

MODELING FOREIGN ECONOMIC POLICY IN STRATEGIC
SETTING: THE AUTOMOTIVE INDUSTRY
OF THE U.S. AND JAPAN

A Senior Honors Thesis

By

MARIE LILY AU-YOUNG

Submitted to the Office of Honors Programs
& Academic Scholarships
Texas A&M University
In partial fulfillment of the requirements of the

UNIVERSITY UNDERGRADUATE
RESEARCH FELLOWS

April 2000

Group: Economics & Political Science

MODELING FOREIGN ECONOMIC POLICY IN STRATEGIC
SETTING: THE AUTOMOTIVE INDUSTRY

OF THE U.S. AND JAPAN

A Senior Honors Thesis

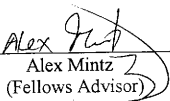
By

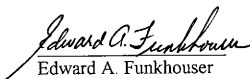
MARIE LILY AU-YOUNG

Submitted to the Office of Honors Programs
& Academic Scholarships
Texas A&M University
In partial fulfillment of the requirements of the

UNIVERSITY UNDERGRADUATE
RESEARCH FELLOWS

Approved as to style and content by:


Alex Mintz
(Fellows Advisor)


Edward A. Funkhouser
(Executive Director)

April 2000

Group: Economic & Political Science

ABSTRACT

Modeling Foreign Economic Policy in Strategic Setting:
The Automotive Industry of the
U.S. and Japan. (April 2000)

Marie Lily Au-Young
Department of Political Science
Texas A&M University

Fellows Advisor: Dr. Alex Mintz
Department of Political Science

The purpose of my study is to examine how the United States and Japan interact in a strategic setting on foreign economic issues. Since relations between the two countries have been developing for several decades now, I will look into: 1) the historical component of the relationship between Japan and the U.S. through a case study, and 2) the theoretical implications through an experiment. Besides historical significance, the case has important theoretical ramifications for the study of foreign interactions with strategic information. The theoretical aspect would help to explain how the U.S. makes decisions for current issues. 3) I will also introduce an analytical component to model and study foreign economic relations between these countries.

Foreign economic policy is one of the top priorities for the U.S. government as it enters the 21st century. As the United States rose as a world power, foreign economic relations with other countries along with security interests became of up-most

importance. The U.S. government has taken the role of leader all over the world at the United Nations, in the Middle East, Europe, and in Asia. Even with the U.S. as a world leader in the post cold war era, competition is becoming fiercer and economic strategy must be keen. In order to keep military peace around the world as well as economic prosperity, world leaders must not take foreign affairs lightly. Notably important is the economic aspect of foreign relations. With a globalization of markets, all countries depend on one another to provide goods and services for their people. Investment and trade are so widely abundant that economic relations must be cordial as well as strategic. Countries must be cooperative and knowledgeable of economic factors.

For this study, I examined a specific case study in which the U.S. was in a dispute with a foreign country and how the U.S. dealt with the situation. This particular dispute spans a timeline of 15 years and involves the automotive industry of Japan and the U.S. Next, I used an experiment to gather empirical data to further explore decision making in foreign policy. I employed 26 students as subjects for an experiment run on the Program for Foreign Policy Decision Making's computerized decision board developed by Dr. Alex Mintz. The subjects are presented with a scenario modeling the historical dispute between Japan and the U.S. From the data, evidence can be drawn to determine the "why" of each student's decision. This study seeks to show that there is a pattern of decision-making in U.S. foreign policy and can be modeled through decision-making theories.

To Josh,
who encourages me to work hard at everything I do,
surprises me everyday with his wit and intelligence,
and is a constant source of affection and unconditional love.

TABLE OF CONTENTS

	Page
ABSTRACT.....	iii
DEDICATION.....	v
TABLE OF CONTENTS.....	vi
LIST OF FIGURES.....	vii
CHAPTER	
I INTRODUCTION.....	1
II PROBLEM.....	5
Alternatives and Dimensions.....	5
Research Design.....	8
III ANALYSIS	12
Case Study.....	22
IV SUMMARY AND CONCLUSIONS.....	27
Summary.....	27
Conclusions.....	28
REFERENCES.....	29
APPENDIX A.....	31
APPENDIX B.....	34
APPENDIX C.....	35
APPENDIX D.....	36
VITA.....	37

LIST OF FIGURES

FIGURE		Page
1	Preferred Option of Subjects.....	12
2	Alternative Rejected by Subjects.....	14
3	Weight Given to Advisors by Subjects who chose Tariffs.....	16
4	Weight Given to Advisors by Subjects who chose Negotiations.....	18
5	Weight Given to Advisors by Subjects who chose Sanctions.....	20
6	Weight Given to Advisors by Subjects who chose to Do Nothing.....	21

INTRODUCTION

1. The Challenge

The purpose of my study is to examine how the United States and Japan interact in a strategic setting on foreign economic issues. Since relations between the two countries have been developing for several decades now, I will look into: 1) the historical component of the relationship between Japan and the U.S. through a case study, and 2) the theoretical implications through an experiment. Besides historical significance, the case has important theoretical ramifications for the study of foreign interactions with strategic information. The theoretical aspect would help to explain how the U.S. makes decisions for current issues. 3) I will also introduce an analytical component to model and study foreign economic relations between these countries.

2. The Importance of this Study

Foreign economic policy is one of the top priorities for the U.S. government as it enters the 21st century. As the United States rose as a world power, foreign economic relations with other countries along with security interests became of up-most importance. The U.S. government has taken the role of leader all over the world at the United Nations, in the Middle East, Europe, and in Asian. Even with the U.S. as a world leader in the post cold war era, competition is becoming fiercer and economic strategy

This thesis follows the style and format of American Journal of Political Science.

must be keen. In order to keep military peace around the world as well as economic prosperity, world leaders must not take foreign affairs lightly. Notably important is the economic aspect of foreign relations. With a globalization of markets, all countries depend on one another to provide goods and services for their people. Investment and trade are so widely abundant that economic relations must be cordial as well as strategic. Countries must be cooperative and knowledgeable of economic factors.

