, 43 percent saw the alliance as strong despite trade frictions. In the same June 1995 poll, 51 percent considered relations as "poor" and only 41 percent viewed them as "good." In January 1996, 48 percent thought the relationship in "poor" shape.

Certainly, progress needs to made in opening and deregulating Japan's market. But, as the above polls make clear, the Administration's approach of using external pressure to force internal economic change in Japan has been counterproductive.

Against this background, the rape of a twelve-year-old Okinawan schoolgirl by American servicemen last September triggered the most serious crisis in the U.S.-Japan security relationship in decades. Calls for the withdrawal of U.S. forces from Okinawa dominated Japan's political public debate in October.

With the Okinawa crisis still smoldering, the President did not help matters when he canceled his November state visit to Japan to deal with the budget battle in Washington. Shortly before that decision, Winston Lord, the Assistant Secretary of State for East Asian and Pacific Affairs, warned that cancellation would be a "body blow" to the alliance. In Tokyo, Japanese government officials noted that the cancellation was met with a dangerous indifference by the Japanese media and public, reflecting exasperation in dealing with the Clinton Administration. Shortly thereafter, the President in similar circumstances found time to visit Ireland and Israel for the funeral of Prime Minister Rabin. The Japanese media and political elite were quick to contrast the President's political priorities.

ENDURING STRATEGIC REALITIES

Despite the end of the Cold War, the alliance with Japan remains critical to American national interests. Today, the U.S.-Japan Alliance is the centerpiece of Asia's security system and the foundation of its economic dynamism and prosperity. This is of direct and immediate consequence to the security and economic well-being of all Americans.

As John Dori of The Heritage Foundation's Asian Studies Center has pointed out, U.S. exports to Asia in 1994 grew at a rate of 16.2 percent to more than $153 billion, the steepest increase since 1988. The prosperous nations of the region purchased over $45 billion more from U.S. exporters than did the 15 nations of the European Union, and almost $30 million more than Europe as a whole. And exports to Asia mean jobs for Americans. In 1994 more than 3 million Americans owed their jobs to exports to Asia, with 428,000 jobs being created in 1994 alone.

The United States also has enduring strategic interests in Asia. For over a century, the U.S. has worked to prevent a single power from dominating the region. Today, America's alliance with Japan enhances its ability to keep Asia open to U.S. influence. Forward-deployed U.S. forces in Japan have helped to deter aggression against allies and friends in the region. Recognizing the importance of this U.S. presence to Japan's security, the government of Japan contributes close to $5 billion annually in support for U.S. forces stationed in that country. Japan's effort in this regard represents the most generous host nation support of any of America's allies.

The strategic importance of the U.S. force presence in Japan was recently demonstrated. In mid-March, President Clinton ordered the deployment of the USS *Independence*, home-ported in Yokosuka, Japan, to waters near Taiwan at the time of the Republic of China's presidential elections. This strategic importance has also been evidenced by America's continuing ability to deter a possibly nuclear-armed North Korea from attacking South Korea, a U.S. ally, and reunifying the Korean Peninsula on communist terms. And a strong U.S.-Japan alliance will enhance America's ability to deal with China as it emerges as a great power in the first quarter of the next century.

Conclusion

Bill Clinton's Japan policy has ill served the relationship once defined by Ambassador Mike Mansfield as the United States' most important "bar none." Were it not for the dedicated work of officials in the Pentagon, most notably Joseph Nye, former Assistant Secretary of Defense for International Security Affairs, there is no telling how far the free-fall in the relationship would have taken the alliance. Fortunately, these officials recognized the damage being done by the Administration's trade tactics, and in 1994 began the long, arduous task of returning the Administration's focus to the strategic centrality of the alliance. This is what has brought Bill Clinton to Tokyo. Better late than never.