

The Trials of American Trade:  
A Review of Recent Literature on U.S. Trade Policy,  
As Applied to East Asia

JOEL R. CAMPBELL

Alfred E. Eckes, Jr., *Opening America's Market: U.S. Foreign Trade Policy since 1776*. Chapel Hill: University of North Carolina Press, 1995.

Judith Goldstein, *Ideas, Interests, and American Trade Policy*. Ithaca, N.Y.: Cornell University Press, 1993.

Karen M. Holgerson, *The Japan-U.S. Trade Friction Dilemma*. Aldershot, U.K.: Ashgate Publishing Co., 1998.

John H. Jackson, *The World Trading System: Law and Policy of International Economic Relations*. Cambridge: The MIT Press, 1999.

Leonard J. Schoppa, *Bargaining with Japan: What American Pressure Can and Cannot Do*. New York: Columbia University Press, 1997.

Jeffrey J. Schott, ed., *Launching New Global Trade Talks: An Action Agenda*. Washington: Institute for International Economics, 1998.

ASIA HAS ALWAYS LOOMED LARGE in the American imagination, forming a constantly moving kaleidoscope of images wondrous and horrible: from a continent to be saved for Christ, or the "yellow peril" that would engulf the "civilized" West, to an anthill of fanatical Communist hordes, or a land of one (or two) billion customers hungry for Western culture. That none of these simple images captures a tenth of Asia's reality matters. The image, whatever image, becomes mental shorthand, a device to come to grips with a culture deemed completely alien. All humans use such shorthand, but America's physical and cultural separation from Asia may encourage it.

Trade was America's entree to Asia. For much of American history, virtually the only U.S. citizens to live or travel in East Asia were traders, missionaries,

---

The author is a lecturer in the Faculty of Economics of Tohoku University (Sendai, Japan) <Joelchina@yahoo.com>. He is a political scientist who specializes in the political economy of East Asia, and the politics of East Asia. He has published articles in various journals in the U.S., Japan, and South Korea.

diplomats, and military personnel. Traders first confronted Asia in 1784, when the *Empress of China* sailed to Guangzhou, China. Americans followed in the wake of the already well-established Europeans, but did quite well for themselves, even without colonies or formal trading bases. They bought tea, spices, and ceramics, and sold early American manufactures. By the mid-nineteenth century, Pacific trade and navigation became such important foreign policy concerns that the Fillmore administration dispatched a whole naval squadron to attempt to pry open the Japanese market in 1853–1854. By the end of the century, the U.S. became a major player in China, proposing its ostensibly even-handed Open Door policy as a way to catch up with the Europeans, who by now had informally divided China and formally carved up South and Southeast Asia (the U.S. grabbed its only Asian colony, the Philippines, in 1898). Once in Asia, the U.S. gradually became an outside arbiter, then chief arbiter, of Asian affairs throughout the twentieth century.

The Asian image that has propelled much of American trade with Asia is the land of two billion consumers. Believing theirs to be among the most advanced industrial nations, American businessmen have assumed that Asians are eager to buy whatever U.S. plants churn out. Asians will buy whatever America sells because they have no choice. And, certainly, early- and mid-twentieth-century trade seemed to bear that idea out. It came as a great shock, not only to American business but also to the American people, that the Asians turned around and began selling to America, slowly taking over low-end markets that U.S. producers were abandoning or in which they were becoming uncompetitive, and then moving up-market. During the postwar era Japan showed the way, and the Asian Newly Industrialized Countries (NICs) followed. By the 1970s the accepted order of things, Americans selling to eager Asian customers, had vanished, along with various industries partly destroyed by Asian competition. Even the post-Maoist opening of China's economy did not help: its billion-plus consumers eagerly took in more American goods than they exported until the late 1980s, until their industries—along with foreign export platforms—unleashed a tidal wave of cheap goods that wiped away the U.S. trade surplus there.

Where it once introduced America to Asia, trade now became a major irritant on both sides of the Pacific. In the 1980s, Americans watched in dread as old factories were shuttered and companies either went out of business or moved to cheap labor markets, while U.S. goods barely penetrated many Asian markets—due to a seemingly un-level playing field and Asian state support for export industries. And still American consumers voraciously grabbed up all the cheap Asian goods that they could get their hands on. Asian reaction to growing American irritation was more surprised dismay. After all, Asians felt they were just doing what America taught them to do: to build competitive capitalist economies, to constantly modernize and upgrade industry, to take advantage of export markets and the postwar invitation to sell in America (in exchange for aligning with the U.S. in the Cold War).

As the third millennium approaches, the American economy is a reborn colossus, shaking off the inflation, energy, and de-industrialization worries of the 1970s and 1980s, and robustly moving to a services-cum-information technology economy, an island of growth in a sea of global economic stagnation. Yet, for all the jubilation over an economy enjoying its longest ever expansion, a few sour notes remain to spoil that island's party. Chief among them are America's stubborn trade and current account deficits, made worse by the softening of Asia's demand amidst its 1997–1998 financial crisis, which shoved growth economies into slow growth or deep recession throughout the region. This is in spite of frequent U.S. current account surpluses with much of the rest of the world. Added to this are fears that a falling dollar could end the party altogether by making American financial markets unattractive (even as temporarily more frugal Asian consumers continue to pass by U.S. goods).

