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# The Social Context in Coercive International Bargaining

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Although international relations scholarship emphasizing the role of social constructs such as norms and culture has established a beachhead in the area of security studies,<sup>1</sup> it has yet to take on another bastion of the rational materialist approach: studies of coercive international bargaining. Scholarship in this area, ranging from the work of Thomas Schelling to James Fearon, has long argued that bargaining outcomes reflect the material costs and benefits faced by participants in negotiations.<sup>2</sup> Participants can influence outcomes, these models assume, only through tactics such as credible threats and side payments that reshape the material context of negotiations.

The assumption of rational materialism has been entrenched in the study of coercive international bargaining for the same reason it was widely adopted in the area of security studies: because international relations scholars in both areas have bought into the view that the anarchic nature of the international system forces nations to operate in a self-help world: trust no one and concentrate on the all-important aim of maintaining your security by maximizing your own relative power. Given this starting point, studies of coercive international bargaining have naturally focused on the concrete, material context of negotiations: the overall power resources of each side,

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1. For example, Katzenstein 1996b; and Legro 1995.
2. See Schelling 1960; and Fearon 1994.

the specific costs and benefits involved in the issue at hand, and material factors that affect the credibility of commitments to impose costs or provide side payments.

There has been one notable exception to this literature's general neglect of the social context of negotiations. Much of it has emphasized how a negotiator's reputation for resolve can make a difference in international negotiations, influencing the way the negotiator's counterparts evaluate the credibility of his or her threats independent of the material costs and benefits at stake.<sup>3</sup> Studies in the area of social psychology that inform some of this work on the effects of reputation on international bargaining outcomes, however, point to a number of additional dimensions of the social context that might matter at the international level as well. Most importantly, these studies have identified norms defining the range of legitimate bargaining tactics that, in laboratory experiments, influence negotiation outcomes. Even in coercive bargaining situations, these studies argue, certain tactics are more legitimate than others, and in certain situations threats are more acceptable as part of the game.<sup>4</sup> Violations of these norms can cause a backlash that limits the gains that might have been expected based on a rational calculation of the material stakes. In contrast, bargaining tactics that take advantage of opportunities for coercion that lie within the bounds of these norms can elicit more concessions.

I draw on this literature to generate a number of predictions about when and how the social context should matter in coercive international negotiations. Coercive tactics should yield less of a backlash and more concessions, I propose, when they take place within a social context where the parties accept that they are operating within a hierarchy and when the specific tactics employed fall within the range that are accepted as legitimate in the terms of this relationship; when the coercion takes place within an institutionalized process that establishes mutually accepted rules of the game; and when the parties trust each other. I then demonstrate the plausibility of these hypotheses by examining how the social context has shaped the recent pattern of bargaining outcomes in U.S.–Japan economic negotiations in ways that cannot easily be understood in terms of “pure” material factors.

This set of cases was chosen, first, because the frequency of U.S.–Japan economic negotiations allows us to look beyond the issue-specific factors that affect the results of any single bargain so that we can concentrate on the material and social factors that drive the broader pattern of results over time. Although I might have taken this logic to the next step and examined additional cases involving other dyads, I chose to limit the sample to those involving the United States and Japan in order to hold constant at least some of the factors that affect bargaining outcomes. The choice of cases was also driven by evidence that we have seen over the past decade a particularly dramatic shift in the pattern of bargaining results between the United States and Japan. Through the end of the 1980s, Japan was arguably the country that was *most responsive* to coercive U.S. trade pressure.<sup>5</sup> In recent years, however, Japan has be-

3. See Schelling 1960, 36–37; and Snyder and Diesing 1977, 185–89. On how reputations for resolve form and matter, see Mercer 1996. For another exception, see footnote 12.

4. See Pruitt and Carnevale 1993; and Tedeschi and Lindskold 1976.

5. See Bayard and Elliott data discussed in more detail later. Bayard and Elliott 1994.

gun to stand up to U.S. demands with increasing frequency. This significant movement on the dependent variable promises to provide us with an interesting opportunity to reflect on the role of changes in the material and/or social context in propelling this shift.

Although in this article I focus primarily on the questions of when and how the social context affects coercive bargaining outcomes, I also seek to use this set of cases to suggest some answers to a second, equally important question: where do these norms come from? As Paul Kowert and Jeffrey Legro argue in their recent article surveying the state of the social constructivist project, much of this work has concentrated on the task of showing that norms matter while leaving the question of where these norms themselves come from “ill-defined, incompletely theorized, and understudied.”<sup>6</sup> Applying this question to the cases at hand leads us to ask not only whether changes in the social context have affected patterns of U.S.–Japan bargaining outcomes but also where the norms that facilitated coercive bargaining until recently came from and what caused these norms to change.

