CHAPTER 5

U.S.–Japan Trade Conflicts: Semiconductors and Super 301

The U.S.–Japan trade conflicts over semiconductors as well as the Super 301 negotiations over supercomputers, satellites, and forest products highlight the importance of broad consensus in the United States in favor of sanctions for bargaining outcomes. The negotiation over semiconductors was one of the most drawn out and acrimonious between the two countries. It started in the early 1980s, when the United States began efforts to deal with the undercutting of the American semiconductor industry by increasingly competitive Japanese firms. Since then, sustained American pressure, backed by the threat of further action, helped to produce a major bilateral agreement in 1986 and another one in 1990, providing American chip producers with some relief from Japanese dumping in the U.S. market and with greater access to the Japanese market. Although the negotiations were often protracted and difficult, tough talk by both the Reagan and Bush administrations forced Japan to halt its predatory pricing behavior and to open up its protected domestic market to American semiconductor products. American pressure thus played a crucial role in preventing the further slide of the U.S. semiconductor industry.

The Super 301 investigations between 1989 and 1990 in turn stemmed from U.S. concerns about Japan’s protectionist policies in the satellite, supercomputer, and forest products industries. In the first two issue areas, the United States complained that Japan, through policies of industrial targeting designed to promote the development of autonomous supercomputer and satellite industries, had effectively excluded American producers, who were very competitive elsewhere in the world, from its public-sector market. In the area of forest products, the United States directly challenged a wide array of tariff and nontariff barriers in the Japanese forest products market that not only were GATT-illegal but also impeded American producers’ access to the
Japanese market. The negotiation in each of the cases presented here allowed the United States to achieve its most immediate objective of opening Japanese government procurement to foreign bidders or of forcing the much-desired Japanese tariff cuts. Although, in the super-computer and satellite cases, the United States may not have achieved its long-term objective of deterring Japanese government targeting of these industries, by prying open Japan’s protected home market, it at least succeeded in thwarting the rapid ascent of Japanese industries in the global market.

In each of the cases cited here, domestic interest groups’ unified support for threat tactics enhanced the chances for American negotiators to obtain a favorable outcome. Unlike in U.S. trade negotiations with China, where efforts by export-seeking industries to impose sanctions on the target were often undercut by import-using interests who were unwilling to see their access to their potential suppliers cut off, export-oriented American producers involved in each of these cases did not encounter any major opposition from other segments of the business community. Indeed, since the United States and Japan competed in so many product categories, there was a large constituency in the United States that faced Japanese competition. Under these circumstances, sanction threats won support not only from the semiconductor, super-computer, satellite, and wood producers, who were interested in expanding U.S. market access in Japan, but also from other import-competing interests (such as electronics and auto manufacturers in the semiconductor case) who would benefit from the restrictions placed on Japanese exports to the United States. In the Super 301 cases, organizations such as the U.S. Chamber of Commerce and NAM that were opposed to sanctions in the China cases all came out in favor of sanction threats against Japan. The pervasive feeling within the U.S. business community that Japanese nurturing of its domestic industries seriously injured American producers in various sectors further fed this protectionist sentiment. Since the sanction threats promised benefits to either the export-seeking interests (if sanctions succeeded in extracting concessions) or the import-competing interests (if they had to be imposed), they enjoyed wide support from the U.S. business community. This unprecedented unity signaled to Japan that it could hardly escape some form of sanctions should it fail to make meaningful concessions, prompting the Japanese to take U.S. demands more seriously.

Reinforcing unified industry support was the executive branch’s greater willingness to adopt a proactive trade policy in order to lessen congressional pressure to level the playing field for American indus-
tries. Especially when the issue involved high-technology industries with significant military and economic implications, the executive branch had demonstrated considerable assertiveness, frequently shifting from a policy of benign neglect in favor of “managed trade” to reshape comparative advantage in such leading industrial sectors and to maintain the overall competitiveness of the American economy. Even in the wood products case, where such “strategic trade” considerations were less prominent, the consensus that the field on which the trade game was being played was unfairly tilted against the United States produced strong incentives for executive action.

Lack of strong domestic opposition, combined with the executive’s greater willingness to intervene, demonstrated to the Japanese the U.S. resolve in seeking a fair trade outcome, indicating that sanction threats had the full support of the major domestic actors. Domestic unity enhanced American threat credibility, leading to the conclusion of several agreements that increased the U.S. share of the Japanese market. A highly competitive trade structure between the United States and Japan thus facilitated the effective use of aggressive bargaining tactics toward that country.

The U.S.–Japan Semiconductor Trade Conflict

Industry Initiatives

The semiconductor dispute was initiated over industry complaints that the Japanese government, through its classical strategy of promotion and protection, had created a highly competitive domestic industry that, by the mid-1980s, had outperformed American firms in terms of both the quantity and quality of semiconductor production. As Japanese companies had displaced American firms as the leading merchant semiconductor producers and as the phenomenal rise in Japan’s share of the global semiconductor market had put American firms at a distinctive comparative disadvantage, U.S. chip manufacturers began to direct their attention to two particularly irritating forms of Japanese practices: Japanese dumping in both the United States and the world market and the lack of access to the Japanese domestic market.

It was at the urging of American chip producers that Washington initiated market access negotiations with the Japanese government. Early industry pressure forced the Japanese to enter into negotiations with the United States under the auspices of the U.S.–Japan Working
Group on High Technology in April 1982. This early set of talks produced an agreement in which the Japanese government committed itself to using its authority to prevent dumping, providing U.S. firms with greater access to Japanese patents, refraining from copying U.S. propriety circuits, and encouraging Japanese firms to increase purchases of U.S. semiconductor products through administrative guidance. Throughout 1983, the semiconductor industry released numerous reports and studies with detailed accounts of the unfair trade practices pursued by Japanese chip makers and the Japanese government. In April 1983, as the second round of bilateral negotiations over market barriers got under way, industry representatives explicitly called on the government to demand a 30 percent share of the Japanese market, a share that they maintained was what they would have deserved if the Japanese market were open. The industry went even further to draft a Section 301 petition in the summer of 1983.

Between 1983 and 1985, the situation of the semiconductor industry further deteriorated. By 1985, the aggressive pricing strategies of Japanese producers, the exit of almost all merchant American companies from the production of DRAM chips, and the sustained cyclical slump in industry demand combined to produce a sense of crisis among U.S. semiconductor manufacturers. Such dismal industry performance induced a pervasive sentiment among industry representatives that, should the U.S. government fail to come to the rescue of the semiconductor industry, the United States would have let the larger, better-financed Japanese competitors continue to strengthen their dominance of the world market in the late 1980s and 1990s. The aggravation of industry plight also convinced U.S. semiconductor makers that ad hoc bilateral agreements such as the one brokered by the U.S.–Japan Working Group on High Technology were inadequate and that it might take sanctions to get Japan to alter its behavior. Thus, in a crisis atmosphere, U.S. semiconductor producers began to call on the government to redress the trade balance. These actions dovetailed with mounting congressional and administrative concerns about the growing U.S. trade deficit with Japan. Through extensive and continuous lobbying activities, the semiconductor manufacturers exercised considerable political clout and successfully brought to the attention of the government and the public the connection between the industry’s troubles and unfair Japanese competitive tactics.

The Semiconductor Industry Association (SIA) played an indispensable leadership role during the industry’s extended campaign for government intervention. Formed in 1977 in explicit response to the
increasing competitive challenge from Japan, the SIA played a pivotal role in the industry’s successful effort to realize a number of its trade policy objectives between 1979 and 1986. By the mid-1980s, the SIA had developed into a major industry association representing fifty-seven American semiconductor producers, composed of both giant “captive” producers such as AT&T, IBM, and Digital Equipment, which manufactured for internal consumption, and “merchant” producers such as Texas Instruments (TI), which supplied other semiconductor-user firms. While in principle the SIA favored free trade policies, most member firms agreed that the United States was not obliged to extend this principle to the Japanese, whose pursuit of mercantilist strategies had placed the survival of American semiconductor industry in jeopardy.

When it became clear that informal, ad hoc bilateral negotiations had failed to relieve the industry’s plight, the SIA began to see the filing of a formal petition under U.S. trade law as a potentially effective measure to pressure Japan to change its policies. Thus in June 1985 the SIA submitted a Section 301 petition against Japan’s unfair competitive tactics, which presented substantial evidence of market barriers in Japan: in 1984, the U.S. semiconductor industry captured 83 percent of sales in the American market, 55 percent in the European market, 47 percent in other (mostly Asian) markets, but only 11 percent in the Japanese market. In the petition, the SIA sought to invoke the rhetoric of “fair trade” by pinning the blame for both the dumping and the market access problems squarely on the Japanese government. The association contended that the Japanese government, through a series of anticompetitive practices designed to promote an industry deemed essential to national development, had created a market structure highly discriminatory against foreign producers. As a result, according to the SIA, American firms, which commanded a dominant position in all other semiconductor markets, had seen their market share in Japan hovering at the same 10 percent since 1975.

The SIA further charged that, by providing direct and indirect assistance to the domestic industry, the Japanese government helped reduce investment risks facing Japanese firms and encouraged their willingness to invest even during a recession, in effect promoting the dumping of semiconductors by Japanese firms. The SIA concluded that, since these Japanese policies denied American firms “fair and equitable market opportunities,” it was imperative for the USTR to monitor Japan’s predatory export behavior and market barriers and to take appropriate measures to counter the effects of Japan’s industrial targeting prac-
tices. Specifically, it called on the USTR to press the Japanese government to encourage its firms to increase their purchases from American semiconductor companies, to strictly enforce U.S. antidumping laws against Japanese firms, and to undertake investigations of the Japanese firms’ antitrust behavior. Should Japan fail to substantially change its behavior, the SIA recommended sanctions against Japan.