Trade was not supposed to work this way. Two centuries ago, Adam Smith and, especially, David Ricardo posited that everyone can benefit from trade, since nations are able to concentrate on making the goods that are most efficiently produced in that country, what economists call comparative advantage. John F. Kennedy neatly captured this notion as “a rising tide lifts all boats” (a phrase used in the context of tax cuts). The Heckscher-Ohlin-Samuelson model takes this a step further, suggesting that nations produce according to the factor endowments (land, labor, or capital) they possess. Thus, a country with plentiful land and expensive labor might concentrate on agricultural production, while one with little land but a large population would gravitate toward cheap-labor industrial production. Neoclassical trade theory also asserts that, over time, trade between individuals tends to balance out, and usually between nations, too; workers put out of work in declining (“sunset”) industries can find work in rising (“sunrise”) industries. How, then, does one account for the chronic American deficits with Asian countries, especially Japan and China? And, how does one explain persistent trade imbalances, gradual disappearance of key industries, and lagging transfer of workers from old to new industries? That, along with the general oil-and-water nature of U.S.-Asia trade relations, is one topic addressed by several recent books on America's Asia trade, six of which are examined here.

Interpretations of the meaning of America's overall and Asia-specific trade vary greatly, but common themes stand out. Foremost is the long-running battle between free traders and economic nationalists (or neo-mercantilists).<sup>1</sup> The former accept the Ricardian notion of the benign effects of trade, and suggest the road to national prosperity lies through economic, especially trade, liberalization, as first asserted by their patron saint, nineteenth-century British politician Richard Cobden, and later by U.S. Secretary of State Cordell Hull. Free trade in both Victorian Great Britain and postwar America was more than politics—it became something like a secular theology, and the conventional wisdom of economic and foreign policy establishments. For instance, free traders assert that

international trade brought about a rapid expansion of the U.S. economy, providing an enormous stimulus throughout the postwar era.<sup>2</sup> Opponents were branded as hopelessly anti-progress troglodytes, or worse. Among the disparate opponents have been economic nationalists, who view free trade as the road to economic ruin, not prosperity. The way to build a strong industrial economy (the only kind worth having), they insist, is state intervention through a mix of protection, subsidies, and infrastructure projects. They take inspiration from American Founder Alexander Hamilton, who advocated such in his *Report on Manufactures* (1791), and Friedrich List, an economist active in late nineteenth-century Germany. Not surprisingly, the rising prewar economic powers—Meiji Japan, Wilhelmine Germany, and pre-Depression America—all pursued variants of economic nationalism.

Postwar strains in the world trade system played out parallel to the crystallization of two opposed versions of capitalism: that of newly free trade/economic liberal America, and economic nationalist/interventionist Japan. Much of East Asia has been enraptured by the Japanese model, and has sought to incorporate elements of economic nationalism in its developmental strategies. America, by contrast, has been a fairly lonely advocate of free trade throughout the postwar era. Western Europe stood somewhere in between, generally liberal, yet coddling a variety of domestic industries. To be sure, the General Agreement on Tariffs and Trade (GATT) and its World Trade Organization (WTO) successor have been resoundingly successful in bringing down tariff levels and chipping away at non-tariff barriers, and got the International Monetary Fund (IMF) and World Bank to adopt a basically free trade approach to troubled developing economies, but most of the world tenaciously hung on to special privileges for a variety of industries. The interplay of these opposite images of the modern economy has shaped world trade conflicts of the past fifty years and runs through all of the literature reviewed here.

Recent trade debates have moved far beyond the free trade/economic nationalism dichotomy. Just as economic liberalism seemed to “win,” or contribute to victory, in the Cold War and the battle for economic development, it came under vigorous attack. The left points to the alleged unfairness of the global trade system to developing nations, and trade as a tool of domination by multinational corporations and rich countries. The right includes various nativist groups that decry the loss of autonomy and control to “globalization.” In the middle are environmentalists and labor advocates who fear the collateral havoc that trade can wreak.<sup>3</sup> Readers should bear in mind that, since most books on trade are written by free traders or economic nationalists, these latter critiques or the issues they raise are usually given scant attention. This weakness shows up in most of the books considered in this article.

## Development of U.S. Trade Policy

Trade has always been a key component of American economic development, and of course, and Asian trade has only been one facet of it. Eckes's *Opening America's Market: U.S. Foreign Trade Policy since 1776*, a fast-paced, broad-brush history of American trade policy, begins with the premises that recent American officialdom generally has a poor understanding of its own trade history and is frequently at a marked disadvantage in jousting with better historically-prepped interlocutors. Nonetheless, he says, the U.S. has followed fairly coherent trade policy since the beginning. The Founders realistically shelved their preferred free trade ideals and countered European discriminatory practices with intervention and protection, to ensure national security. As America shifted from an agricultural to industrial exporter in the late nineteenth century, tariff levels remained high to assure economic development and independence. Eckes says that American experience with its notoriously high tariffs yields several "unconventional conclusions": for example, that tariffs produced a fount of revenue that yielded balanced budgets; that contrary to free trade theory, tariffs hurt neither economic growth nor exports (while free trade may have undermined the British business juggernaut); that protected goods' prices had little effect on consumers; and, ironically, that America's embrace of protectionism may have provided a model for postwar Japanese mercantilism.<sup>4</sup> He also feels that the notorious Smoot-Hawley Tariff of 1930 has been unnecessarily demonized, since it was neither a significant raising of tariff levels nor the proximate cause of the Great Depression.