3. Prior Research

According to researchers in Wittkoff's The Future of American Foreign Policy, there is no reason to believe that relations between the U.S. and Japan will turn sour. "Japan's rise as a global economic and financial power may nonetheless erode some of the most fundamental sources of U.S. power. The challenge to the United States is clear. As a rising power Japan, will in the not too distant future, face a number of strategic choices in the economic, political, and military realms. These choices could have a profound impact not only on the U.S.-Japan relationship, but also on the nature of the post-Cold War world and the role the United States will play in it" (1994). With the Soviet Union no longer a threat, the U.S. and Japan no longer have a common ground in Asia. "If the United States is to preserve its latitude for influencing events on a global scale, it must ensure that the strategic choices that Japan makes will be those that most closely match U.S. interests. The challenge facing the United States, then, is to forge a strategy toward Japan that will secure U.S. interests well into the next century" (1994). Therefore, it is important to understand U.S. strategy towards Japan.

Other scholars have developed strategies that they feel would be useful in keeping security interests and economic interdependence between the U.S. and Japan. These are Deslter and Nacht's guidelines for a favorable future between the two countries from their book, U.S. Policy towards Japan:

1. A basis for retaining security cooperation under a condition of reduced threat and increased concern about technological competition;
2. Shoring up areas of weakness in the U.S. domestic economy to strengthen the U.S. foundation of cooperation and competition with Japan;
3. Continued U.S. efforts to open up the Japanese economy through processes and substantive agreements that become progressively more one-sided in substance as well as form;
4. An explicit strategy of reinforcing and deepening economic interdependence; and
5. Articulation of "competitive interdependence" as an explicit alternative to the U.S. — Japanese economic nationalism (1993).

During the past few decades, U.S.-Japan security relations have grown stronger. The U.S. made a commitment to preserve security in Japan as she developed into a democratic country. The presence of U.S. troops in Japan also extended U.S. strength over the Asian mainland. In its commitment to containment, the U.S. also deterred Soviet interests in Asia by protecting Japan. By the 1980s, the relationship between Japan and U.S. had become strong. The U.S. had Japan's cooperation in defense operations. "It evolved also from U.S. military and commercial sales in the 1960s to licensed production of American systems in Japan in the 1970s and early, to co-

production in the early 1980s” (Wooley 1988). Yet today, Japan has become superior in many military technologies leaving Washington concerned about Japan becoming a potential danger to American military power.

As defense cooperation improves, economic relations grew as well. According to Deslter and Nacht, the U.S. must be concerned with the impact of Japanese products on U.S. producers and markets, expanded trade through breaking down of Japanese barriers to American products, Japanese surpluses and growing U.S. deficits, intervention in foreign exchange markets, Japanese success in high tech, triggered anxieties in the defense establishment about U.S. technological leadership, security leakage, and capital flows from Japan to the U.S., all which reflect the overall shift of incentive economic power (1993). As these issues emanate over the decades, the U.S. must become more competent in management of foreign economic competition.

PROBLEM

Alternatives and Dimensions

The United States has many options it can employ in dealing with international dilemmas. The most relevant actions in my particular case study that were documented can be narrowed down to four options. The alternatives include “do nothing”, “negotiate the proposal”, “impose tariffs on luxury cars”, or “impose greater sanctions” on imports. Each of these options can be viewed from different standpoints. The decision-maker in this dispute, U.S. government leaders, had three main dimensions to consider in choosing an alternative. Their choice was affected by political, economical, and diplomatic factors. Each had an impact on whether or not an alternative is desirable.

If the leaders decided to do nothing, the impact of the dimensions vary. Politically, this was a risky choice. The leaders in the U.S. automotive industry were tired of lack of fair competition that existed and wanted the government to take a stand and fight for fair-trading. U.S. workers, businesses, and consumers were suffering from the lack of opportunity both in the U.S. and in Japan (Kantor 1995). Likewise, this move would not help the economic dimension since it would fail to decrease the deficit and possibly permit the gap to increase. Although, the deficit was slowly balancing out, unless significant action was taken, the progress may have stop moving and become stagnate. Furthermore, Japan would have viewed this decision as weakness and not felt threatened while continuing its unfair practices. This is by far the antithesis of the agreement that the U.S. leaders wanted Japan to accept.

Similarly, the U.S. could have gone to the discussion table and negotiated various

agreements in the proposal. In the political arena, the U.S. automotive leaders wanted the government to take more decisive action rather than compromising its original proposal through negotiations. They felt the U.S. needed to show strength by standing firm and make Japan realize the concerns that were being overlooked needed to be addressed with gravity (Davis 1994). Though, economically, negotiations may have been helpful if Japan agreed to the proposal after adjustments were made and finally took extensive deregulatory action which would have affected the trade deficit in favor of the U.S. Perhaps, the affect may have been slight but at least the move to lower the gap would have continued. Most likely, this would have been a rather favorable diplomatic move. Japan would have had the opportunity to minimize any negative affects on its own economy by shoring down requirements in the proposal. They may have been able to keep some of the barriers that had benefited their companies and industries.

On the other hand, the U.S. could have taken more extreme measure to obtain agreement of the deregulation proposal. Tariffs could have been threatened on 13 luxury cars that were imported from Japan (Kantor 1995). Politically, the U.S. would appear to be adamant in its request while determined to act yet still not have to resort to Super 301. The U.S. would only have limited the availability of imports from Japan while haven taken action to help alleviate unfairness in trade on the domestic territory. U.S. consumers would then have more reason to buy domestic automobiles and the industry would have increased competition on the domestic front (Kantor 1995). Hopefully, Japan would be alarmed by this action. Japan's luxury car industry would be strained since most are built in Japan and shipped to the U.S. The government may then be

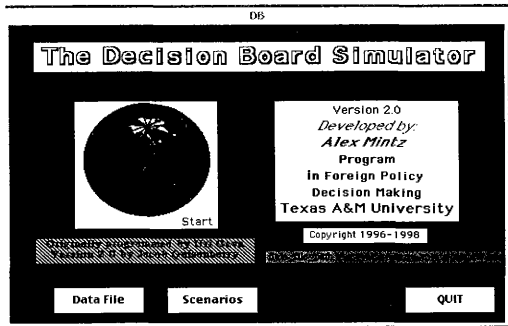
prompt to take the U.S. seriously. Japan may have deemed this course of action as an imposing complication and thereby accepted the deregulation proposal.