The SIA’s 301 petition was followed by several other industry complaints. Shortly after the SIA submitted the 301 petition, the small U.S. memory producer Micron Technology filed under U.S. antidumping laws a claim that Japanese producers (such as Fujitsu, Hitachi, NEC, Oki, Toshiba, and Matsushita) were dumping 64K DRAMS in the American market. In August 1985, the Justice Department initiated an investigation into possible predatory pricing by Hitachi. A month later, three more American firms—Intel, Advanced Micro Devices (AMD), and National Semiconductor—filed another antidumping complaint, alleging that Japanese producers were dumping high-density EPROMS, another memory device in which American producers still had a competitive edge. Later, TI sued eight Japanese semiconductor producers for infringing various TI patents on semiconductor memory.

Tremendous industry pressure increased the imperatives for action on the part of the Reagan administration. In November 1985, the USITC issued a preliminary finding that Japanese firms had harmed American industry. At about the same time, a “strike force” set up by the Reagan administration recommended that the U.S. government initiate unfair trade complaints against Japan. Finally, in response to industry demands, the U.S. Commerce Department initiated a claim on behalf of American producers hurt by Japanese dumping in the 256K DRAMS and 1M (one megabyte) DRAMS markets. The Commerce Department’s self-initiation without any industry petition was considered to be an unprecedented move. Since the Japanese dominated this product category, the threat of retaliation was intended to hurt the Japanese in the areas where they had the greatest strength.

Meanwhile, the SIA stepped up the pressure on the administration to support its petition, writing letters to, and holding frequent meetings with, administration officials. It hired a public relations firm to expand media coverage and to draw greater public attention. The SIA also strengthened lobbying activities on Capitol Hill by organizing a support group of twenty congressmen, in the process gaining greater access to key administration officials. For example, through meetings with Secretary of State George Shultz arranged by the congressional
support group, the SIA was able to convince him of the need to take firm action to respond to the Japanese challenge.\textsuperscript{11}

The rising influence of the SIA and individual chip manufacturers ensured a relatively unified American position. The SIA moved early on to overcome possible resistance from other domestic players. In the first place, since the semiconductor industry was composed of firms that produced different types of chips (e.g., DRAMS versus EPROMS) as well as different types of companies (e.g., merchant versus captive producers), the SIA first of all sought to reconcile the different preferences that member companies might have regarding the trade conflict with Japan. The SIA invoked the common objective of gaining greater access to the Japanese market to unite manufacturers of both DRAMS and EPROMS. Captive firms such as IBM, while not particularly supportive of trade actions at the outset, eventually consented to the SIA’s position under the organization’s persuasion.\textsuperscript{12}

More broadly, the SIA did not encounter any obvious domestic opposition in its persuasion efforts. Many American business groups outside of the semiconductor industry (such as the electronics, automobile, and machine tools producers), who were growing increasingly frustrated with continuing trade barriers and were disappointed with the slow progress achieved under trade agreements with Japan, were demanding tough action from the U.S. government to dampen the effects of unfair Japanese competition. For example, representatives of the U.S. electronics industry, who felt that the trade dispute with Japan ought to be given priority in the U.S. trade policy agenda, urged the U.S. government to retaliate against Japan’s failure to open up its domestic market and to stop dumping on the world market. The AEA, a trade group representing over thirty-five hundred U.S. companies with $305 billion in global sales, launched a massive publicity campaign followed by lobbying efforts in Washington under the provocative banner “America’s future at stake.” AEA representatives contended that, as one of the nation’s largest manufacturing industries and as an important foundation for the rest of the economy, the electronics industry directly impacted on the U.S. economic and military security. The AEA called for a strategic approach to trade policy that would break down trade barriers in Japan and safeguard the interests of American producers.\textsuperscript{13}

In addition, since the AEA represented major semiconductor users who might potentially object to the petition due to the increase in chip prices that could ensue, cooperation from the AEA would have been essential to the success of the Section 301 petition. As a result, the SIA
started early on to address the concerns of end users who might be adversely affected by the increases in chip prices in the United States. To compensate for American users, the SIA persuaded U.S. suppliers to agree not to push for additional quotas or floor prices on Japanese products as long as the Japanese were selling their products at prices above the individual firms’ cost of production. As the negotiations with the Japanese proceeded, the SIA also engaged in frequent consultations with the AEA. The chairman of the SIA’s public policy committee, George Scalise, worked particularly hard to secure AEA’s endorsement of the Section 301 petition.14 Like the U.S. merchant semiconductor firms, many major users of semiconductors had come to believe that the lack of fair market access in Japan would seriously jeopardize the interests of producers and users alike. Firms such as IBM and Hewlett-Packard indicated that they would not resist the semiconductor firms’ trade initiatives, thus allowing the SIA to proceed with its 301 petition. Moreover, end users such as the American computer industry both lacked consensus among themselves and wielded far less influence than the semiconductor manufacturers.15 This enabled the SIA to forge a consensus with the end users. In the end, the AEA produced a letter to USTR supporting the petition.

With Japan’s increasing penetration of the American market negatively affecting so many sectors, no other U.S. business groups visibly opposed the SIA’s trade initiative. When American negotiators later threatened to impose sanctions on Japan should Japanese firms fail to stop dumping and increase market share for American firms, most of the products on the sanction list were ones (such as electrical devices) that posed a competitive threat to American manufacturers. Since these American producers could benefit from the restrictions on Japanese products in the event that sanction threats failed, they did not have any incentive to resist the sanction threats but rather had reason to egg the SIA on.

If U.S. producers in industries (such as electronics) likely to be affected by trade sanctions were not opposed to the sanction threats, groups not directly affected by the Section 301 action (such as the automobile and machine tools industries) had even fewer reasons to interfere with the SIA’s actions. U.S. auto producers, for example, had themselves felt victimized by the influx of more competitively priced, fuel-efficient Japanese auto imports, which drastically reduced American producers’ share in their home market. Not surprisingly, they did nothing to obstruct the lobbying efforts of semiconductor producers.
In short, the SIA was able to advance its trade agenda without encountering any major domestic resistance. This unity across industry borders strengthened the credibility of the SIA’s rhetoric. It also created irresistible pressure on the Reagan administration to provide trade relief through some form of government action. In the following sections, we will see how, under strong congressional and industry pressure, an administration ideologically committed to free trade veered toward government intervention and managed trade and how U.S. domestic consensus gradually started to elicit a Japanese response.

Reagan Administration Response to the Petition

Unlike in many other trade disputes, sanction threats against Japan won strong support from Reagan administration officials. That the free traders of the United States would resort to government intervention in negotiations with Japan was truly unusual. But the shift toward managed trade was hardly surprising when one took into consideration the magnitude of the threat that unfair Japanese competition posed to the very existence of a critical American industry. As the U.S. semiconductor industry faced the possibility of extinction, American policymakers were becoming increasingly concerned about the impact of Japanese industrial targeting on the ability of U.S. industries to compete effectively in international markets. That the semiconductor industry, one of the most dynamic sectors of the U.S. economy capable of producing state-of-the-art technology, was turning to the government for help not only suggested the seriousness of the problem but also signaled to the government the necessity of forging a close relationship with a critical domestic industry in an era when trade policy was having an increasingly important impact on industrial competitiveness.

For American policymakers, it had become clear that the Japanese government, through industrial targeting, was aiming to obtain comparative advantage in a range of high-technology sectors to ensure the continued international market dominance of the Japanese economy. The prevailing sentiment among administration officials was that the United States could not allow Japan to continue to capture the benefits of open international trade without also bearing the burden of competition in its own market. As Japanese companies were making substantial inroads at the expense of U.S. firms in a number of high-technology industries, including the semiconductor industry, U.S. negotiators
felt that the American government could not leave the Japanese threat unchecked and had to come up with a policy response to Japan’s protectionist policies.

It is important to note that the semiconductor conflict took place at a time when the gradual erosion of the American economy enhanced the appeal of the “strategic trade” argument among government officials. According to Judith Goldstein, the convergence of a number of factors strengthened the business community’s appeal for government intervention: the fact that various domestic laws provided relief from some of the alleged unfair trade practices; the existence of a vocal coalition in Congress increasingly impatient with the disparities between the principle of free trade and persistent unfair foreign trade practices; and the ascendance of strategic trade advocates in the academic community, who argued that failure to adopt protective policies aimed at fostering strategic industries may seriously jeopardize national welfare. These domestic political realities both permitted and justified the shift in government policy away from principled support for free trade toward the managed trade approach.16

Recognizing the need to preserve a competitive U.S. industry, administration officials, particularly those in the Commerce Department, had adopted a proactive approach toward the semiconductor trade issue. Starting in the early 1980s, they had sought to exert strong pressure on the Japanese to create a level playing field for U.S. firms. Commerce officials such as Malcolm Baldrige and Clyde Prestowitz, who possessed prior industry knowledge and were fully aware of the depth of the problem, were known for their determination to save this strategic industry. Out of the belief that the industry’s decline could have strongly negative implications for the competitiveness of the American economy as a whole, they had been engaged in a series of negotiations with the Japanese and had also taken a number of other measures to prevent the further slide of the semiconductor industry.

