

The U.S.-Japan Auto Agreement: Success or Failure for the Clinton Administration?

By Michael Bergsman • Inside U.S. Trade, Managing Editor

(This paper represents solely the opinion of the author, speaking for himself and not for Inside U.S. Trade.)

The Clinton Administration has faced a great deal of criticism within the U.S. trade policy community for accepting an auto agreement with Japan which fell far short of what the administration had originally asked for and which many observers believe will do little to boost sales of U.S. autos and auto parts. Despite this criticism, the administration has apparently achieved its political goals for the auto negotiations. While it will be easier to judge whether those goals have been met next year, by observing the extent to which the administration's trade policy is a positive factor in Clinton's bid for reelection, the administration can already take credit for keeping tensions with Japan high for almost two years, helping to drive up the value of the yen relative to the dollar and reduce the U.S. trade deficit with Japan.

The stated goal of the auto talks, and of the bilateral trade framework in general, was to achieve a "results-oriented" agreement with Japan in order to bring down the deficit and increase sales of competitive U.S. products. The Clinton Administration criticized its predecessors for having negotiated agreements that looked good on paper but which did little or nothing to boost U.S. exports. To ensure that its agreements would be different, the Administration decided to include in all the framework agreements "qualitative and quantitative criteria," which would be used by the two governments to monitor the results.

The model for the policy was the 1991 U.S.-Japan Semiconductor Arrangement, which included a stated goal that the foreign share of the Japanese semiconductor market reach 20 percent. The agreement was tremendously successful in boosting U.S. sales in Japan, even though the target was barely met on time.

In the auto negotiations, the administration tried to follow that model by sug-

gesting a long list of quantitative criteria, and demanding that the agreement also include "specific expectations." If those expectations, presumably boiling down to targets for numbers of sales, were met, the agreement would be working, otherwise Japan would be obligated to take additional action.

The initial proposal, tabled in October of 1993, shows that the Administration was not looking for detailed commitments on how sales would be increased. Instead, it wanted to be sure that the Japanese government would somehow make the sales happen, and if not, that the U.S. would be able to charge that the agreement was being violated.

But the Japanese government took a very negative view of that proposal and responded with an extremely effective public relations campaign portraying the Clinton Administration as in favor of managed trade. Japan convinced most of the world that the U.S. was unfairly asking to be given, by government fiat, a set share of the Japanese market.

In order to reach an agreement, the administration was forced to water down its demands repeatedly, eventually setting for a commitment that the agreement would be evaluated by overall consideration of a set of qualitative and quantitative criteria. Japan was able to resist U.S. demands for any explicit commitment that U.S. sales increase.

The main focus of the U.S. at the end of the talks was to gain promises from Japanese vehicle manufacturers to buy more U.S. parts. The promises were made, although not as part of the formal agreement and therefore arguably separate from its monitoring commitments.

Whether or not the agreement will in fact force the Japanese government to somehow make sure more U.S. autos and parts are purchased, the administration can now claim to the American electorate that it stood up to Japan. As they are already doing, U.S. negotiators can take credit for numerous agreements with

Japan, and then point to the declining trade deficit and rising U.S. exports to Japan.

Not only will this argument be the basis for Clinton Administration claims of finally making some progress in tackling chronic trade problems with Japan, but it will also provide a broad defense of the Administration's overall trade policy. Clinton has faced criticism from organized labor in particular and the U.S. public in general for support of the North American Free Trade Agreement and the Uruguay Round of the General Agreement on Tariffs & Trade.

But the administration has seen overwhelming support for being willing to threaten trade sanctions in the auto talks. The only loud critics of the outcome of the talks were potential Republican presidential candidates, who had obvious motivation to point out the shortfalls of the agreement, attempting to deny the administration a victory to brag about next year.

And the deficit is coming down, as U.S. Trade Representative Mickey Kantor has been repeatedly pointing out over the last few months. He has instituted a new practice of holding a press conference each month when the figures are released, even if it means a conference call with reporters while he is driving on the way to a vacation.

The deficit has declined compared to last year in each of the last six months, Kantor said in early December. The reason why, he said, is a combination of 20 trade agreements and "macroeconomic factors," such as the exchange rate.

The administration always denied during the auto negotiations that it was intentionally driving up the value of the yen, but certainly the U.S. negotiators could hardly have been unaware of what was going on in the currency markets. And for much of the talks, the administration did not seem to be in much of a hurry to conclude an agreement. ■