Continuous battles over tariff levels from the Civil War to the Depression, and desire for increased access to foreign markets, led to repeated efforts at reciprocity in foreign trade agreements. Cordell Hull took this effort much further, using the Reciprocal Trade Agreements Act of 1934 to negotiate bilateral trade reductions, sparking a gradual reduction of tariff levels from over sixty percent in 1930 to twelve percent in 1960, making America the most open market in the world. However, in its haste to sign agreements quickly, or as political rewards for aligning with the U.S. against the Axis or the Communists, huge loopholes and exceptions were preserved (another irony: "reciprocity failed to obtain real reciprocity"). One of the most glaring examples was U.S. postwar treatment of Japan, where "foreign policy considerations drove the [Eisenhower] administration's approach to bilateral negotiations," and the State Department's national security imperatives of alliance building took precedence over the Commerce Department's fears of harm to American industries.<sup>5</sup> Consequently, Japan made concessions on agricultural goods and raw materials—which it desperately needed, but kept most of its high tariffs on manufactured goods. U.S. concessions to Japan were mainly for labor-intensive manufacturers, for which Japan then had a clear comparative advantage. Eckes believes Japanese negotiators of the mid-1950s knew what they were doing, using classic neomercantilistic policies

to build an industrial colossus. From 1955 to 1960, Japan's manufactured exports to the U.S. thus doubled.

So, in yet another major irony, America's boosting of Japan—and later the Asian NICs and others—did to the U.S. what the high-tariff America and Germany did to nineteenth-century Great Britain. The process of using trade to reward countries for political support continued through the Kennedy Round of GATT negotiations in the 1960s, what Eckes sees as a turning point that led to U.S. industrial decline. Protectionist pressure boiled over in the 1970s, and, seizing the opportunity of executive paralysis in Watergate, the U.S. Congress passed the Trade Act of 1974, which created a "quasi-judicial process" for dumping and "countervailing duties" (against foreign government subsidies); Eckes calls the 1980s a "Golden Age of Enforcement" of the process, as regulators committed to it doggedly pursued cases of alleged dumping and unfair trade practices.<sup>6</sup> Enforcement fell most heavily on Asian nations, much less on Canada and Western Europe. During the 1990s, popular opposition to free trade mounted in the U.S., focused on unease about heavy loss of industrial jobs.

Eckes presents perhaps the most readable one-volume summary of U.S. trade policy ever written. When well-grounded, his arguments add much to debates on trade history. For instance, he is one of the few authors to bring coherence to the endless parade of high-tariff bills passed by the U.S. Congress, beginning in the Gilded Age. His chapter on Smoot-Hawley is a tour de force in shattering historical clichés and received wisdom. He gives a smart description of Senator Russell Long's use of Nixon's political troubles to wrest control of trade from the White House. In other cases, Eckes merely repeats mainstream conclusions, as in his discussion of the military alliance/trade liberalization tradeoff with Japan. Other assertions are questionable and insufficiently supported: for example, that Kennedy Round concessions started the U.S. on the road to industrial ruin. His historical narrative falls apart after the 1960s, as he rushes through many of the debates and important cases of recent administrations. This is surprising, given his experience as chair of the International Trade Commission (ITC) in the 1980s. Perhaps this should have been a two-volume work, breaking at the end of the Kennedy Round.

Judith Goldstein, in *Ideas, Interests, and American Trade Policy*, carries forward Eckes's arguments in a more theoretical way. She posits that trade and economic policy have always been areas where policymakers, faced with "incomplete information," required "causal models" that could help them make decisions, and they often stuck with these models over a long period.<sup>7</sup> Economic interests formulated important ideas about trade, which gradually helped them take over institutions and enact laws. Market forces do not "dictate" policy, they merely "define a viable policy space," that is, they constrain the possibilities for economic policy. Accordingly, there have been two major trade policy "cycles" in U.S. history: the "protectionist cycle," 1816–1870, and the "free-trade cycle," 1934–present.<sup>8</sup> In both cases, at critical junctures, "policy entrepreneurs" (i.e.,

innovative policymakers) selected the economic models that best fit the needs of the political coalition they represented. Mid-nineteenth-century Republicans felt protection best served their farming/industry coalition, while New Deal Democrats wanted to use freer foreign trade to help lift the country out of the Depression.

Goldstein suggests that free traders still control trade policymaking because their ideas continue to predominate in Washington, and a counter-coalition has yet to come up with a coherent trade ideology of its own. Contrary to widespread expectations of a closing of the international trading system with the relative decline of American power after the 1960s, U.S. policymakers have remained wedded to the free trade model in the face of immense social and political pressures. In fact, recent trade agreements actually improved foreign access to the U.S. market. Nonetheless, the American state presides over a patchwork of relative restrictions and liberal markets, due to the countervailing force of antifree trade interests in Congress, and the layer-cake nature of trade law.