Also important in shaping the Reagan administration’s policy orientation was congressional Democrats’ attack against the Reagan team for its indifference to the ballooning trade deficit with Japan. In particular, the release by the Commerce Department in August 1985 of the United States’ overall and bilateral trade deficit statistics for the first six months of the year immediately produced an uproar in Congress, resulting in the introduction of a good number of protectionist bills in Congress targeted specifically at certain priority countries (including Japan) or at certain sectoral issues. At the same time, the idea of reforming the trade system through omnibus trade legislation was gaining cur-
rency among a growing number of congressional members. Moreover, with the almost certain passage of the restrictive Jenkins textile bill in the fall, the president was faced with the difficult task of mobilizing enough support in Congress to sustain a presidential veto. Mounting congressional assertiveness on trade issues created an imperative for the White House to take some initiatives in order to preempt congressional challenge to executive authority over trade policy.¹⁷

Confronted with stepped up pressure from both Congress and industry groups, Reagan administration officials eventually forged a consensus on the need for an aggressive negotiation strategy despite some initial internal strains. To be sure, soon after the Section 301 petition was filed, senior Reagan administration officials came up with different responses. Officials at the USTR and the Commerce Department, seeing a vital American industry on the verge of demise, supported the petition. These agencies were afraid that, by failing to support the semiconductor producers’ petition and by allowing the antidumping and unfair trade cases to proceed to final rulings, they would provoke Congress into passing retaliatory trade bills targeted specifically at Japan and supporting other highly protectionist trade legislation such as the Omnibus Trade Bill, which was then under consideration, thereby exacerbating the existing trade environment.¹⁸ Officials at the Central Intelligence Agency (CIA) and the Defense Science Board, due to their concern about the growing dependency of the Defense Department on foreign suppliers, shared this view.

Initially, other departments such as State, Treasury, and the NSC were unwilling to see sanctions being imposed on the Japanese, insisting that problems of the U.S. industry partly resulted from poor management and that the Japanese government had taken some steps to eliminate barriers to semiconductor imports back in the 1970s. That Japan was both a friend and an ally of the United States further contributed to the reluctance of the State Department and the NSC to name it an unfair trader.¹⁹ Agencies such as the Office of Management and Budget (OMB), the Council of Economic Advisors (CEA), and the Justice Department, because of their adherence to the free trade principle, objected even more strongly to the aggressive trade negotiation strategy endorsed by the Commerce Department and the USTR. For these offices, negotiating for a guaranteed market share not only would constitute a violation of GATT rules as well as U.S. and Japanese antitrust laws but would also interfere with the operation of dynamic markets, stifle technological development and innovation, and risk inciting a renewed trade crisis between the two countries.²⁰
On the whole, however, the Section 301 petition received a sympathetic hearing from the Reagan administration. For one thing, the semiconductor industry was considered to be a high-technology sector having substantial spillover effects for the rest of the economy as well as important links to the defense industry. Besides having an important impact on competition and trade in the semiconductor industry, government intervention would also profoundly affect the competitive position of a number of related sectors. For another, the SIA’s petition “was in line with the administration’s emerging stress on opening foreign markets, did not directly advocate closing the U.S. market, and would help mollify congressional critics who wanted a tougher Japan policy.”22 Personal contacts also strengthened the SIA’s case at the USTR. Since the SIA’s main counsel, Alan Wolff, had worked with both the new USTR, Clayton Yeutter, and his deputy, Michael Smith, these high-level contacts ensured that the petition would be given serious consideration at the USTR.

Thus the initial reservations that the State Department and the NSC had about the petition did not prevent Yeutter from proceeding with investigations of the SIA’s charges. Under the lead of the USTR and the Commerce Department, the Reagan administration undertook a series of initiatives, including the establishment of a “strike force” to investigate Japanese dumping activities, in order to deal with unfair trade activities. At this point, a small number of administrative agencies still had different opinions about the strike. At the crucial interagency meeting to consider whether to initiate the dumping case in October 1985, representatives from the NSC and the State Department voiced concerns that the investigation might jeopardize the United States’ security relationship with Japan, particularly Japanese support for the Strategic Defense Initiative (SDI). However, in view of the magnitude of the U.S. competitive reversals in the microelectronics market, they did not oppose the recommendation when it came up for a vote. The recommendation was thus approved by the president in December 1985.

As the investigations went under way in early 1986, several developments helped to dispel administration officials’ lingering doubts about the threats against Japan. Importantly, the two champions of the U.S. semiconductor industry, AT&T and IBM, whose viability was considered key to the health of the U.S. semiconductor industry, were beginning to call on the government for help. Executives of these companies told Reagan administration officials that, because they had been forced by the decline of their equipment and materials suppliers to
channel more resources into semiconductor development and, in the process, were becoming more dependent on the Japanese, it was imperative that the administration intervene in the semiconductor market “for the good of the nation.”\textsuperscript{25} The plea from these two semiconductor giants fully revealed the extent of the problem and helped administration officials to overcome their remaining doubts about the threats against Japan.

The sense of urgency voiced by these two giants was shared by other semiconductor manufacturers. In a document submitted to the USTR in October 1985, the SIA again presented overwhelming evidence of Japanese firms’ collusive behavior, which excluded foreign producers from the Japanese market and undercut America’s global competitiveness. The association further condemned the Japanese government for implicitly encouraging such behavior and called on the U.S. government to be an active “advocate of legitimate commercial interests” rather than merely “an impartial adjudicator” of the dispute.\textsuperscript{26}

As an important component of its campaign, the semiconductor industry devoted considerable energy to convince the State Department of Japan’s disproportionately small market for U.S. chips. In light of substantial and compelling evidence of dumping and of the continued difficulties American firms faced in accessing the Japanese market after repeated liberalization, the State Department and some other agencies that had traditionally come to the defense of Japan reached the conclusion that the Japanese market was effectively closed and that government action was necessary to ensure the survival of a critical industry. That addressing the problem through trade laws was not a viable alternative, as it would likely trigger legislative trade retaliation, increased the attractiveness of a hawkish posture. Moreover, mounting political pressure on Secretary of State Shultz and the state personnel to define American interests in both economic and political-security terms also led the State Department to reconsider its approach toward the trade dispute with Japan.\textsuperscript{27} Thus, despite some initial resistance, the State Department and agencies more concerned with national security issues ended up supporting the Commerce Department and the USTR, thereby providing the latter with greater room for maneuver.

With a broad consensus in place, the Commerce Department and the USTR moved ahead with the dumping and market access negotiations. Incessant congressional and industry pressure prodded American negotiators to bargain even more aggressively, in the process forcing more Japanese concessions.\textsuperscript{28} On July 30, 1986, the two gov-
ernments reached the third semiconductor agreement. Formally signed in September, the agreement addressed all major American concerns with respect to both dumping and market access. The Japanese concessions in the area of market access were perhaps most important, as the Japanese government not only committed itself to assisting American companies seeking to increase their sales in Japan and to coordinating the relationship between Japanese users and U.S. suppliers but also, in a confidential side letter to the accord, explicitly undertook to increase foreign makers’ share of the Japanese market to a 20 percent target within the five-year term of the agreement. The 20 percent target, if achieved, would effectively double the foreign share of the Japanese market. Overall, the agreement clearly signaled the Japanese government’s willingness to improve foreign firms’ access to the Japanese market and, as a result, was widely hailed by SIA and government officials.

The 1986 semiconductor trade agreement was unprecedented for American trade policy in many respects. As authors such as Laura Tyson pointed out, not only was it the first time that the United States had threatened trade sanctions on Japan for failing to abide by the terms of a trade agreement, but it was also the first trade agreement the United States entered into in a high-technology, strategic industry aimed at improving market access and regulating trade in both Japan and the global market. In addition to setting the precedent for U.S. demands for “voluntary import expansion” (VIE), the agreement showed that the United States, out of concerns about the possible erosion of American leadership in strategic high-technology industries, was increasingly willing to abandon the principle of free trade in favor of aggressive unilateralism and managed trade. The agreement therefore signified a fundamental change in the U.S. government’s approach toward competition in high-technology industries.

Japanese Response to American Pressure

On the Japanese side, the semiconductor industry and the bureaucracy—the Ministry of International Trade and Industry (MITI)—were the major actors involved in the semiconductor dispute. Initially, U.S. pressure had elicited different responses from Japanese semiconductor manufacturers. On the one hand, some semiconductor firms did not mind if the negotiations failed and tariffs had to be imposed on Japan. Indeed, they even considered this outcome to be preferable to an agreement that would allow MITI to reinstate its control over prices
and other requirements over the disclosure of propriety manufacturing-cost information. On the other hand, there also were firms that favored making some concessions in order to avoid American retaliation. Many of these firms were exporters of such products as electrical consumer goods that were concerned about the potential effects of U.S. retaliation on their exports to the United States. Thus the position of major firms on the appropriate response to the United States was conflicting, providing some possibility for an agreement.

The key objectives in this dispute—reaching a settlement and avoiding American retaliation—for MITI, the chief bureaucratic actor in this case, coincided with those of the prime minister and leaders of the Liberal Democratic Party (LDP). As Ellis Krauss argues, the institutional interests of MITI in this case contradicted those in the industry in favor of no agreement. In particular, MITI seemed to have an interest in using a trade agreement, with the powers and mechanisms that it would confer to the bureaucracy, to regain control over the semiconductor industry, an industry that was increasingly able to assert its autonomy. Krauss suggests that the fact that MITI had subsequently developed monitoring mechanisms with even broader coverage than the agreement would have warranted was fully consistent with such an interpretation.33

While Japanese exporters’ preferences for agreement and MITI’s interests in using an agreement to enhance its waning domestic power had left open the possibility for concessions, it was also important to notice that heavy-handed American pressure had figured prominently in the calculations of Japanese negotiators, compelling the Japanese to accede to American demands. Prestowitz, for example, reported that the Japanese were particularly concerned that the Americans were seriously considering naming Japan as an unfair trader and that they feared that if they were to get the “unfair trader” label this time, then they might get stuck with it in many other cases.34 The imposition of sanctions against Japan in particular sensitized Japanese negotiators to the resolve of American industry and government officials to address the semiconductor problem. After the imposition of sanctions, a high MITI official reportedly told Prestowitz that MITI ought to have taken American demands more seriously sooner.35 Other Japanese officials concluded from their interactions with their counterparts that the United States was indeed bent on punishing Japan for its trade infringements. For example, after his meeting with President Reagan in Washington, Shintaro Abe, leader of the LDP, commented that “there was no concrete indication that would suggest that the sanctions
would be lifted” during Prime Minister Nakasone’s upcoming visit to the United States and concluded that the political dynamics in Washington militated against any immediate action.36

In short, even though it took time for the Japanese to come to terms with American demands, the Japanese eventually realized that all major domestic actors in the United States were behind the threat and that some concessions had to be made to avoid retaliation or to get the Americans to lift it once it was in place. While Japanese negotiators did come up with bargaining tactics designed to minimize their losses during the negotiations, they were clearly aware of the tremendous pressure coming from the United States and had to reluctantly accept basic American demands.