The final alternative to be considered was to impose sanctions on imports under a trade provision, Super 301. For the U.S. public, their government had been patient enough with Japan and compliance with the proposal is of up most importance. The government would emerge as determined traders trying to solve the deficit problem, which politically was desirable. Though, the administration realized action must be taken, the U.S. auto industry would ultimately not benefit from sanctions that threaten to put Japanese companies out of business (Simison 1995). Economically, the lack of competition would have allowed U.S. companies to profit and lower the deficit, but if Japanese companies are severely hurt by sanctions, it may have had a negative impact on other areas of trade. Finally, many in the Clinton administration were concerned that if the U.S. proceeded with a Super 301 action on autos - the most politically sensitive trade sector for both notions - Japan may feel compelled to walk away from talks and completely reject the proposal (Davis 1994). This could have caused unnecessary strained relations between the countries.

In the end, the U.S. chose to impose tariffs on luxury cars. Luckily, Japan complied with the proposal and the tariffs never were needed. It is interesting though to consider why the leaders of the U.S. chose tariffs over the other alternatives. I suspect that the different dimensions play distinct roles in the decision making process while political factors have more weight on the choice of the outcome. This dimension often has a stronger role when government leaders look at alternatives.

Research Design

In order to test my theory, I applied an analytical component that modeled foreign economic relations between the two countries. I incorporated an experimental design created by Dr. Alex Mintz, director of the Program in Foreign Policy Decision-Making at Texas A & M University. An important component of the Program is a new state-of-the-art experimental laboratory. The lab facilitates experimental studies in foreign policy decision making with an interactive computer simulation. As a first step, members of the Program have developed the Decision Board Simulator—a computerized interactive system that provides a new research platform for testing theories of foreign policy decision making (cybernetic theory, prospect theory, expected utility theory, the polihueristic theory of decision and more). The generic nature and programming flexibility of this platform allows researchers to conceivably develop countless scenarios of international crises, trade negotiations, and more.



For this project, I employed 26 students (subjects). The students were drawn from political science classes at Texas A & M University. The data needed for the experiment was mainly of qualitative nature, therefore large number of participants were not needed. Although some may argue that students do not represent decision making of higher capacity, A&M has performed research in which the results reveal that college students do actually follow similar thinking patterns as officers in prestigious military schools. Overall, the use of students in the study should reveal accurate results.

The format of the experiment was computer based. A scenario identically related to the dispute was devised and input into the computer simulation. Once the student logged into the system, they were allowed unlimited time to read the scenario before proceeding (See Appendix A).

Trade Dispute: Japan & U.S.

In the recent past, the US has had concerns with trade relations with Japan. As the Japanese market has risen to a competitive nature with the US, the trade deficit has increased dramatically. One particular area of importance is the automotive industry. In the late 1980s, automotive products made up almost half of the \$60 billion trade deficit between the two countries (Wall Street, Jan 1987). After restrictions were imposed, the deficit fell but currently still makes up 1/5 of the overall trade deficit with Japan. The United States government needs to take actions to help balance the trade deficit and protect competition.

Not only were Japanese companies out-selling US companies in the States with aggressive pricing, but also US firms were countering barriers to the Japanese market. The two main barriers in the automotive industry dealt with sales of auto-parts in the US and automobile sales in Japan. Even though the Japanese automakers built cars in the US, they relied heavily on parts imported from Japan. US suppliers were being overlooked and unable to compete with the existing ties. Likewise, US suppliers were unable to gain market share in Japan because Japanese manufacturers put extreme pressure on their dealers to carry domestic cars. The Japanese manufacturers also

Continue

Afterwards, the subject advanced to the next screen, which contained the actual decision matrix (See Appendix B). The implication for each dimension of an alternative was contained in an information bin. The information was presented as an opinion of three different advisors: political, economical, and diplomatic. Each advisor gave a rating on the four alternatives from a range of -10 (worst) to 10 (best). The student was allowed to view each bin once and return to the decision matrix. Each bin was allowed access only once. After reading as much or as little information as the subject deemed necessary, they chose an alternative that they felt would be the best decision based on the information given about the dispute.

	Do Nothing	Negotiate Proposals	Impose Tariffs	Impose Sanctions
Political Advisor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Economical Advisor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Diplomatic Advisor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
not a dimension	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Decision				

Subjects were encouraged not to use outside knowledge and only to rely on the information given in the scenario and decision board. Following the computer simulation, subjects were given a brief questionnaire that contained questions relating to

the weight given to different dimensions for each alternative (See Appendix C). The questions for the questionnaire were devised after consultation with my advisor, which we felt, would request the information needed in the best format. After the experiment, I gave the group a short debriefing.

Students were not asked for personal information and names were not used. All responses remained confidential and only an identification number was used to identify students. The use of the ID number was required to match results of the computer with the answers on the questionnaires. Each student's responses on paper as well as on the computer were later matched up in order to tabulate the results. The pertinent information in the results was then transferred to an Excel spreadsheet for better access and then graphed (See Appendix D).

Following the graphing, I observed the information and drew conclusions for analysis from the results. The results I hoped to gain from this experiment were that there would be a recognizable primary choice of alternative among the subjects. Whether or not it was the same choice as that of the U.S. leaders, consistency in choice would reveal reliability in the experiment. Also, I anticipated patterns within the choices that would prove theories about political decision-making. Yet, the main purpose of this experiment was to understand why the subjects made their decisions, then I can possibly find the stimulus behind the government's decision. By looking at the results, I could gain understanding in how the U.S. government made its decision to impose tariffs.

ANALYSIS

Preferred Option of Subjects

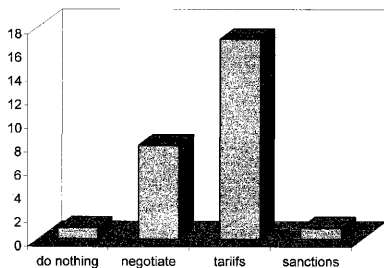
Graph Observations

- Tariffs were the overwhelming alternative for over half of the subjects.
- Do nothing and sanctions were equally chosen by the fewest number of students.
- Negotiations, the second best alternative was correctly the second most chosen.

Analysis

First, these results validate the experiment's validity because the hypothetical best alternative in the experiment was also the actual best decision. Since most of the subjects view tariffs as the superior course of action, the response to the questionnaire in regards

Figure 1



to this alternative will provide the most information on to decision-making. The reasoning behind students who chose this option will give us insight in what dimensions were deemed more important and how each dimension was taken into consideration.