The Goldstein framework is an important addition to theories of economic decision making, yet, as is often the case with such works, it is all a bit too pat, jargon-filled, and deterministic. Are the working of such cycles really so clear-cut? At many points in the cycle, the debates between free traders and economic nationalists were finely balanced, and conceivably could have gone either way. In fact, during the supposed protectionist cycle, tariff hikes were followed by tariff cuts. The gradual lowering of tariff barriers, beginning in the 1890s, may have stemmed in part from America's growing role in world politics.<sup>9</sup>

Moreover, since the free trade cycle is already over sixty years old, does that imply it is about time for a new cycle? If a new cycle does not arrive within a few more decades, does that invalidate the theory? Perhaps the current eclectic assortment of antifree traders centered on environmentalists, labor unionists, and nativists such as Ross Perot and Pat Buchanan can somehow cobble together a viable alternative economic theory that will help defeat the forces for globalization, but that would seem to await a major economic catastrophe. As long as the U.S. economy prospers and is perceived to benefit from liberalized trade, free traders will be difficult to beat. Even in depressed economic times, liberal trade is seen as a way to boost economic activity. America does stand at a trade crossroads, as suggested in the next section, and free traders are genuinely worried about a possible loss of momentum for further liberalization due to a "trade fatigue" caused by the contentious fights over NAFTA and the Uruguay Round.<sup>10</sup> Perhaps, rather than a cycle, a confluence of motives led to the mid-twentieth-century ascendancy of the free traders: the supposed "lessons" of the Smoot-Hawley tariff; Cold War need for allies; American trading might; general postwar prosperity; and lack of bipartisan conflict on trade issues.<sup>11</sup>

Neither Eckes nor Goldstein are complete economic nationalists, but both are sympathetic to its usefulness. Eckes leans more toward explicit state intervention and protectionism. Both suggest that appropriate trade policies depend on

multiple factors, and that in making trade policy, political factors tend to outweigh economic trends. Oddly, both tend to view America in isolation from the rest of the world. The internal trade politics of other nations is mentioned only in passing, or to illustrate what was happening within the U.S. at a given time. This is a particular weakness in assessing Asia's trade policies, since completely different political systems operate on opposite sides of the Pacific.

### **Multilateral Negotiations and Global Trade**

Nevertheless, both East Asia and North America are part of the global economy and have found multilateral trade negotiations an essential regime of postwar international politics, despite differing conceptions of capitalism and trade. As the GATT system has developed, multilateral trade forums have gradually become more important than bilateral talks. Free trade countries, especially the U.S., hope to use multination means to harness world opinion, and political pressure to force open closed markets and tear down trade barriers. Neomercantilistic nations sometimes also find multilateral trade dispute mechanisms congenial to their interests: they can avoid the sting of bilateral sanctions, political deals, sweetheart deals, or managed trade with single interlocutors. Even so, economic nationalists and other opponents of free trade fear loss of autonomy to foreign interests, or dilution of environmental and labor standards that multination agreements might bring. Thus, as successful as multilateral efforts have been, free traders are continually worried: like a shark, trade liberalization may be in trouble if its forward movement stops—and all the opposing fish gang up and kill it.

John H. Jackson, in *The World Trading System: Law and Policy of International Economic Relations*, lays out many of the complex issues of contemporary international trade policy from a free trade perspective. He begins with some simple, yet not universally acknowledged notions underpinning world trade: that institutions shape economic policy more profoundly than the technological, transportation, and communications breakthroughs of this century; that the interdependent global postwar economy has brought in its wake aching vulnerability; that politics frequently bends the international rules of trade to satisfy domestic constituents; that nations have many goals for trade policy beyond the pristine Ricardian formulations of higher standards of living through removal of trade barriers, including desires for political stability and economic development; that in fact trade competes with many other national goals; and that free trade theory is open to many political and theoretical challenges.

Jackson devotes nearly 100 pages to describing the tangled history and institutional development of modern trade regimes. GATT emerged as a stopgap umbrella measure for tariff lowering because the U.S. Congress failed to approve the intended enforcement organization, the International Trade Organi-

zation (ITO). Without a formal organization, GATT nonetheless provided the framework for the successive Kennedy, Tokyo, and Uruguay “rounds” of trade liberalizations from the 1960s to 1990s. The Uruguay Round addressed the most ambitious agenda of them all, as it took on trade in services, intellectual property rights, and the creation of the WTO. The final agreement was presented as a package that replaced the original GATT with the more structured WTO. National structures are vital to the success of international trade regimes, but vary from the diffused American power structure to the more seamless Japanese system, in which there is little institutional separation among bureaucrats, politicians, and executives.

Overall, Jackson argues that GATT and WTO have served as the trade “constitution” for the world. As in any constitution, the rules and structure become as important as the issues they address, and often function as “constraints” on policy making and adjudication. Moreover, policy goals frequently conflict—for example, liberalization vs desire to protect “injured” industries.<sup>12</sup> Nonetheless, a key to success of GATT/WTO, he adds, has been the institutional interdependence created between international and national administrative structures. Thus, for instance, GATT rules provide boundaries for U.S. law on “unfair” practices, as well as a structure for cases alleging unfair treatment to be handled at both national and international levels. WTO does have major institutional weaknesses, including difficult amendment procedures, unclear relations among the parts of the Uruguay agreement, and the unwieldiness of an organization with 132 members.