The Imposition of Sanctions and the Effects of the 1986 Semiconductor Trade Agreement

Two years after the signing of the agreement, several semiconductor manufacturers complained that Japanese firms were violating the terms of the dumping agreement. Specifically, they were concerned that not only was Japanese dumping of EPROMS widespread in third-country markets,37 but U.S. total sales in Japan were not improving either. Repeated Japanese violations of signed agreements presented American negotiators with no other option but to consider the imposition of sanctions. The lack of results after more than six years of negotiation and bargaining led most administration officials, including the president and some agencies with initial reservations, to embrace a more interventionist policy. Thus, in January 1987, the USTR threatened to retaliate with trade sanctions if Japanese firms failed to conform to the terms of the agreement by April 1. Meanwhile, in view of unmistakable evidence of Japanese violations and of the spiraling U.S. trade deficit with Japan, both houses of Congress passed resolutions urging the president to retaliate. The SIA also submitted a recommendation urging retaliation. To shore up U.S. credibility, a sub-cabinet-level interagency committee under the Economic Policy Council (EPC) proposed trade sanctions if the Japanese did not stop third-country dumping and improve market access for American firms. By the end of March, the EPC determined that Japan had violated the 1986 agreement and recommended that the president proceed with trade sanctions.38

With Congress’s and the industry’s unanimous condemnation, the president accepted the EPC recommendation and, on March 27, announced the imposition of 100 percent retaliatory tariffs on $300
million of Japanese electrical devices, including television sets, laptop computers, disk drive units, stereo equipment, electric motors, and other consumer goods. Some of the retaliatory items on the list were ones for which American producers faced Japanese competition or were manufactured by the same corporations that were charged with violating the terms of the agreement (e.g., NEC, Fujitsu, and Hitachi). Since the sanctioned products were manufactured by a large number of American companies at competitive prices, they helped to prevent the large price hikes that otherwise would have occurred if trade between the two countries had been complementary. The choice of these products allowed American manufacturers competing with Japanese products to benefit from the increased prices of Japanese goods, thereby strengthening and broadening the coalition in support of retaliatory measures. The announcement of sanctions suggested that U.S. trade policy had undergone dramatic shifts toward one that explicitly demanded results from Japan. The imposition of sanctions on a major friend and ally reflected both the depth of the trade problem and the perceived threat of the Japanese challenge to American industrial competitiveness.

To what extent did Japan respond to the sustained application of American pressure and comply with the semiconductor agreement? A number of studies suggest that the agreement played an important role in boosting the American (and foreign) share of the Japanese market and successfully stopped Japanese dumping in both the American and third-country markets, even though the Americans had to apply sanctions in order to get Japan to comply with the agreement on third-country dumping. Although the effects of the agreement were not particularly striking in the first few years after its signing, and the U.S. share of the Japanese market did not immediately reach the 20 percent target, the agreement played an important role in halting the sharp decline of America’s competitiveness in the semiconductor industry and prevented Japan’s monopoly of the global semiconductor market (see figures 5.1–5.3). Had the U.S. government refrained from the managed trade approach after 1985, Japanese producers “would probably have moved from a position of rough parity to virtual dominance.” American negotiators subsequently continued to press the Japanese to live up to their commitments and negotiated a new five-year bilateral agreement when the 1986 agreement expired in 1991. Following the signing of the new agreement, unrelenting government and industry pressure succeeded in inducing Japanese companies to comply with an agreement that threatened their interests, as foreign share of the Japa-
nese market reached the 20 percent target in 1992 and 30 percent by 1997. U.S. attempts at negotiating a semiconductor agreement thus produced significant gains that helped to consolidate American industry’s position in the global market.

Super 301: Supercomputers, Satellites, and Wood Products

In the 1989–90 Super 301 investigations into Japanese practices in the supercomputer, satellite, and wood products industries, unified domestic support again turned out to be the key to enhanced credibility and effectiveness of U.S. sanction threats, allowing the United States to by and large achieve its negotiation objectives. Not only did American supercomputer, satellite, and wood products producers support the decision to designate Japan an unfair trader under U.S. law, but other key business groups, who felt injured and threatened by Japanese competition in their own industries, also favored threatening Japan with trade sanctions. Moreover, the U.S. executive, having tolerated policies advantaging the Japanese in the past, had by the mid-1980s become increasingly concerned about the effects of Japanese industrial targeting and trade restrictions on America’s competitive position in the world economy. Out of concern for America’s economic well-being and in response to congressional pressure, the Bush administration decided to resort to a high-profile trade weapon to dampen the effects of Japan’s protectionist policies. The competitive nature of the trade relationship between the United States and Japan thus helped to unite major domestic actors. Domestic unity provided U.S. negotiators with added leverage in bilateral negotiations, allowing them to negotiate two trade agreements that yielded substantial benefits to American producers.

Supercomputers

In 1989, the United States initiated a Super 301 investigation into Japanese practices in the supercomputer industry on the grounds that Japanese policies designed to promote indigenous supercomputer production capabilities had excluded American producers such as Cray Research and Control Data Corporation, which were very competitive in world markets, from Japanese public procurements. Supercomputers drew the attention of U.S. negotiators both because of their important role in the most advanced research and development and because
of the substantial government support that was needed for supercomputer development.

Early American attempt to address Japan’s discriminatory procurement practices included the low-key Section 305 investigations and the Market-Oriented Sector Specific (MOSS) framework. Both initiatives were designed to tackle government procurement practices that allegedly discriminated against American producers and high dis-
counts that Japanese producers offered to government institutions. These initiatives and subsequent American pressure propelled Japanese authorities to come up with an emergency budget to provide public universities with increased funding for supercomputer procurement and resulted in the purchase of two American computers by Japanese public institutions. In August 1987, the negotiators reached a final agreement on supercomputers that made the public procurement process in Japan more transparent. However, the agreement fell short of addressing the discounting problem or establishing specific performance criteria. It was criticized also for its inability to break up the preferential links between Japanese suppliers and their customers in the public sectors or to substantially improve American firms’ access to the Japanese public market by altering the deeply entrenched structure of the Japanese public market. Not surprisingly, U.S. manufacturers complained that they faced continued difficulties selling to public institutions in Japan. Cray Research, in particular, pointed out that its share of the Japanese market was substantially lower than its share in other parts of the world. In light of American manufacturers’ difficulties of selling to the Japanese market, both Congress and the industry urged the USTR to use the leverage provided by Super 301 to enforce the market access agreement with Japan.

In early 1989, the supercomputer industry, citing the huge disparities in their market access to Japan and other world markets, called on the...
government to address the discrimination they encountered in the Japanese market. The announcement by NEC that it could now produce the world’s fastest supercomputer and the exit of Control Data Corporation from the production of large-scale supercomputers in April 1989 heightened the sense of urgency felt by the supercomputer industry. Following the company’s demise, Control Data representatives warned that, since supercomputers were important not only as a market in themselves but also as the means to developing other technologies and products, the United States would be in a very disadvantaged position to have to depend on its competitors for real value-added or product differentiation.47 Other supercomputer manufacturers also felt that the United States would need to take effective measures in order to catch up with the Japanese.

At a congressional hearing, the Institute of Electrical and Electronics Engineers, Inc. (IEEE), an organization devoted to assisting the government and the public with evaluating technological progress and opportunities, alerted the administration to the vulnerability of the U.S. industry to the competitive threats from Japan, arguing that the “Japanese style of competition does present a significant threat to the U.S. high-performance computing industry through its systematic, targeted dominance of successive elements of the high technology ‘food chain.’”48 The organization contended that Japanese government support has been indispensable to Japan’s acquisition of indigenous production capabilities. Industrial policy not only helped Japanese firms to break up the American monopoly of the supercomputer market in the early 1980s and to successfully penetrate the American market by the mid-1980s but also created formidable barriers in the Japanese market for U.S.–made supercomputers, which were clearly superior to Japanese machines in terms of both performance and availability of software. Reflecting the concerns of American supercomputer manufacturers, the organization complained that the Japanese did not notify their American counterpart of upcoming procurements, that Japanese producers were given deep discounts, that the Japanese government did not specify performance criteria in the bids, and that, even if they did, the specifications clearly favored Japanese producers.49 The organization further argued that, since Japanese manufacturers had extensive financial resources and were willing to spend large sums and endure sustained losses to win market share, the United States must take the Japanese threat seriously and adopt new approaches to achieve an acceptable trading relationship with Japan.