The students who choose tariffs all stated that some action was needed. These students felt that in order to actually reduce the deficit, more than just talk was required. The U.S. needed to take a strong stand and be progressive. Most students also recognized that out of the three options, tariffs were positively favored on all three dimensions. "The rating in the economic dimension was higher than the others, and the political dimension was positive. The diplomatic dimension was also not too bad."¹

¹ All quotes in the analysis are directly taken from the responses obtained in the questionnaire.

Alternative Rejected by Subjects

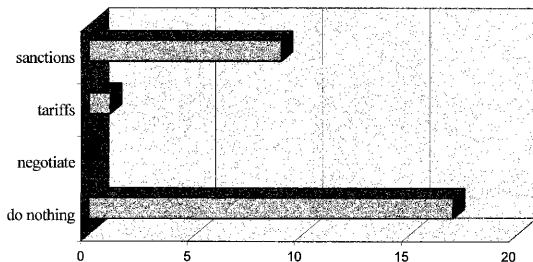
Graph Observations

- None of the subjects chose negotiations as the worst alternative.
- The majority felt that doing nothing was the worst action the government could take.
- There are many that saw sanctions as the pitfall in this dispute.

Analysis

Almost all the subjects in the experiment chose to do nothing or to impose sanctions as the alternatives that were rejected outright. This shows that the need to act yet act without being too extreme was important in the decision-making. To be concise, I wanted to look at the reasons behind the decision to not choose an alternative in the same light as looking at reasons to choose an alternative in order to get a comprehensive

Figure 2



analysis.

Many of the responses the subjects gave entailed concern for action. From all dimension standpoints, doing nothing was the worst choice because it did nothing to help the deficit, which is the main priority of the proposal and the task at hand. Yet, all courses of action must be considered and allowing the government to sit back and be complacent about an international matter is certainly conceivable. Still, the decision to do nothing clearly would not be acceptable to all three advisors. Similarly, doing nothing was comparable to ignoring the problem for most respondents. "Since there is an obvious problem, it needs to be addressed in some manner".

The second most rejected alternative was to impose sanctions on Japan. This action was deemed unfavorable because it could cause potential conflicts. The students felt that sanctions might ultimately hurt the economies of both countries. The businesses on both sides could suffer from lack of communication. Of course, the consumer would be hurt the most with the lack of choice among options. Likewise, there was sincere concern over relations between the nations. "There is no need to punish or insult Japan". Several of the respondents felt that sanctions would have a negative impact on international interaction.

Weight Given to Advisors by Subjects who Chose Tariffs

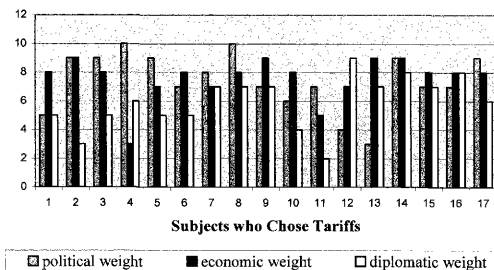
Graph Observations

- Overall, the dimension that has the highest average is the economic dimension.
- Similarly, it appears that diplomatic weight was considered the least in the overall calculations.
- Political factors are still strongly considered but do not win over the other two dimensions as either most important or least important.

Analysis

The alternative that was chosen by the most subjects also has another strong indicator. Most of these subjects valued economic aspects most influential in decision making while at the same time keeping political factors close at hand. This leads me to believe that financial concerns are of higher priority than the domestic context or international relations. The subjects were less burdened by souring relations with a

Figure 3



competing country and wanted more to help the economy, consumers, and industries in the U.S.

Many of the responses contained desire to see action and were wearisome of destroying relations with Japan through sanctions. These subjects felt in order to help the trading gap, some action must be taken. Yet, the majority was clear that doing nothing was by far the worst decision if *anything* was to be done about the trade deficit. Response after response stated that politically, this was the best alternative and that is why it was chosen. Likewise, they felt that since the other two dimensions were not as negatively affected as in other alternatives, tariffs were overwhelmingly the safe course of action. These subjects shied away from the other alternatives that contained negative impacts in any of the dimensions. Many also felt that imposing tariffs instead of harsh sanctions was a better compromise and would be able to produce more results. The effect would be two-fold. One, it would help balance the deficit and two, it would scare Japan into action.

Most surprising in these results was that the economic dimension fared higher than the political dimension (average: political = 7.41, economic = 7.59, diplomatic = 5.94). Although, the subjects claimed that the alternative was chosen based on high political concerns, it is evident that economic issues were the prevailing factor. Likewise, the standard deviation (political = 2.03, economic = 1.54, diplomatic = 1.85) in the economic dimension reveals that high weight given to economics was a more uniform decision. Overall, the strongest influence came from the economic dimension.

Weight Given to Advisor by Subjects who chose Negotiations

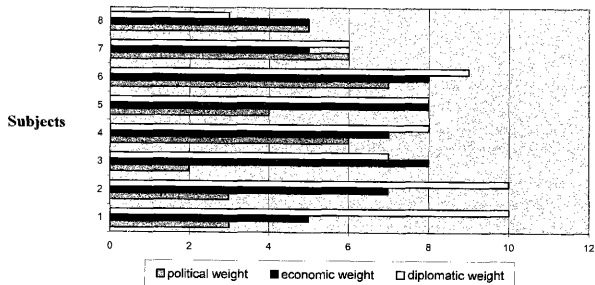
Graph Observations

- The dimension that carries the most weight is the diplomatic dimension.
- Political weight is the lowest 6 times out of 8.
- Economic weight the median 6 times out of 8.

Analysis

This graph reveals that when considering negotiations, the diplomatic dimension was more pervasive. It would make sense that the students who considered negotiations a better option gave more weight to the diplomatic advisor. Most of these students also considered the political issue least important. I found this consistency in thought processing valuable to my theory of decision making. For those who found negotiations

Figure 4



favorable, there is a strong pattern among the students that diplomatic relations came first, then economic, and finally political relations.

These students were most concerned with maintaining benevolent relations between the countries. "It seems harsh sanctions or tariffs would jeopardize relation...negotiations seem like the best way to reduce the deficit". With peaceful discussion, the rise of conflicts was less likely and thus more advantageous. Negotiations are a form of action in that it calls to attention the dispute and addresses a problem. While Japan would recognize the need for reform, they would also have the opportunity to be heard. Mostly, negotiations were considered to be more fair and friendly.