Curiously, the major issues of Japanese-American and Chinese-American trade make only a small appearance in the Jackson book. Japan “opted out” of many GATT provisions, where it could.<sup>13</sup> Jackson says American bilateral complaints with Japan were not significantly addressed in the Tokyo Round, and few American complaints have been taken to WTO. This is not quite right. While it is true that the U.S. has tried the bilateral route for a number of key industries, such as automobiles and semiconductors, the issues that have made it to WTO have been quite significant, and have involved a number of complaints of unfair treatment. Most notable was the long-running fight between Kodak and Fuji Film, in which WTO supported the Japanese company.

Jackson ends by questioning whether another GATT-style round of trade negotiations is possible. That is the starting point for Jeffrey J. Schott’s edited collection, *Launching New Global Trade Talks: An Action Agenda*. Schott notes that WTO differs from GATT in three important ways. First, all members have to accept previously negotiated trade agreements under GATT as a “single undertaking.”<sup>14</sup> Second, the WTO provides a “permanent forum for ongoing trade consultations and negotiations” in various sectors, especially the information technology (IT) sector, telecommunications, and finance, and has carried forward the unfinished business of the Uruguay Round.<sup>15</sup> Third, the new organization provides a “unified dispute-settlement system,” in a single setting for all

GATT/WTO agreements. Schott asserts that, despite fears of environmentalists and labor advocates, WTO has not become a “bureaucratic monster” because the organization secretariat is small, has closely followed the letter of the WTO agreement, and under first director Renato Ruggiero has worked for “trade reform and economic growth.”<sup>16</sup> He believes that agreements reached since WTO began operating have been generally successful because they have brought the benefits of trade to both developed and developing economies, while not necessitating major reforms of the sectors. The dispute resolution process has been quite active, with 138 requests for action; the U.S. has been both the most frequent complainant and most complained against. That is no surprise, given that the U.S. is the largest trading nation.

The problem noted in the introduction, that is, domination of trade debates by free traders and economic nationalists, is apparent in the rest of the book. While other articles admit that the items that WTO will have to address in the future are nothing if not contentious—and probably much more difficult than the relatively straightforward trade issues of the Uruguay Round—they see them generally in terms of traditional economics, while ignoring the genuine fears of globalization. Among the economics-oriented pieces, C. Fred Bergsten notes that each previous round has been triggered by world financial shifts, and he feels that the growing trade imbalance between the U.S. and Japan, combined with the lingering effects of the Asian financial crisis and economic softness in Europe (and perhaps later in America) will force an early convening of the next round. L. Alan Winters suggests that regionalism, exemplified in the European Union and NAFTA, will conflict somewhat with multilateralism during the next negotiations, but that interests in regionalism may be waning because of its complexities.

Difficult sectoral issues that will be taken up begin with agriculture (Timothy Josling’s article), always a politically entangled sector that was only partially dealt with in the Uruguay agreement, and services, which were only touched by the last round (described by Geza Feketekuty). Among the cross-sectoral issues that will enter the negotiations is the environment (Peter Uimonen), in which WTO continually faces dilemmas involving promoting trade while respecting national laws. For intellectual property rights (IPRs) (Keith E. Maskus), the WTO agreement mandates Trade-related Intellectual Property Rights (TRIPs), which call for vigorous protection of patents and copyrights by all members and are opposed by many developing countries. Labor advocates also want WTO to assist the International Labor Organization (ILO), a weak U.N. body, and link labor standards to trade rules (as discussed by Kimberly Ann Elliott).

These two volumes neatly complement each other with two key aspects of the free trade approach: multilateralism and the importance of keeping liberalization going. Jackson provides a well-organized and relatively unbiased summary of GATT/WTO history, international and national trade policy structures, and how these structures interrelate. Schott neatly lays out the most important

issues now on the international trade agenda, albeit from a more robustly free trade perspective that typically dismisses legitimate concerns of opponents. His collection could have benefited from at least one or two articles from opposing perspectives. Both books would benefit from a fuller discussion of the politics of trade, both international and domestic, in key trading nations.

Feketekuty clarifies the current free trader WTO strategy somewhat in another recent book. He discusses the importance of the “level playing field” to American negotiators, lists the major changes from GATT to WTO, and presents WTO’s current “work program,” adopted in Singapore in 1996. The article then veers off into a free trade manifesto for opening of specific sectors, especially agriculture and IT, as well as a plea for completion of the Free Trade Area of the Americas, the follow-on to NAFTA that is supposed to cover both North and South America. Apparently Feketekuty does not pay attention to American public or Congressional opinion, which has largely rejected it. That is a major problem with free traders, perhaps derived from the strongly ideological cast of their opinions: they profess to know more than the ignorant public, and continually write about the need to lead, shape, and prepare popular opinion on trade issues.<sup>17</sup>

Neither Jackson nor Schott (nor Feketekuty, for that matter) adequately addresses the Asia trade. Like a broken record, Schott’s collaborators reiterate that the only workable approach to trade problems with Japan and China is “that multilateral, bilateral, and regional instruments should be applied in complementary and consistent ways.”<sup>18</sup> While accepting the need to continue multilateral efforts, Merit E. Janow seems to endorse an approach like the Bush administration’s Structural Impediments Initiative (SII, see next section), in which trading partners’ domestic arrangements become central topics for trade negotiations. This is as if the U.S. must be judge of all domestic arrangements of its major foreign trading partners. Curiously, then, Schott’s free traders want it both ways: multilateral advance of the WTO process, while maintaining U.S. prerogatives to pursue bilateral arrangements with key partners that may or may not conform to free trade tenets. Free trade, even as promoted by its most vigorous advocates, does not appear entirely free.