Besides securing support from U.S. supercomputer manufacturers,
threats to impose sanctions under Super 301 received positive responses from the business community as a whole. Many business groups within the United States felt victimized by unfair trade barriers and by Japan’s one-way-street approach to trade, especially because so many of them competed with Japan in the production of a similar range of items. For instance, the AEA, one of the main actors in the semiconductor saga, testified before a congressional trade panel in favor of the Bush administration’s decision to brand Japan an unfair trader under the 1988 trade law. Not only did the association have strong grievances against Japan’s entrenched trade barriers that excluded foreign competition, including Japanese government procurement policies and preferential purchasing arrangements among Japanese firms, but it was also critical of Japan’s restrictive trade practices, which enabled Japanese companies to capture an increasingly large share of the U.S. market and overtake American producers as the leader of technological advance. The AEA pointed to the semiconductor market as an example of a sector in which unfair Japanese trade policies worked to the detriment of the U.S. industry and welcomed the administration’s move toward an aggressive negotiation approach with Japan.50

Many other business groups likewise supported the results-oriented approach included in the Super 301 provision and pressured the Bush administration to take a hard line in implementing Super 301. In a congressional hearing, the U.S. manufacturing community exhibited a broad willingness to stand by the stance adopted by the Bush administration, which they considered both responsible and pragmatic. The AEA, for example, expressed its satisfaction with the way the USTR dealt with the supercomputer issue. NAM testified that “the administration has done a masterful job” in enforcing American trade law. NAM supported the administration’s decision to designate Japan a priority foreign country, indicating that it was concerned about the manufacturing component of the U.S.–Japan economic relationship and the serious Japanese rivalry facing American companies.51 The U.S. Chamber of Commerce also approved of the sanction threat.52 In a formal comment to the USTR, dated March 24, 1989, the U.S. Chamber of Commerce provided a list of “priority trade barriers and distortions,” charging Japan with “targeting” a wide range of American industries through “administrative guidance, public procurement and restrictive business practices.” Japanese officials, the American business organization argued, offered commercial “suggestions” and “advice” to businesses and public organizations over which they had
regulatory jurisdiction. The Chamber of Commerce charged that, since the Japanese government possessed "broad authority to provide or deny loans," those official suggestions constituted "implied threats" to deny government benefits or impose new restrictions on businesses that did not accept the advice. The result of these government actions was that Japan imported fewer manufacturers than it would if its markets were as open as those of other developed countries.\textsuperscript{53}

The business community’s enthusiasm for trade sanctions dovetailed with the Bush administration’s determination to pursue a fair trade outcome for the supercomputer industry. The administration’s willingness to intervene was rooted in a number of considerations. First, the supercomputer industry was considered strategic because it could yield extremely high profits, produce beneficial spin-offs, and create knowledge that was useful to other sectors of the economy. As supercomputers were widely applied to solving problems involving complicated mathematical calculations such as weather and earthquake modeling, aerospace design, and crash analysis, failure to intervene to ensure the health and size of the industry could have broader implications for the U.S. economy.\textsuperscript{54} Second, government action was considered necessary because of the supercomputer industry’s importance to national defense and security. Supercomputers played an important role in a number of defense programs, including the Energy Department’s nuclear weapons program and NASA’s aerospace program. The undercutting of the supercomputer industry could therefore increase U.S. reliance on foreign supplies. Third, opening up the Japanese procurement market was considered essential for American producers to achieve maximum cost competitiveness and profitability and to head off Japanese competition in the United States and in the world market in the long run.\textsuperscript{55}

In short, Bush administration officials believed that Japan’s closed supercomputer market lent credence to the argument that Tokyo was targeting specific high-tech industries, keeping imports out to shelter domestic industries from the effects of foreign competition. They argued that if Washington waited until Tokyo succeeded in this endeavor to intervene, Japanese buyers would have already established stable relations with Japanese suppliers and, consequently, it would be even more difficult for American producers to gain a foothold in the Japanese market. While the United States had sought to establish a liberal trading order for most of the postwar period, the trade problem with Japan had become so intractable that many administration officials called for a new approach toward Japan. Moreover, in the
presence of a large U.S. trade deficit with Japan and with many domestic actors from Silicon Valley to Capitol Hill calling for retaliation against Japan’s one-sided trading practices that imperiled U.S. strength in key industrial and technological markets, the Bush administration felt compelled to respond with a more proactive trade policy. Thus, the designation of satellites and supercomputers under the Super 301 framework was perceived as a means for the United States to challenge Japan’s strategy of building a protected home market in selected high-tech industries.\textsuperscript{56}

To be sure, some administration officials were initially concerned about the political and diplomatic ramifications of citing Japan as an unfair trader. While the USTR and the Commerce Department urged the president to adopt an aggressive approach to enforce U.S. trade law, several other departments had some reservations about taking a harsh stance on trade with Japan. The president’s chief economic advisor, Michael Boskin, and budget director Richard Darman, for example, warned that targeting Japan, one of America’s most important trading partners and an ally in Asia, could lead to a trade war, damaging broader U.S. interests. Similarly, the State Department, the NSC, and the OMB warned that citing Japan for trade violations could harm the alliance relationship with Japan.

But trade officials and White House political advisers eventually managed to persuade the State Department and other agencies that were reluctant to designate Japan as an unfair trading partner to go along with a tough approach on trade. Their rationale was that, while citing Japan as an unfair trading partner could have some negative impact on relations with Japan in the short run, the action could produce some long-term benefits and indeed could help to strengthen ties between Tokyo and Washington by forcing the two sides to pay closer attention to enduring trade problems. These officials further cautioned about the potential of a direct confrontation with Congress, a scenario that could lead Congress to attempt to reduce executive discretion over the Super 301 process in the future and thereby undermine the Bush team’s preference for consultation and compromise with the legislature on major public policy issues.\textsuperscript{57}

Because of the trade officials’ strong support for Super 301 designation, and in light of the festering trade problem with Japan, agencies such as the State Department and the NSC, which had previously spoken in favor of Japan, eventually consented to President Bush’s decision. They came to realize, albeit with some reluctance, that some tough executive action was needed to placate Congress and that eco-
nomic concerns were gaining prominence in foreign policy. In other words, the threat posed by Japan’s unfair competition exerted sufficient pressure on officials concerned about the bilateral security relationship to modify their position on Super 301. With such a broad internal consensus, the Bush administration was able to proceed with the Super 301 designation. In May 1989, USTR Carla Hills announced the decision to designate Japanese government procurement as a priority practice under Super 301. In June the USTR initiated an investigation under Section 302 of the 1988 Trade Act.

U.S. pressure, backed by a strong domestic consensus, soon began to elicit a positive response from the Japanese, as Tokyo agreed to limit academic discounts to government entities to 50 percent, to substantially increase the fiscal 1990 budget for public supercomputer procurement, and to convince the NEC to withdraw from a public bidding. In March 1990, shortly before the scheduled deadline for designating Japan as a priority foreign country, the United States and Japan announced a new agreement on supercomputers that represented a significant improvement over the 1987 agreement. The 1990 agreement was considered a partial success by U.S. supercomputer manufacturers, as it addressed structural barriers to the Japanese market, leading to short-term market-opening outcomes for American producers. Importantly, of the nine public procurements Japan conducted under the supercomputer agreement between 1991 and 1992, Cray Research did not bid on four contracts, lost two to Japanese firms, and won three competitions. According to some analysts, intervention by the Japanese government contributed to the temporary increase in Cray Research’s share of the Japanese market.

The long-term effects of the 1990 supercomputer agreement might have been somewhat ambiguous, given the entrenched preferential arrangement between Japanese suppliers and their public-sector customers and the distinctive economic structure created by Japan’s long-time promotional policies. Remaining concerns with Japanese practices in the supercomputer industry led the USTR in April 1993 to open a review of the agreement under Section 306 of the 1988 Trade Act that nevertheless found, on a positive note, that American firms had supplied six of the fifteen supercomputers Japan purchased between 1991 and 1992. Although Cray Research had lingering concerns about a number of Japanese public procurement practices and other problems with the implementation of the agreement, the supercomputer agreement had gone a long way toward sustaining the competitiveness of the supercomputer industry. On the whole, it is fair to
say that the 1990 agreement yielded significant benefits to American producers.63

Satellites

Similar to the supercomputer dispute, the Super 301 case against satellites grew out of Japanese policies of industrial targeting in high-technology that allegedly denied American firms the benefits of a free market. In an attempt to reduce technological reliance on the United States, the Japanese government actively intervened in the market to promote an autonomous space industry. As part of this promotional strategy, the National Space Development Agency of Japan (NASDA) maintained tight control over market access by channeling all government satellite procurement to Japanese firms, prohibited the procurement of all kinds of satellites, and banned the procurements of Japan’s telecommunications giant, NTT, despite the lower price and superior quality of foreign satellites.64 Due to these policies, Japanese content in communications satellites increased from 24 percent in 1977 to 80 percent in 1988 and local content in broadcast satellites grew from 14 to 83 percent during the same period of time.65

But while the aforementioned policies contributed to the rapid development of an autonomous space industry, they also became a prominent source of trade frictions with the United States. Following the announcement of the “Long-Range Vision on Space Development” in 1983, which forbade procurement of foreign satellites, U.S. negotiators on various occasions expressed their concerns about Japanese government discrimination against U.S. aerospace firms.66 While Tokyo made some concessions,67 these gestures ultimately failed to placate American negotiators, who pointed out that Japan continued to ban government agencies from purchasing foreign satellites and that it was targeting space industries for commercial development.68 These grievances led the Bush administration to consider designating Japan as a priority country under Super 301 in 1989.