As for economic matters, the response was that neither economy would be affected negatively and continued competition under a ratified proposal would only be beneficial. "Tariffs and sanctions may affect other areas of trade not only in the particular dispute which may have a negative impact on the overall economies of the countries". There would be a more likely chance to decrease the deficit without estranging relations with Japan. "It is extremely important not to alienate trade partners in a globalize and free market".

Weight Given to Advisors by Subjects who chose Sanctions

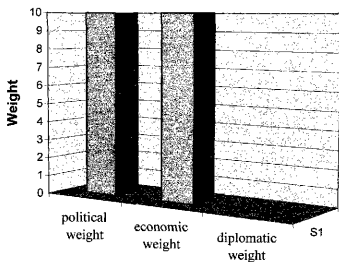
Graph Observations

- No weight was given to the diplomatic advisor.
- Equal weight was given to both the political and economic advisor.

Analysis

The student who chose to impose sanctions wanted to do so in order to "level the playing field". In this case, the diplomatic dimension is the one that is given no consideration. Yet, in order to be effective in an international arena, one must take into account the other parties involved. I feel that this subject was not taking in the entire situation by not considering the effect the choice would have on an international level.

Figure 5



Subject who chose sanctions

Weight Given to Advisors by Subjects who chose to Do Nothing

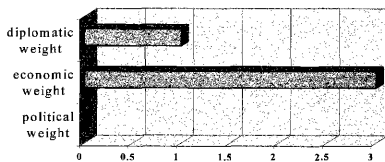
Graph Observations

- No political weight was given to advisors.
- The most concern centered on economics.

Analysis

The student who chose to do nothing admitted that they were a libertarian and did not believe that the federal government should be involved in the auto industry. This person also gave absolutely no weight to the political advisor and extremely little weight to the diplomatic advisor in the scenario, the two key advisors that would have knowledge of foreign affairs. Since this is an international matter, the fact that he gave no thought to the impact of these dimensions leads me to believe that this subject did not base their decision on what course of action to take solely on the information given in the scenario. Therefore, I am tempted to throw out this data yet I think it proves a point that well-informed and rational decision makers in our governmental system would not have chosen this course of action because it was not considerate of the prevailing factors at play.

Figure 6



Case Study

In the recent past, the U.S. has had concerns with trade agreements with Japan. As the Japanese market rose to a competitive nature with the U.S., the trade deficit has increased dramatically. One particular area of importance is the automotive industry. In the late 1980s, automotive products made up half of the \$60 billion trade deficit between the two countries (Schlesinger 1987). After restrictions were imposed, the deficit fell but currently still makes up 1/5 of the overall trade deficit with Japan. The gap stems from several distinct sources that limit U.S. competitiveness in the Japanese market. The United States government needed to take action to help balance the trade deficit and protect competition for U.S. companies.

The worrisome trade deficit came into the limelight in the early 1980s when it was clear that Japanese automobile exports were increasing at a precipitous rate. Three main events allowed the Japan market to take a strong foothold in the automobile industry. In the late 1970s, Japan implemented capital liberalization and eliminated the ceiling on foreign investments of Japanese companies. This came after a General Agreement on Tariffs and Trade (GATT) negotiations round in June of 1967 when President Kennedy fought for across-the-board tariff reductions by 50% during the five years beginning from July 1968 (Capital 1999). As a result, tariffs were eventually reduced to 0% for Japanese automobiles, the first instance of no tariffs on imports for a leading industrialized nation. This began the advent of an era of free movement of capital that provided Japanese automobile manufacturers with an opportunity to restructure through mergers and the formation of business groups in order to ensure the

mass production that was necessary for survival in international competition (Capital 1999). Thus, Japan became the leading export of automobiles to the U.S.

This success also followed the oil crisis of 1973, which adversely affected the entire global economy, but the impact on Japan was especially severe. Japan relied on the Middle East for over 80% of its oil and the reduction in oil production caused great alarm in industries throughout Japan but mostly in the automotive industry. Oil prices increase over 217% and the GNP of Japan revealed first time negative growth. These conditions caused great hardship on the automobile industry as sales dropped abruptly. Japan, however, was able to prevail over the impact of the oil crisis through strict cost reduction measures, energy and resource conservation initiatives, and persistent export promotion efforts in a harsh economic climate (Maturing 1999). This led to Japan producing lighter weight vehicles, which were more fuel efficient and highly popular in the U.S. as well as competitive in price. "After the gasoline crisis of 1979, the U.S. demand for passenger cars plummeted 9.3 million cars to 6.6 million in 1980. While demand for passenger cars as a whole declined, demand for fuel-efficient compact and subcompact models did not decline as much" (Tsurumi 1982). This reaction to the oil crisis provided a preliminary step for conservation. With its demand for improved performance and environment-friendly passenger cars on the rise, Japan became a leader of international growth.

Now, a leading industrial powerhouse, not only were Japanese companies out-selling U.S. companies in the States with aggressive pricing, but also U.S. firms were countering barriers to the Japanese market. "Much like the United States, Japan has a

mature motor vehicle market that is an unlikely prospect for long term growth; it is however, a large market, and improved access is of great interest to the U.S.” (Gott 1999). The two main barriers in the automotive industry dealt with sales of auto-parts in the U.S. and automobile sales in Japan. Even though the Japanese automakers built cars in the U.S., they relied heavily on parts imported from Japan. “U.S. auto-parts makers say they are unfairly shut out of the Japanese market because of the long-term close relationship between Japanese assemblers and suppliers” (Schlesinger 1990). U.S. suppliers were being overlooked and were unable to compete with the existing ties between manufacturer and supplier. “Parts imports from Japan, which have increased to supply the growing number of U.S.-produced Japanese vehicles, have accounted for the vast majority of the U.S. deficit in automotive parts trade since the mid-1980s (Gaines 1999).