Another free trader, Ernest Preeg, fills in an important gap on Asia. He argues for the importance of the Asia-Pacific Economic Cooperation forum (APEC) to Asian trade, and that the division of world trade along a “regional triad”—Western Europe, NAFTA, and Japan—is vital to APEC’s operations.<sup>19</sup> APEC is a much looser grouping than nearly any other regional trade organization, and Preeg notes the daunting difficulties it faces in defining what it means by free trade, which it failed to do in its 1994 founding agreement, and determining how to harmonize trade liberalization for developed members (slated for 2010) and developing nations (delayed until 2020). Concomitantly, the U.S. must decide on ways to lower textile tariffs, depending on whether China fully joins the organization. Preeg also suggests that APEC would work better with Japan a more

active “catalyst” for settlement of these issues.<sup>20</sup> Nonetheless, this is a rather sketchy overview of an important aspect of globalization in Asia, and for a fuller examination of the Asia trade, one must turn to works focusing on it.

### **Pacific Encounters: “The Japan Problem”**

Much of the best trade literature focuses on Japanese-American trade. *The Textile Wrangle* by Destler et al. set the standard for comprehensive case studies of Asian trade policy. In it, he presents the tense negotiations over American imports of Japanese textiles as emblematic of wider difficulties in managing bilateral trade. The textile fight emerged at a time of transition in the Japan-U.S. alliance, as Japanese officials began to question American resolve during the Vietnam conflict, and struggling U.S. manufacturers sought protection. Needing to win southern states in the 1968 election, free trader President Nixon promised to support textile industry demands for protection. The overall pattern of negotiations during Nixon’s tenure set a pattern for much of what followed over the next twenty years: industries in both countries stuck to “irreconcilable positions” and were able to block any serious concessions, as domestic concerns took precedence over the bilateral relationship and bureaucrats halted compromise efforts. Shifting negotiating strategies on both sides merely complicated the talks, and issues were only solved (after four years) when the MITI Minister and a U.S. ambassador-at-large quietly worked toward an acceptable compromise.<sup>21</sup>

Destler carries these themes further in *American Trade Politics*. He explicitly links U.S. policy actions and negotiating strategies with interest group activity; that is, industries affected by international competition can swiftly mobilize and effectively challenge trade policy for specific countries. This has forced various administrations to repeatedly change the course of policy toward Japanese and other issues in the postwar era. For instance, both of Clinton’s major Asia trade departures in 1993–1994, the Framework approach to Japan (discussed below) and its linking of human rights and extension of MFN for China, were efforts to differentiate itself from his predecessors. So, while he followed a basically free trade tack on the NAFTA and WTO issues, there was a felt need to seek semi-managed trade in East Asia. The Framework talks broke down, in the teeth of Japanese bureaucratic resistance, and the U.S. settled for half-measures. Under pressure from American business, Clinton renewed China’s MFN every year.<sup>22</sup>

More recent takes on Japanese-American trade have followed Destler’s path in presenting the relationship as essentially conflictual, full of missed cues and missed opportunities for cooperation and settlement. Edward J. Lincoln’s *Japan’s Unequal Trade* is the most anti-Japanese tract. He believes the root cause of the Japanese-American trade difficulties is the “very peculiar” nature of bilateral trade, in which Japan keeps out industrial imports because of the continuation of its “catch-up mentality” as an “industrial latecomer.”<sup>23</sup> For instance,

Japanese automotive exports and transplant production usually hold twenty to thirty percent of the North American market, yet American companies sell only a small number of cars in Japan. This lack of “inter-industry trade,” combined with Japanese protectionist policies, seriously distorts long-term trade patterns. As a free trader, Lincoln supports the Bush administration approach of seeking changes in the way business is conducted, rather than the putative managed trade ideas of the Clinton team.<sup>24</sup>

An economic sectoral focus dominates Karen M. Holgerson’s *The Japan-U.S. Trade Friction Dilemma*. Holgerson identifies the same basic bilateral trade negotiation pattern noted by Destler: an isolated sectoral issue becomes politicized, fruitless negotiations combined with intense news media attention fuel tensions, and the festering issue is finally resolved in a quieter bilateral context, largely ignoring multilateral forums. She uses cases from the rice, automotive, and semiconductor businesses to illustrate this pattern. While the latter two are important, rice may not be the best case from agriculture, since America is typically the top seller in all other agricultural categories.