The Bush administration provided the crucial impetus for the satellite designation. Because prior American pressure had already opened up a private market in Japan in favor of American firms, and aware that challenging Japan’s strong commitment to space development would most likely lead to a political conflict, American officials might well have chosen to use bilateral discussions and private diplomacy to persuade Japan to further liberalize its public market. Nevertheless, the incoming Bush team eventually decided to invoke threats of sanc-
tions under the Super 301 provisions of the Omnibus Trade and Competitiveness Act of 1988 for fear that Japan would use its closed domestic market as a strategic base to catch up to, and to eventually surpass, the United States in this strategically important high-technology industry.

As Michael Mastanduno points out, concerns about the possible erosion of the competitive edge of the U.S. space industry vis-à-vis Japan figured prominently in the Bush administration’s decision to designate satellites as a Super 301 target. By the late 1980s and early 1990s, many observers had reached a consensus about the long-term threat that the Japanese government’s promotional policies posed to the U.S. lead in the space industry. Through its active collaboration with Japanese firms and its support for research and development, the Japanese government effectively executed policies of industrial targeting, creating a captive government market that allowed its firms to reduce costs and diffuse technology. As Japan had pursued similar strategies in other sectors such as semiconductors, consumer electronics, fiber optics, and aircraft, there was a widespread fear in the United States that satellites could be one of the key industries in which Japan aimed for world leadership. To forestall the loss of market share and to prevent Japan from achieving greater gains than the United States, the Bush administration turned to Super 301 in an effort to preempt Japan’s ascent in space development.69 That Japanese barriers to satellite purchases were fairly transparent and constituted a clear violation of the rules of free trade provided greater justifications for government intervention. In addition, targeting satellites could also complement and reinforce American efforts to eliminate trade barriers in the multilateral negotiations in the Uruguay Round.70

Because of these considerations, the Bush administration was able to achieve remarkable cohesion on the satellite issue. The trade agencies, notably the USTR and the Commerce Department, strongly favored using threats of trade sanctions to protect the long-term economic interests of the United States and to enhance the credibility of the executive in the eyes of the Congress. The leading proponents of the satellite designation within the U.S. administration—Deputy USTR Lynn Williams, Assistant USTR Joseph Massey, and Commerce Undersecretary J. Michael Farren—saw the designation as providing an excellent opportunity to preempt Japanese targeting of an important high-technology industry in which the United States enjoyed a strong competitive advantage.71 In a testimony before the Senate Commerce Committee in October 1989, Farren contended that
To the Japanese, satellites are not only an industry unto itself but a window on the whole space industry for the 21st century. Japan is emerging as a key participant in the global aerospace industry, a result of deliberate decisions aimed at establishing a world-class Japanese aerospace industry. Japan is looking to aerospace as a source for its future growth and prosperity. . . . Our National Aeronautics and Space Administration has pointed out in a recent report that space is a new economic frontier, and that space commerce is directly linked to American competitiveness in the global market.\(^{72}\)

Similarly, Deputy USTR Williams argued that, in line with Congress’s intent in drafting the Super 301 provision, eliminating the barriers in the satellite industry “would have the potential to increase U.S. exports significantly, both directly and by setting a precedent.”\(^{73}\) Trade officials thus recommended to the president that he take a hard line against Japan on the satellite issue. Although the State Department, with its characteristic concerns about the overall U.S.–Japan relationship, and agencies such as the CEA and the OMB, which were traditionally less receptive to the use of Section 301 provisions in general, were initially opposed to the designation of satellites, they eventually gave approval to the president’s decision to go ahead because they too had concluded that Japanese government restrictions were so pervasive as to pose a real threat to America’s industrial competitiveness.\(^{74}\)

In short, as in the semiconductor case, the perceived threat of Japanese industrial targeting to the viability of the U.S. space industry was so grave that it overcame the considerations of the traditionalists and the defense personnel for political relations and free trade. In the end, even though the more free trade–inclined OMB and CEA insisted that they could not accept a managed trade approach specifying a certain market share for American firms, they came out in favor of using Super 301 to target Japanese government’s discriminatory procurement practices. This internal consensus reinforced Congress’s insistence on a tough line against Japan, substantially enhancing the credibility of the American action.

In this case, U.S. satellite makers reportedly refrained from openly pushing for Super 301 designation for fear of losing potential sales or leasing opportunities to the Japanese private sector and government institutions. Satellite manufacturers also seemed to be concerned about upsetting Japan’s Ministry of Post and Telecommunications (MPT), which oversaw the licensing of satellite imports.\(^{75}\) However, they obviously did not interfere with a decision promising substantially
improved access to the Japanese market. Furthermore, the decision received overwhelming support from broad sectors of the U.S. manufacturing community that were also severely injured by Japanese competition. At a key Senate trade panel, groups representing a wide range of U.S. manufacturers asserted that the complex web of relationships among Japanese manufacturers, distributors, and retailers posed significant barriers to American producers’ efforts to penetrate the Japanese market. NAM once again opined that Japan’s distribution of goods and corporate buying policies presented one of the biggest obstacles to U.S.–Japan trade and welcomed the action on satellites, which in their view effectively signaled the government’s determination to open up the Japanese market.

A large number of business organizations, all of which faced intense Japanese competition, favored invoking sanction threats under the Section 301 provisions of the Omnibus Trade and Competitiveness Act of 1988 to obtain a fair trade outcome. For example, the AEA, an organization representing over thirty-five hundred firms in the U.S. electronics industry, including components, computers, telecommunications, and software, went on record supporting administrative actions to designate Japan an unfair trader. The AEA argued that Japan’s exclusionary business practices created tremendous barriers and distortions to U.S. electronics trade and referred to the United States’ steadily deteriorating deficit with Japan in the electronics sector and the substantial damage done by Japan to various segments of the U.S. electronics industry as evidence of the structural problems in the U.S.–Japan relationship. The association urged the administration to resort to aggressive negotiation strategies to address such outright hindrances to free trade.76

NAM and the Chamber of Commerce expressed their strong support for Super 301 designation at the same hearing. NAM, which contributed 85 percent of employment in manufacturing and 80 percent of America’s manufactured goods, asserted that it was essential that the administration name Japan a priority foreign country under Super 301 as a response to the profound Japanese challenge to U.S. international competitiveness. NAM representatives argued that Japan’s ban on government procurement of satellites raised important questions for U.S. trade policy. They contended that, if Japan’s “indigenous development objectives” could take precedence over free trade in particular products, then the United States needed to clearly identify its own “indigenous development objectives” and to ask how these development objectives could be affected by Japan’s trade policies. Accord-
ingly, NAM urged American negotiators to forcefully enforce existing trade law in order to defend U.S. trade interests. Similarly, the U.S. Chamber of Commerce, taking into account the magnitude of trade distortions with Japan, called on the Bush administration to “more aggressively assert its legitimate trade rights,” arguing that the aggressive use of Super 301 procedures would “benefit not only U.S. exporters but also exporters from third nations,” as well as manufacturers and consumers “in restricted markets who pay higher prices as a result of trade restrictions.”

Also testifying at the hearing were the Automotive Parts and Accessories Association (APAA) and the United Automobile, Aerospace, and Agricultural Implement Workers of America (UAW). The APAA, representing various segments of the U.S. auto parts industry, welcomed the administration’s more aggressive approach to redress the trade balance with Japan. Because APAA member firms, which were capable of producing competitively priced, world-class automotive parts, have long been afflicted with the deluge of exports of cars and parts from Japan, they supported Super 301 retaliatory action, which could demonstrate U.S. resolve and set the tone for future trade negotiations. In a similar fashion, the UAW recommended Super 301 trade retaliation, arguing that it would be the ideal forum in which to address the trade imbalance. The UAW contended that the United States should use the threat of retaliation to stimulate negotiations about other structural impediments to trade and that downplaying the Super 301 process would continue to expose American workers and manufacturers to the pernicious effects of Japan’s unfair trading practices.

Such overwhelming industry support lent greater credence to the Bush administration’s threat of retaliation, clearly revealing Washington’s willingness to apply existing trade remedies to force Japan to the negotiation table for serious, comprehensive negotiations. Enormous U.S. pressure left Japan with little room for maneuver but to gradually come to terms with U.S. demands. The satellite agreement that came into being in June 1990 reflected the extent to which sanction threats succeeded in opening Japan’s highly protected domestic satellite market.

The 1990 satellite agreement was the product of several rounds of strenuous negotiations. The negotiations were rocky at times because the United States “basically was telling Japan that it had to give up its quest to become a competitor in the world market for applications satellite.” In other words, American demands were perceived as an outright encroachment upon Japan’s sovereign right to develop an autonomous space program with noncommercial objectives. Never-
theless, Tokyo eventually agreed to such sweeping changes, even though many Japanese observers considered the 1990 agreement as representing “a complete acceptance of American demands.”

Specifically, Tokyo undertook in the agreement to open its communications satellite and all other commercial satellite markets to U.S. imports. The loss of the communications satellite program was judged to be likely to entail substantial short-term costs for Japanese producers and to accentuate the difficulties Japan faced in developing key satellite technologies, as Japan was forced to cancel its plans for the development of the fourth series of its communications satellite program (CS-4). That the agreement applied not only to communications satellites but also to all commercial satellites led the MPT to the gloomy conclusion that the “severity of the settlement was beyond expectations.”

The 1990 agreement yielded substantial gains for American producers, as American companies such as Loral Space Systems, Hughes Space and Communications Group, and GE successively won bids to supply satellites to Japanese firms. Moreover, the agreement not only denied Japanese firms the benefit of a captive government market but also helped to maintain and strengthen American communications satellite manufacturers’ dominant position in the global market. American satellite producers were thus by and large satisfied with such an agreement that represented substantial fulfillment of U.S. negotiation objectives. In the words of a Hughes Space and Communications Group representative, the agreement “open[ed] a few more opportunities,” and, more important, it prevented Japan from sheltering “an infant industry that might eventually become a world-class competitor.”