Likewise, U.S. automakers were unable to gain market share in Japan because Japanese manufacturers put extreme pressure on their dealers to carry domestic cars. In an effort not to lose good relations with the manufacturers, dealers complied with the demands and seldom allowed foreign cars on the lots. These “corporate alliances and exclusive buyer-seller networks” inevitably impeded foreign competition. The Japanese Government also allowed for excessive regulation in the industry. Examples of excessive regulation include price controls, unique standards, and burdensome testing and certification requirements. These practices were the result of privatization of regulation. “The Government of Japan delegates, both formally and informally, governmental or public policy functions, such as industry standard development product

certifications and entry authorizations, to industry associations and other business related organizations that are generally not under any obligation to conduct their operations in an open, transparent and non-discriminatory manner or to include foreign firms in their deliberations” (United States 1999). Therefore, the number of foreign cars was able to be heavily restricted causing limited competition. These practices have led to such an alarming trade deficit between the countries that it caused U.S. officials to take action.

Initially, Japan denied any unfair practices. Later, during the early 80s, under pressure and in an effort to avoid being called an unfair trader, the Japanese government agreed to try to open their market to more imports of automobiles. “Japan is trying to strengthen its position by saying it wants a fundamental change in the current confrontational trading relationship, where the U.S. issues a threat, Japan initially denies the problem then caves in under intense pressure at the last minute” (Schlesinger 1990). Japan complied with U.S. trade agreements to limit the number of exports to the U.S. to 2.3 million vehicles annually. Japan also negotiated additional auto-parts bought from U.S. suppliers. In 1992, the purchases rose from \$2.5 billion to \$13.6 billion, a substantial amount but still not enough to close the trade gap (Templin 1993). Even with Japan’s passive cooperation, the trade deficit hovered over \$9 billion.

The U.S. called for stronger measures to balance the trade deficit in the form of a deregulation proposal. The proposal essentially seeks to eliminate the unfair practices by Japanese companies. The U.S. felt that compliance with the proposal would show Japan’s desire for progress. “The objectives of the 1995 U.S.-Japan Automotive Agreement are to eliminate market access barriers and significantly expand sales

opportunities in this sector. Under the Agreement, [the U.S. wanted] the Japanese Government to commit to improve access for foreign vehicle manufacturers, expand opportunities for U.S. original equipment parts manufacturers in Japan and the United States, and eliminate regulations that restrict access for U.S. automotive parts suppliers to the Japanese repair market” (United States 1999).

Yet, for the Japanese government the proposal is too demanding and too progressive. Therefore, the Prime Minister of Japan offered a partial settlement of the automotive dispute with a proposal that contains plans to help equal Japanese auto dealers with foreign carmakers. Still, U.S. officials have plans to name “priority” areas for trade pressure and possible sanctions under a trade-law provision known as Super 301. According to United States Trade Representative, Mickey Kantor, “Japan’s interim package of deregulation measures announced on March 10...falls short of the comprehensive deregulation objectives set out by the Japanese Government last year” (Kantor 1995). He deems the package deficient because it fails to adequately address main concerns of the U.S. “Only by fully opening and deregulating its auto and auto parts sector will Japan foster the creation of a truly competitive automotive market, generating further progress under the Automotive Agreement and helping to spur Japanese economic growth” (U.S. Department of Commerce 1999). Ultimately, the U.S. stance is to not accept the interim package and gain compliance with the proposal already set out by the U.S.

SUMMARY AND CONCLUSION

Summary

The results from the experiment show unambiguous patterns and strong consistency. The different groups of students who chose the same alternatives tended to weigh the dimensions similarly. Likewise, the students who chose the less favorable alternatives gave the highest weight to the other dimensions. The decision most favored in the experiment is also the decision most likely to have been taken by the U.S. leaders. The alternatives deemed the worst decision were also the least likely ones that would have been taken by the government. This outcome shows reliability in the experiment to reveal accurate results.

For the subjects, each alternative offered a different dimension as most important. The students who chose to impose tariffs gave the most weight to the economic advisor while the students who chose negotiations considered diplomatic relations the most important. Then, there were the students who chose to do nothing or sanctions who gave little or no weight to the political or diplomatic dimension. This strong pattern proves that certain alternatives play a more important role when making decisions on international issues.

Overall, the students who weighed all the dimensions carefully and considered the alternatives from the three different angles, made the more desirable decision with respect to international affairs. The students who did not consider all possibilities or took in outside information made the more unlikely decisions.

Conclusion

Although my goal was to find a pattern, I was mistaken in the pattern that I thought would occur. There was strong unity in the decision for each alternative based on the suggestions of the advisors. Yet, the unity for the dimensions that I deemed more influential did not exist.

It is not surprising that the students who chose to negotiate did so with a greatest emphasis on diplomatic concern. I anticipated this result and am confident in its suggestion. On the other hand, the dimension that I thought would prove strongest for the students who chose tariffs would be the political dimension. Yet, the statistics show that students were more influenced by economic issues. Although the results do not show a large discrepancy between the two influences, my hypothesis that politics would play a greater role in decision-making is wrong.

Finally, I am encouraged to find that there are patterns to decision making. These patterns exist in the relative importance of influences. Various decisions yield different degree of weight on certain alternatives. Although a definite pattern of dimension versus decision needs further research, I conclude that the pattern is present, recognizable, and almost predictable. These patterns can be further analyzed in order to help create understanding in political decision-making. This understanding can ultimately be used to help maintain friendly relations and strong economic markets, which are vital today especially between the U.S. and Japan.

REFERENCES

- Davis, Bob. 1994. "Japan's Trade Minister Offers Proposal with Steps to help Sole Auto Dispute." *Wall Street Online*.
- Deslter, I.M. and Michael Nacht. 1993. "U.S. Policy towards Japan." *American Trade Politics*. New York: Institute for International Economics.
- Gaines, Robin. 1999. "Automotive Parts: Economic and Trade Trends." *U.S. Industry & Trade Outlook '99*. New York: McGraw-Hill Companies/U.S. Department of Commerce and International Trade Administration.
- Gott, Phi and Sam Fiorani. 1999. "Motor Vehicles: Economic and Trade Trends." *U.S. Industry & Trade Outlook '99*. New York: McGraw-Hill Companies/U.S. Department of Commerce and International Trade Administration.
- Japan Automobile Manufacturers Association (JAMA). 1999. "Capital Liberalization and the Growth of Exports." *History of Japan's Auto Industry*.
- Japan Automobile Manufacturers Association (JAMA). 1999. "The Maturing Domestic Market." *History of Japan's Auto Industry*.
- Kantor, Mickey. 1995. "Statement by United States Trade Representative Mickey Kantor." *Office of the United States Trade Representative*. Washington, D.C.
- Schlesinger, Jacob M. Jr. 1987. "Japan's Extension of Auto-Export Curb Fails to Mollify Strongest U.S. Critics." *Wall Street Journal Online*.
- Schlesinger, Jacob M. Jr. and Kathryn Graven. 1990. "Japan Act to Show Progress on Trade—Tokyo Seeks to Avoid being labeled 'Unfair' by U.S." *Wall Street Journal Online*.