The automobile issue had built in intensity throughout the energy-starved 1970s, leading to a bilateral crisis in the early 1980s. Both governments sought to cool things down, and talks led to clear voluntary export restraints (VERs) involving the major Japanese producers, coordinated by the Japanese government. The U.S. manufacturers used the period of restraint to regain some of their market share and boost productivity, while the Japanese companies used greater profits to set up transplant automotive factories in the U.S. Similarly, semiconductors had been emerging as a major irritant for several years, reaching crisis stage in the mid-1980s, as Americans became frightened about loss of dominance in this strategic industry. The result was the Semiconductor Agreement of 1986, the first agreement to call for specific market share targets for the American industry in Japan. The Agreement was widely attacked in Japan as managed trade, but the American side saw it as a great success when targets were largely met in the early 1990s.

Leonard J. Schoppa, in *Bargaining with Japan*, gives readers a more even-handed, and far more technical, look at U.S.-Japan trade than either Lincoln or Holgerson. Focusing on the evolution of U.S. policy—and the Japanese response—he describes Bush’s SII, designed to remove “structural barriers” and recast Japanese economic practices to create a more favorable environment for foreign businesses in Japan, and Clinton’s Framework approach, intended to set “numerical targets” and “multiple benchmarks” to measure progress in trade relations. Schoppa feels that the course of U.S.-Japan trade negotiations illustrates the validity of “Putnam two-level games,” in which players need to win at both international and domestic political games. Proposals made and deals accepted must satisfy domestic constituencies as much as international negotiating partners.<sup>25</sup> Accordingly, he suggests that *gaiatsu* (foreign pressure) is most effective on the Japanese policy process at points when “divisions of opinion

and interest” in Japan allow use of “synergistic strategies,” that is, opportunities for U.S. officials to work with Japanese counterparts and package American demands as legitimate and “in Japan’s national interest.”<sup>26</sup> Japanese officials, he adds, use *gaiatsu* for their own ends, such as getting American interlocutors to support their positions, or exploit divisions on the U.S. side.

Since trade negotiation results depend on getting bilateral synergies right, Schoppa contends, SII produced distinctly varied results. The U.S. was able to get much of what it wanted in terms of Japanese macroeconomic policies relating to savings and investment, the distribution system, and land policies, but achieved little in “exclusionary” business practices and “uncompetitive relations” among *keiretsu* group firms.<sup>27</sup> This was despite giving all five areas equal weight in U.S. proposals. Negotiating successes had to do with American ability to combine with Japanese interests to push for change, and failures occurred where proposals confronted entrenched interests.

From Destler to Schoppa, there is strong continuity. Without any specific intent, Destler et al. sketched the basic pattern, and the others followed up with projects that largely affirmed it. This is classic scholarship, as taught in most graduate schools. Of Destler’s successors, Lincoln is the most polemical and most easily discounted. Nevertheless, he provides a useful analysis of inter-industry trade, the lack of which places severe limits on bilateral exchanges. Schoppa’s focus on *gaiatsu* and synergies is the most intriguing and potentially fruitful approach, and the most objective. It already has been used, albeit less rigorously, by various authors who discuss other Japanese-American negotiations, and may be applied to relations between other pairs of nations. Concentration of the SII and Framework talks is a simple, neat policy comparison. Schoppa’s only weakness is timidity in application of the *gaiatsu* approach to specific sectors, or to other issues linked to trade, such as defense and international financial aid.

The more sectoral approach employed by Holgerson is also useful, but her theoretical framework is far more complicated, and at times confusing. For example, as in an overambitious doctoral dissertation, she draws a complex scheme using ten separate factors that interact to create “large bilateral trade imbalances.” These include “social psychological,” cultural, institutional, “structural” (macro and microeconomic), and “‘ecological’ roots” (geographical, historical, etc.) factors.<sup>28</sup> A diffuse structure such as this provides little explanatory power, since virtually everything—and the kitchen sink—becomes a determining factor in trade policy. Holgerson’s work is most useful as a pithy narrative of the most critical bilateral trade issues of the past twenty years.

Many pundits argue that Japan succeeded not because it is different, but because it successfully employed a different variant of capitalism. Destler and his successors would probably counter by saying that, while its economy may differ slightly from America, Japan’s trade policies are determined in the old-fashioned way: in the nexus of electoral, bureaucratic, and business interests at

the heart of the political system. Japanese economic policy, guided by economic nationalism and the catch-up mentality, has placed a premium on protection. Though committed to international free trade principles, Japanese bureaucrats only grudgingly yielded ground on key trade issues. What Americans saw as devious intransigence was, from the Japanese perspective, a matter of national security. Nevertheless, at heart, all of these authors are American free traders seeking more openness from Japan. Another such review should consider economic nationalists' perspective on bilateral trade conflict, especially from the Japanese point of view.

Trade has been a hot topic in Japan-America studies for many years. The same has not been true for China-America studies. Although most analyses of the Chinese economy discuss trade generally, there have been few case studies or books devoted solely to trade. There is a crying need for further study of China's trade patterns, policies, and bilateral issues with major trading partners. Such works could learn much from the approaches used by Destler, Holgerson, and Schoppa.