Forest Products

Initiated at the same time as the supercomputer and satellite cases, the Super 301 designation against Japanese practices in forest products was intended to address the entrenched market barriers in the Japanese wood products market. Throughout the negotiations, U.S. industry and government officials sought to pressure Japan not only to reduce its formidable array of nontariff, technical barriers (such as building codes, product standards, and testing and certification procedures), which clearly violated GATT principles, but also to significantly lower tariffs and to scale back subsidies to the Japanese forest industry. The dispute was the natural culmination of a decade-long U.S. attempt to address the multitude of tariff and nontariff barriers that resulted in a
highly skewed pattern of trade and consumption in the Japanese wood products market and turned out to be one of the largest Super 301 cases ever initiated against Japan.

Throughout the course of the negotiations, American producers repeatedly raised concerns that Japanese trade in forest products was strongly biased in favor of raw materials at the expense of finished products. A related complaint was that, as the world’s largest importer of wood products and as the largest wood products market for the United States, Japan nevertheless had the lowest per capita consumption of wood products among industrialized nations. American forest products manufacturers readily pointed out that, since Japanese production of fabricated products was highly inefficient, it would be difficult to explain Japan’s unusually high ratio of raw to finished imports of wood products without taking into account the excessive trade and regulatory impediments that existed in Japan. They further contended that, without those market barriers, American producers would likely accrue between $1 and $2 billion in additional income each year through increased exports of processed wood products to Japan.

Of all the alleged market impediments, Japan’s tariff structure in particular drew the ire of the U.S. industry, as Japanese tariff rates on wood products were positively related to the level of fabrication, resulting in a situation in which Japanese producers needed to pay no or little tariffs on the imported raw material but could nevertheless rest assured that they could easily survive foreign competition through the rents generated by high tariff levels on finished products. In other words, this escalation of tariffs led to rather high “effective rates of protection.” U.S. industry representatives maintained that, should Japan dismantle its tariff barriers, many inefficient Japanese producers would be forced to exit the industry, leading to substantially increased demands for imports. Besides tariff barriers, American industry representatives were concerned about a number of nontariff barriers, including discriminatory product standards, overly restrictive building and fire codes, government subsidies for inefficient producers, and lax enforcement of antimonopoly laws against cartels.

Beginning in the late 1970s, American government officials began efforts to address wood products market barriers via both informal negotiations and more formal negotiation forums such as the MOSS talks. The MOSS talks in particular produced a bilateral “consensus” in January 1986 with some modest Japanese concessions. Yet while American producers viewed these Japanese commitments as represent-
ing an important step in peeling off the onionlike layers of the Japanese market, they demanded even further progress along these lines.

Thus, in early 1989, both the forest products industry and Congress applied strong pressure on the Bush administration to designate Japanese wood product market barriers a priority under Super 301. As the association representing the vast majority of the forest products industry, the National Forest Products Association (NFPA) naturally became the leading advocate of the Super 301 case. NFPA’s call for Super 301 designation was strengthened by strong support for government action stemming from congressional members of both parties. As representatives of major wood-exporting states, Senators Robert Packwood (R-OR) and Max Baucus (D-MT) were the two most vocal advocates of Super 301 designation in Congress. The two senators were able to bring their influence over trade policy, derived from their appointments as chairmen of congressional committees with primary jurisdiction over trade policy, to bear on the decision-making process.

In April, Senator Packwood commissioned a study entitled The Japanese Solid Wood Products Market. The report, which provided a comprehensive survey of market impediments in the Japanese wood products market, concluded that it would be nearly impossible for the United States to liberalize the Japanese market short of a major trade initiative. On May 16, Senators Baucus and Packwood sent a letter, signed by thirteen senators, to President Bush making a strong plea for a Super 301 case. Pointing to the substantial additional gains in exports that American producers would be able to capture through trade liberalization, the letter stated that the Super 301 procedures were designed precisely to deal with entrenched market barriers such as those posed by the Japanese practices in forest products. Throughout the rest of the negotiations, congressional members of both parties continually raised the specter of congressionally mandated retaliation should the Japanese fail to concede to the basic American demands. The Senate Finance Committee under Senator Baucus was particularly irate at Japan’s neglect of American demands, threatening to initiate legislative bills authorizing retaliation against Japan if bilateral negotiations failed to produce any progress.

Under strong industry and congressional pressure, USTR Carla Hills announced the decision to designate Japanese technical barriers on wood products that clearly discriminated against American exports and violated the GATT Agreement on Technical Barriers to Trade (also known as the Standards Code) as a Super 301 priority. Since the designation applied only to technical barriers to the exclusion of more
transient tariffs, which were a clear priority of the U.S. industry, it immediately spurred forest products manufacturers into active opposition. At a congressional hearing held in June 1989, the NFPA made a strong case for extending the Super 301 designation to cover nontariff as well as tariff barriers. The NFPA sought to persuade the USTR that, since Japan maintained multiple layers of protection for the forest industry and that peeling away one layer might simply expose another layer of protection, it was important for the United States to incorporate a multitude of objectives in the negotiations and to simultaneously tackle tariff and nontariff barriers in Japan.94

To back up its argument, the NFPA reiterated its concerns about Japan’s high effective rates of protection on finished products as well as excessively restrictive and discriminatory Japanese building codes and Japanese product standards based primarily on design instead of performance criteria. The association strongly criticized the Japanese government’s decision to offer more than $1 billion in subsidies to the domestic industry, a move that served to offset the liberalization effects of concessions offered during the MOSS talks. The NFPA once again brought to the attention of government administrators a variety of structural impediments maintained by the Japanese, ranging from anticompetitive practices, customs misclassification, land use and housing policies, to the distribution system.95 Previously member firms within the NFPA held divergent views about what constituted the best strategy to liberalize the Japanese wood products markets due to the different export market niches they held. By the time of the Section 301 designation NFPA member firms had successfully reconciled their differences to reach a consensus on the desired negotiation tactics. Also supportive of the NFPA’s negotiation position were other smaller industry associations or special organizations formed specifically in response to the Japanese challenge in the wood products sector such as the American Plywood Association, the Wood Products Sector Advisory Committee, and the Alliance for Wood Products Exports. Individual wood products manufacturers such as Georgia-Pacific Corp and Contact Lumber, which shared the same concerns about the Japanese forest products market as the NFPA, have similarly rendered active support for the NFPA’s push for Super 301 designation.96

Other U.S. businesses outside of the forest products industry viewed the designation positively as well. As mentioned earlier, out of their frustration with Japan’s increased penetration of the American market and with the difficulty of gaining a greater foothold in the Japanese market, many U.S. businesses regarded the Super 301 process as a key component of a more systematic approach to addressing foreign trade
barriers. For instance, with many of its member companies severely battered by Japanese competition, NAM contended that the Super 301 process should put Japanese companies squarely in the spotlight. NAM representatives, believing that Japanese competition undercut America’s position in the world market, stated that failure to name Japan “would have rendered the concept of priorities all but meaningless.” The AEA, with a steadily rising trade deficit with Japan reaching $20 billion a year in the mid-1980s, listed a wide array of structural barriers that American electronics manufacturers faced in the Japanese market. While the AEA supported the administration’s decision not to target structural impediments in the Japanese electronics market as Super 301 priorities, it urged the government to use other means at its disposal to address structural problems and promised to work closely with the government to reach satisfactory solutions to the existing Super 301 issues. The Chamber of Commerce, reflecting the interests of many of its member firms, urged the administration to name systemic, transsectoral trade barriers in an attempt to assert America’s legitimate trade interests.

Congressional support for the results-oriented approach further bolstered the business community’s advocacy for a tough bargaining approach. In particular, there existed a prevailing sentiment in Congress that the Super 301 process had been underutilized by past administrations and that failure by the executive branch to narrow the huge trade deficit with Japan would leave Congress with no choice but to implement independent legislative action. Constant congressional threat to legislate an even tighter and less discretionary Super 301 process also forced the Bush administration to accommodate business interests in the decision-making process to avoid an open confrontation with the legislature and to preserve the administration’s overall preference for consultation and compromise with the Congress on major public policy issues.

With the U.S. industry and Congress running out of patience, the USTR accelerated the negotiations with the Japanese. An important tactic American negotiators adopted toward this end was to try to cultivate the support of Japanese ministries less hostile to American demands. For instance, they devoted considerable effort garnering support from the Ministry of Agriculture, Forestry, and Fisheries (MAFF) for relaxing the restrictions in the building code to allow the greater use of both domestic- and foreign-made wood products in construction projects. U.S. negotiators also pitched their message to Japanese consumers about the substantial benefits they would derive from less expensive and more aesthetic wood housing.
Highly leveraged government and industry pressure prodded the Japanese into action. On April 25, 1990, shortly before the April 30 deadline that the USTR set for announcing Super 301 priorities for 1990, USTR Carla Hills announced the decision to refrain from naming Japan a priority country for a second time. While Japan’s desire to avoid being named a priority country for a second time loomed large in its decision to capitulate at the last minute, unrelenting industry and congressional pressure made it all the more palpable that the United States would carry through with its threats to impose sanctions against Japan. The prospect of a trade war that would seriously hurt Japanese manufactured products as well as the U.S.–Japan economic and political relationship induced Tokyo to reluctantly concede to American demands.