- Simison, Robert L. 1995. "U.S. Auto-parts Industry is Winner in Trade Accord." *Wall Street Journal Online*.
- Templin, Neal. 1993. "Japan Auto Markers Buy More U.S. Parts—Strong Yen Cited for Content Change in U.S. Built Cars." *Wall Street Journal Online*.
- Tsurumi, Hiroki and Yoshi Tsurumi. 1983. "U.S.-Japan Automobile Trade: A Bayesian Test of a Product Life Cycle." *Journal of Econometrics*. Holland: Elsevier Science Publishers B.V.
- United States. Office of the U.S. Trade Representative. 1999. "United States: Japan." *National Trade Estimate*. Washington D.C.
- U.S. Department of Commerce and The Office of the U.S. Trade Representative. 1999. *Report to William Jefferson Clinton of the Interagency Enforcement Team regarding the U.S.-Japan Agreement on Autos and Auto Parts*. Washington, D.C.
- Wittkoff, Eugene R. 1994. *The Future of American Foreign Policy*. New York: St. Martin's Press.
- Wooley, Stephen N. 1988. *Defense Industrial Cooperation in the Pacific Rim: A New Approach to Policy*. Virginia: The Institute for Defense Analyses.

APPENDIX A

Scenario for Decision Board

In the recent past, the U.S. has had problems with trade relations with Japan. As the Japanese market has risen to a competitive nature with the U.S., the trade deficit has increased dramatically. One particular area of importance is the automotive industry. In the late 1980's, automotive products made up half of the \$60 billion trade deficit between the two countries (Schlesinger 1987). After restrictions were imposed, the deficit fell but currently still makes up 1/5 of the overall trade deficit with Japan. The United States government needs to take action to help balance the trade deficit and protect competition.

Not only were Japanese companies out-selling U.S. companies in the States with aggressive pricing, but also U.S. firms were countering barriers to the Japanese market. The two main barriers in the automotive industry dealt with sales of auto-parts in the U.S. and automobile sales in Japan. Even though the Japanese automakers built cars in the U.S., they relied heavily on parts imported from Japan. U.S. suppliers were being overlooked and were unable to compete with the existing ties. Likewise, U.S. automakers were unable to gain market share in Japan because Japanese manufacturers put extreme pressure on their dealers to carry domestic cars. The Japanese manufacturers also lobbied for higher inspection and certification for the sale of non-Japanese vehicles. Therefore, the number of foreign cars was able to be heavily restricted causing limited competition (Schlesinger 1990). These practices have led to such an alarming trade deficit between the countries that caused U.S. officials to take action.

Initially, Japan denied any unfair practices. Later, during the early 80s, under pressure and in an effort to avoid being called an unfair trader, the Japanese government agreed to try to open their market to more imports of automobiles. "Japan is trying to strengthen its position by saying it wants a fundamental change in the current confrontational trading relationship, where the U.S. issues a threat, Japan initially denies the problem, then caves in under intense pressure at the last minute" (Schlesinger 1990). Japan complied with U.S. trade agreements to limit the number of exports to the U.S. to 2.3 million vehicles annually. Japan also negotiated additional auto-parts bought from U.S. suppliers. In 1992, the purchases rose from \$2.5 billion to \$13.6 billion, a substantial amount but still not enough to close the trade gap (Templin 1993). Even with Japan's passive cooperation, the trade deficit hovers over \$9 billion.

The U.S. has called for stronger measures to balance the trade deficit in the form of a deregulation proposal. The proposal essentially seeks to eliminate the unfair practices by Japanese companies. The U.S. feels compliance with the proposal would show Japan's desire for progress. Yet, for the Japanese government, the proposal is too demanding and too progressive. Therefore, the Prime Minister of Japan offered a partial settlement of the automotive dispute with a proposal that contains plans to help equal Japanese auto dealers with foreign carmakers. In the mean time, U.S. officials have plans to name "priority" areas for trade pressure and possible sanctions under a trade-law provision known as Super 301.

International trade is of vital importance for the U.S. economy. As the President of the U.S., you must decide on a course of action to take on the trade dispute with Japan

in regards to the automotive industry. You have four advisors who are assisting you with information. The political advisor assists you with public perception of the presidential office and oversees satisfaction of domestic constituents. He has contacts with representatives from the automotive industry and knows the effects of trade agreements and disputes on the industry. You also have an economic advisor who is familiar with the deficit situation and possible problems and solutions. Next, the Secretary of State is your foreign affairs advisor who has ties with the Japanese government and knows their views on the situation. As the President, you will hold a meeting and hear advice from these advisors before making a decision. As the President, you can choose to do nothing, negotiate an agreement, impose tariffs on luxury cars, or sanction.