### Conclusions

Free trade and economic nationalism have dominated American trade debates for 200 years. The latter has been a favorite of developing nations and those playing "catch-up" with the leading industrial nations of a given time, but has become politically incorrect at the international level. Free trade only gradually gained widespread acceptance during the Victorian era, but emerged as a key component of America's hegemonic ideology in the postwar era. Japan and China, the key trading nations of Asia, have prospered through economic nationalism, while slowly bowing to international demands for economic liberalization and freer trade. It is perhaps inevitable that a free trader/economic nationalist clash would underlie trade friction between the U.S. and East Asia. And trade will remain an irritant as long as a poor understanding of trans-Pacific trade history and policy processes remains.

Judging from the books reviewed here, free traders are winning the publishing battle over trade. Most well-circulated works approach trade problems from the free trade perspective, attempting to tear down economic nationalist policies used by states to grow their economies. Nearly all books addressing the current global trade agenda are free trade tracts urgently calling for renewed commitment to taking the next step on the Ricardian path. Underlying the attempts by Destler and his followers to dispassionately dissect Japanese-American trade problems is an essentially free trade stance. Only the American general trade histories by Eckes and Goldstein give a sympathetic hearing to economic nationalist and other perspectives.

Meanwhile, views of environmentalists, labor activists, and other recent

opponents of free trade and globalization are ignored or breezily dismissed. This does neither side justice. The world needs a fully developed argument over the nature of globalization, the force that is reshaping the world that all of us will inhabit during the twenty-first century. Unfortunately, this is the most undeveloped subject within trade policy literature. The field needs both single-author and edited volumes that present varied perspectives on trade and stimulate discussion among them. Neither free traders nor their opponents are likely to seek such a dialogue, so trade scholars will have to step into the breach.

### Notes

<sup>1</sup> The original mercantilism of the seventeenth century called for nations to enhance national security by building up stocks of precious metals, amassing trade surpluses, and establishing colonies to gain raw materials. Its promoters had not considered the possibilities of ruinous inflation caused by hoarding gold and silver, and trade retaliation by countries feeding trade surpluses. By the mid-eighteenth century, mercantilism was no longer fashionable. See Jacob Viner, "Power Versus Plenty as Objectives of Foreign Policy in the Seventeenth and Eighteenth Centuries," in Jeffrey A. Frieden and David A. Lake, eds., *International Political Economy: Perspectives on Global Power and Wealth* (New York: St. Martin's Press, 1987), pp. 71–84.

<sup>2</sup> See Geza Feketekey, "An American Trade Strategy for the 21st Century," in Geza Feketekey and Bruce Stokes, eds., *Trade Strategies for a New Era: Ensuring U.S. Leadership in a Global Economy* (New York: The Council on Foreign Relations, Inc., 1998), pp. 1–3.

<sup>3</sup> See Jerry Mander and Edward Goldsmith, eds., *The Case against the Global Economy: And for a Turn toward the Local* (San Francisco: Sierra Club Books, 1996).

<sup>4</sup> Eckes, pp. 48–56.

<sup>5</sup> *Ibid.*, pp. 168–70.

<sup>6</sup> *Ibid.*, pp. 257–60, 274.

<sup>7</sup> Goldstein, p. 237.

<sup>8</sup> *Ibid.*, pp. 241–44.

<sup>9</sup> See Anthony Tuo-Kofi Gadzey, *The Political Economy of Power: Hegemony and Economic Liberalism* (New York: St. Martin's Press, 1994), pp. 87–98.

<sup>10</sup> See Gary C. Hufbauer and Jeffrey J. Schott, "Strategies for Multilateral Trade Liberalization," in Feketekey and Stokes, *Trade Strategies*, p. 126.

<sup>11</sup> I. M. Destler, *American Trade Politics*, 3rd. ed. (Washington: Institute for International Economics, 1995), pp. 3–9.

<sup>12</sup> Jackson, pp. 9–11, 339.

<sup>13</sup> *Ibid.*, p. 60.

<sup>14</sup> Schott, p. 3.

<sup>15</sup> *Ibid.*, p. 4.

<sup>16</sup> *Ibid.*

<sup>17</sup> Feketekey, "An American Trade Strategy," pp. 6–20.

<sup>18</sup> Merit E. Janow, "U.S. Trade Policy toward Japan and China: Integrating Bilateral,

Multilateral, and Regional Approaches," in Feketekuty and Stokes, eds., pp. 175–203.

<sup>19</sup> Ernest H. Preeg, *From Here to Free Trade: Essays in Post-Uruguay Round Trade Strategies* (Washington: Center for Strategic and International Studies, 1998), pp. 99–100.

<sup>20</sup> *Ibid.*, pp. 99–110.

<sup>21</sup> I. M. Destler et al., *The Textile Wrangle: Conflict in Japanese-American Relations, 1969–1971* (Ithaca, N.Y.: Cornell University Press, 1979), pp. 26–27, 319–27.

<sup>22</sup> Destler, *American Trade Politics*, op. cit., pp. 218–21, 229–31, 233–38.

<sup>23</sup> Edward J. Lincoln, *Japan's Unequal Trade* (Washington: The Brookings Institution, 1990), pp. 2, 7.

<sup>24</sup> *Ibid.*, pp. 2–11, 220.

<sup>25</sup> Schoppa, pp. 2–8.

<sup>26</sup> *Ibid.*, pp. 4–6.

<sup>27</sup> *Ibid.*, p. 2.

<sup>28</sup> Holgerson, pp. 5–9.