In the agreement that the U.S. negotiators reached with Tokyo, Japan agreed to liberalize tariffs, in particular tariffs on high value-added products; address customs misclassifications; and reduce the tariffs on certain laminated products, concessions estimated to increase American exports by $100 million. With respect to nontariff barriers, Japan agreed to accept the performance-based criteria in its building code, to acknowledge the validity of foreign test data in specifying new product standards, to increase the transparency and speed of the certification process, and to modify the building and fire codes so as to increase the volume of wood products being used in construction projects. In addition to these concessions, the agreement addressed the subsidy issue and provided for the establishment of technical committees both to monitor implementation and to facilitate dispute resolution.

The 1990 agreement went a long way toward addressing industry and congressional concerns about Japanese market barriers in the forest products industry. U.S. industry officials were particularly pleased with the agreement’s potential to substantially increase American exports to the Japanese market. Since the agreement provided a clearly spelled-out schedule of implementation, established special committees responsible for monitoring implementation, and created built-in mechanisms for coordinating building standards, industry and congressional reactions to the agreement were overwhelmingly positive. NFPA and the forest products’ Industry Sectoral Advisory Committee viewed the agreement as representing a major step in America’s drawn-out effort to pry open the Japanese market, even though they reminded the government to back up such actions with both multilateral and bilateral measures to tackle nontariff barriers in the Japanese market. Senators Baucus and Packwood also applauded the agreement
for opening markets and creating jobs for the United States. By the mid-1990s, American exports to Japan had picked up momentum. Consequently, American government and industry officials remained satisfied with the implementation of the agreement, although further improvements were considered necessary in several issue areas. Overall, they were cautiously optimistic about the potential for increased U.S. forest product exports to Japan.

Japanese Reactions to the Super 301 Process

In each of the Super 301 investigations described in this chapter, sustained and unified American pressure clearly conveyed to the Japanese the message that sanctions would be forthcoming if no concessions were made, thus forcing Japanese government and industry officials to reevaluate their optimal course of action and to make concessions that would have been unthinkable in the absence of foreign pressure.

Such dynamics were clearly to be found in each of the three sets of Super 301 negotiations. According to an insider’s account of the negotiations over wood products, there existed “an unmistakable impression” among Japanese negotiators that American demands on the wood products issue enjoyed strong support from American log lobbyists.\(^{103}\) An interview with a Japanese official involved in the talks suggested that the Japanese did take the American threat seriously in light of the overwhelming support for sanctions coming from both Capitol Hill and diverse quarters of the American business community. Given the impression that all U.S. actors were firmly behind the USTR, the Japanese consequently felt that it was important to relieve the pressure from the United States by resorting to a “crisis management” approach.\(^{104}\) The negotiations over semiconductors and supercomputers illustrate this dynamic. As an official of the Ministry of Foreign Affairs involved in the negotiations put it:

There was a consensus among the Japanese ministries to do the agreement to protect the U.S.-Japan relationship. SII [the Structural Impediments Initiative talks] did not go well. Trade figures were bad. It was crisis management. The United States threatened retaliation under Super 301; without that threat, many ministries would not have gone along.\(^{105}\)

Thus, while the Japanese were concerned about the damage that the trade row could inflict on the U.S.–Japan relationship and were trying their best to contain the fallout of the dispute, their perception of a
“crisis” stemmed above all from the strong U.S. resolve. Absent the perception that American trade officials both were intent on carrying out the threat and had the necessary domestic support to do so, the Japanese most probably would not have been able to reach a consensus to “do the agreement” in order to diffuse the crisis.

Moreover, as the Super 301 case coincided with the launching of the Structural Impediments Initiative (SII), Japanese politicians concentrated most of their attention on the SII talks, thus allowing the bureaucrats to take charge of the Super 301 negotiations. In addition, the media in Japan did not provide sufficient coverage of the Super 301 negotiations. That neither the politicians nor the media was actively involved in the Super 301 talks might have prevented the active use of strategies such as “participation expansion” to expand the “possible zone of agreement” for the Americans. Aware that some concessions had to be made, the Japanese strategy revolved around maximizing chances of obtaining a better deal by aggressively proposing alternatives and by taking a forthright position on most issues in order to establish better rapport with American negotiators. But these strategies were clearly based on the assumption that some concessions had to be made and so represented only tactical moves by the Japanese to temper the repercussions of concessions.

Conclusion

The semiconductor and Super 301 cases described in this chapter demonstrate very similar political dynamics. In all four cases, not only were domestic interest groups united in support of sanction threats, but also the Reagan and Bush administrations showed a greater willingness to put aside the principle of free trade and to intervene on behalf of American industry. Such strong domestic pressure meant that the Japanese could no longer be secure in the knowledge that the United States would tolerate Japan’s protectionist policies in the name of preserving the alliance relationship. Domestic unity strengthened the credibility of American threats, inducing Tokyo to make costly concessions that would threaten the interests of its powerful firms.

As we can see from table 5.1—which lists the position and impact of the exporters, import-competing interests, and import-users involved in each of these trade disputes—American threats to impose sanctions on Japan enjoyed wide support from domestic interest groups. Most importantly, American semiconductor, supercomputer, satellite, and
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<th>Companies and Associations</th>
<th>Position</th>
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<tr>
<td>Semiconductor Industry Association (representing firms such as AT&amp;T, IBM, and TI)</td>
<td>Contended that Japan’s protectionist and promotional policies denied American firms “fair and equitable market opportunities.” Called on the USTR to use trade sanctions to correct Japan’s predatory export behavior and market barriers and to stop Japanese dumping in the American market.</td>
<td>Were instrumental in initiating the dispute; their aggressive pursuit policy demands increased the pressure U.S. policymakers felt to act.</td>
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<td>Many of these are also import-competing interests, including producers of electronics, automobiles, and machine tools; American Electronics Association</td>
<td>Frustrated with entrenched market access barriers in Japan; supported trade sanctions that would help U.S. firms pry open the Japanese market.</td>
<td>Helped bolster the SIA demand.</td>
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<tr>
<td>Producers of electronics, automobiles, machine tools; American Electronics Association</td>
<td>Faced stiff Japanese competition and demanded tough action from the U.S. government to dampen the effects of unfair Japanese competition.</td>
<td>Their support for tough negotiation tactics reinforced the appeal of semiconductor manufacturers’ policy demands.</td>
</tr>
<tr>
<td>Semiconductor users represented by AEA</td>
<td>Concerned about the price increases that trade sanctions would produce.</td>
<td>Eventually endorsed semiconductor producers’ position.</td>
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<td>Supercomputer manufacturers (Cray Research, Control Data Corporation); Institute of Electrical and Electronics Engineers; satellite manufacturers</td>
<td>Charged that Japan, through policies designed to cushion domestic industries from foreign competition, excluded U.S. producers from the</td>
<td>Were instrumental in initiating the dispute; their aggressive pursuit of policy demands increased the pressure U.S. policymakers felt to act.</td>
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(continued)
**TABLE 5.1.—Continued**

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<th>Companies or Associations</th>
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<td>Exporters Not Directly Affected</td>
<td>Forest products industry (represented by the National Forest Products Association, American Plywood Association, and Alliance for Wood Products Exports, etc.) Many of these were also import-competing interests; representative organizations included the American Electronics Association, National Association of Manufacturers; U.S. Chamber of Commerce; Automotive Parts and Accessories Association</td>
<td>Japanese market; advocated trade sanctions to open the Japanese public sector market.</td>
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<tr>
<td>Import-Competing Interests</td>
<td>American Electronics Association (representing over 3,500 firms in U.S. electronics industry, including components, computers, telecommunications, and software); National Association of Manufacturers; U.S. Chamber of Commerce; Automotive Parts and Accessories Association; United Automobile, Aerospace and Agricultural Implement Workers of America</td>
<td>Faced considerable market access barriers in Japan; supported aggressive market opening policies in general.</td>
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<td>Import-Using Interests</td>
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forest product producers, whose competitiveness was directly threatened by Japanese government’s protectionist and promotional policies, were not the only groups in the United States supporting the aggressive use of threat tactics. Since trade relations between the United States and Japan are highly competitive, a large number of American manufacturers faced strong Japanese competition. Not surprisingly, the majority of business groups, even including those targeted by Japanese counterretaliations, welcomed sanction threats that would allow them to enjoy the benefits of a protected home market and to gain an advantage over their Japanese competitors. In all four cases, unity among interest groups contrasts sharply with divergent business interests in the China cases, contributing to the success of threat tactics.

Equally important to the enhanced effectiveness of American threats was the consensus the two government institutions were able to forge with regard to the appropriate trade strategy toward Japan. Faced with Congress’s call for tough action to deal with the spiraling U.S. trade deficit with Japan and with Japan’s anticompetitive trade policies, the U.S. executive could have, as in the China cases, chosen to emphasize America’s broader security and economic interests. However, that Japan’s unfair trade practices in a wide assortment of industries posed a grave threat to the survival of competitive U.S. firms precluded dispute resolution through broad discussions. Cases involving high-tech industries in particular had created a strong incentive for the free traders of the United States to adopt a managed trade policy to counter the effects of foreign government’s protectionist policies. In such cases, consideration for America’s long-run economic well-being and security needs convinced both the Reagan and Bush administrations, including even those administrative agencies more sensitive to U.S.–Japan political relations, of the need to adopt more aggressive tactics in dealing with Japan. With threats being ratified by both government institutions, Japan became aware of the U.S. determination to obtain a fair trade outcome and, as a result, offered concessions that would have been unimaginable in the absence of American pressure.

Unity among domestic constituents and the two government branches thus substantially increased the credibility of American threats, facilitating the achievement of American objectives in these negotiations. American pressure halted Japan’s competitive onslaught in the semiconductor case and helped U.S. supercomputer, satellite, and forest products manufacturers secure a foothold in the Japanese public-sector market. The gains to American producers were by no means inconsequential.