APPENDIX B

Alternatives for Decision Board

	Do Nothing	Negotiate proposal	Impose Tariffs	Impose Sanction
Political Advisor	<p>"The leaders in the US automotive industry are tired of lack of fair competition that exists and want the government to take a stand and fight for more fair trading."</p> <p>I would rate this alternative a -8.</p>	<p>"U.S. automobile leaders want to take more decisive action than compromising its original proposal through negotiations. The industry wants stronger measures and does not want to see the government back down to Japanese demands. Negotiations would lessen the urgency and necessity of the proposal."</p> <p>I would rate this alternative a -7.</p>	<p>"The U.S. would appear to be adamant in its request while determined to act yet still not have to resort to Super 301. The U.S. would only limit the availability of imports from Japan while having taken action to help alleviate unfairness in trade on the domestic territory."</p> <p>I would rate this alternative a 7.</p>	<p>"Ultimately, the U.S. government feels they have been patient enough with Japan and wants compliance with the deregulation proposal. The government would be seen to have taken decisive action in an effort to help the U.S. auto industry."</p> <p>I would rate this alternative a 5.</p>
Economical Advisor	<p>"The deficit will not decrease and may possibly increase if nothing is done."</p> <p>I would rate this alternative a -8.</p>	<p>"Perhaps Japan would agree to the proposal after adjustments are made and take deregulatory actions and the trade deficit would benefit in favor of the U.S. slightly."</p> <p>I would rate this alternative a 2.</p>	<p>"U.S. consumers may have more reason to buy domestic automobiles and the industry will have decreased competition on the domestic front."</p> <p>I would rate this alternative a 4.</p>	<p>"The administration realizes action must be taken but the U.S. automakers will ultimately not benefit from sanctions that threaten to put Japanese companies out of business. Although, the lack of competition would allow U.S. companies to profit and lower the deficit, if Japanese companies are severely hurt by sanctions, it may have a negative impact on other areas of trade."</p> <p>I would rate this alternative a -2</p>
Diplomatic Advisor	<p>Japan would view this as weakness and not feel threatened while continuing its unfair practices.</p> <p>I would rate this alternative a 6.</p>	<p>"Japan wants the opportunity to minimize the negative affects on its economy by shoring down requirements in the proposal."</p> <p>I would rate this alternative a 7.</p>	<p>"Japan's luxury car industry would be strained and thus prompt the government to take the U.S. seriously. Japan would deem this course of action an imposing complication and thereby accept the proposal."</p> <p>I would rate this alternative a -4.</p>	<p>"Many in the Clinton administration are concerned that if the U.S. proceeds with a Super 301 action on autos - the most politically sensitive trade sector for both nations - Japan may feel compelled to walk away from talks".</p> <p>I would rate this alternative a -7.</p>

APPENDIX C

Experimental Questionnaire

Please write down your experimental ID number found on your index card. _____

1. Please weight the importance you attribute to each of the three advisors?

a. Political

Low Weight 0 1 2 3 4 5 6 7 8 9 10 High Weight

b. Economic

Low Weight 0 1 2 3 4 5 6 7 8 9 10 High Weight

c. Diplomatic

Low Weight 0 1 2 3 4 5 6 7 8 9 10 High Weight

2. Which alternative did you choose and why?

Based on

a. Political

Low Weight 0 1 2 3 4 5 6 7 8 9 10 High Weight

b. Economic

Low Weight 0 1 2 3 4 5 6 7 8 9 10 High Weight

c. Diplomatic

Low Weight 0 1 2 3 4 5 6 7 8 9 10 High Weight

3. Which alternative did you reject out right and why?

Based on

a. Political

Low Weight 0 1 2 3 4 5 6 7 8 9 10 High Weight

b. Economic

Low Weight 0 1 2 3 4 5 6 7 8 9 10 High Weight

c. Diplomatic

Low Weight 0 1 2 3 4 5 6 7 8 9 10 High Weight

APPENDIX D

Results of Experiment on Excel

ID #	# of Cells	choice	pol weight	econ weight	dip weight	rejected	pol weight	econ weight	dip weight	overall pol	overall econ	overall dip
1	12	do nothing	0	3	1	sanctions	0	0	0	0	0	0
2	12	tariffs	5	8	5	do nothing	5	8	5	5	7	5
3	9	tariffs	9	9	3	do nothing	10	2	2	7	9	6
4	12	negotiate	3	5	10	do nothing	7	5	1	5	8	10
5	8	negotiate	3	7	10	do nothing	3	10	10	3	7	10
6	8	tariffs	9	8	5	do nothing	5	5	5	9	8	5
7	9	tariffs	10	3	6	do nothing	10	3	7	10	4	6
8	10	tariffs	9	7	5	do nothing	8	4	6	9	4	6
9	7	tariffs	7	8	5	sanctions	1	9	1	8	10	5
10	10	sanction	10	10	0	do nothing	10	10	0	10	10	0
11	12	tariffs	8	7	7	do nothing	5	5	2	7	8	8
12	8	negotiate	2	8	7	sanctions	2	8	7	2	8	7
13	12	negotiate	6	7	8	tariffs	2	9	9	4	6	9
14	5	tariffs	10	8	7	do nothing	9	6	7	10	7	5
15	7	tariffs	7	9	7	do nothing	7	9	7	7	10	6
16	8	negotiate	4	8	8	sanctions	6	7	7	5	8	8
17	12	tariffs	6	8	4	do nothing	5	5	5	7	8	4
18	9	tariffs	7	5	2	sanctions	2	3	7	7	9	4
19	12	negotiate	7	8	9	do nothing	9	7	8	8	7	10
20	9	negotiate	6	5	6	sanctions	7	6	7	6	7	7
21	10	tariffs	4	7	9	do nothing	8	8	8	2	5	9
23	12	tariffs	3	9	7	do nothing	3	9	7	3	6	9
24	12	tariffs	9	9	8	do nothing	10	10	10	8	7	7
26	12	tariffs	7	8	7	sanctions	8	7	7	7	8	5
27	12	tariffs	7	8	8	sanctions	4	8	8	5	6	6
29	3	negotiate	5	5	3	sanctions	5	5	4	7	8	3
30	10	tariffs	9	8	6	do nothing	9	8	6	8	8	6

VITA

MARIE LILY AU-YOUNG

1000 E. University Dr. #1206
College Station, TX 77840
(409) 260-2490
mla6603@hotmail.com

EDUCATION Honors Double Major in International Studies and Political Science,
Minor- Business

HONORS Undergraduate Honors Research Fellow
Eisenhower Leadership Development Program
National Security Education Program Scholarship
Recipient
Honor Societies - Phi Eta Sigma (Freshman), Golden Key
Honor Society (Junior), Pi Sigma Alpha (Political
Science)
Academic Incentive Award - 1997
Public Policy Internship Program

EXPERIENCE U.S. Department of State
Intern at the Foreign Service Institute in the School of Professional
Area Studies

George Bush Presidential Library: Intern
Worked on an independent project in the archive department;
Responsible for implementation of a public accessible photograph
archive system

Tokyo, Japan
Lived abroad for ten weeks attending an intensive language study
program; gained cultural and language experience through travel
to the major cities of Osaka, Kyoto, Yokohama, and Kamakura

Taiwan
Toured and performed in major cities with the Dallas Chinese
Chamber of Youth Orchestra