The norms that govern U.S.–Japan bargaining until recently, I conclude, were the product of a period four decades ago when Japan was heavily dependent on the United States for both its security and its economic well-being. In that sense, they had a *material* origin. It was during this time that the Japanese came to accept the idea that their nation was in a hierarchical relationship with the United States and began to trust it as a partner. Even as the underlying material world that had given rise to these social norms began to change, they retained a force of their own, surviving in the minds of the elites who managed the U.S.–Japan relationship. Consequently, they continued to facilitate the United States’ use of trade pressure to extract unilateral Japanese concessions.

The cumulative effects of what Japan saw as the United States’ increasing abuse of its position, the establishment of the World Trade Organization, and the abrupt end of the Cold War, however, finally triggered a change in the nature of this relationship. This shift, experienced in the form of a generational transition among elites, brought the social context of bilateral relations more in line with an underlying material power balance that had been shifting steadily in the meantime. This new context was much less conducive to the United States’ continuing use of coercive bargaining tactics.

The story I tell about changing U.S.–Japan relations provides a variety of insights into the question of how norms shift. First, it reminds us that social phenomena such as norms cannot be treated as completely “independent” features of the international environment, divorced from the material world and impervious to the actions of agents such as nation-states. The social context of bargaining is sticky (and therefore has a significance of its own), but it is not immune to dramatic changes in the material world. Similarly, social norms tend to tolerate a measure of contrary action by states, but at a certain point they will begin to be transformed by such actions. Sec-

6. Kowert and Legro 1996, 454.

ond, it points to the role of generational transitions of elites in delaying and eventually facilitating the development of new norms.

The connections I try to draw and the story I tell in this article are not simple. Ideally, if all I wanted to do was examine whether social norms matter in coercive international bargaining, I would have chosen a set of cases where the material context was unambiguously constant so that the variation in my dependent variable could be clearly linked to changes on the social dimension. Given my interest in thinking about the relationship between changes in the material context and changes in the social, however, I needed to choose a set of cases where both were in play. To deal with the challenge of sorting out the effects of changes in the social and material contexts, I therefore focus closely on the *timing and extent* of changes in all of my variables. The recent dramatic decline in the effectiveness of U.S. pressure on Japan, I argue, cannot easily be explained by changes *over the same time period* in the material context of U.S.–Japan bargaining. Only by understanding how recent changes in the material world and in the actions of the players have helped to transform the social context in which the two nations bargain can we understand why the effectiveness of U.S. pressure has declined so abruptly.

Ultimately, my aim is to convince readers that the social context represents an important part of what shapes international coercive bargaining outcomes. Whether it does or not is critical not just in terms of international relations theory but also in terms of the practice of real-world negotiators. If the rational materialists are right, and bargaining outcomes can be influenced only through the exercise of material power, negotiators seeking better terms have no choice but to up the ante: make bigger threats, tap new sources of leverage. If norms play a role in shaping outcomes and norms themselves can be transformed over time by the actions of negotiators, however, such aggressive strategies might actually produce fewer gains over the long term. Bargainers would instead maximize their gains by carefully limiting themselves to coercive tactics that are viewed as a legitimate part of the game and by nurturing the kind of relationship that allows for their use.

The article is organized as follows. I first make the case for why scholars who study coercive international bargaining ought to pay more attention to the social context in which the parties negotiate. I focus on the bargaining literature in the field of social psychology and draw out some specific hypotheses about the ways in which we should expect the social context to matter. I also examine the current state of our knowledge about the process of international norm *change*. I then examine the results of U.S.–Japan economic negotiations over the period 1977–96 and show how my hypotheses offer a plausible explanation for the pattern of outcomes. Finally, I examine a variety of materialist explanations for the empirical pattern of results and conclude that none of these adequately accounts for the timing and magnitude of the recent abrupt decline in the effectiveness of U.S. pressure on Japan. Only by appreciating the way in which material and social contexts combine and interact, I argue, can we gain a full understanding of what drives coercive international bargaining outcomes.

## The Social Context of Bargaining

As noted at the outset, most analysts of coercive international bargaining have tended to limit their focus to rational material factors. To extract concessions, the conventional models propose, the state making demands must have the material *capability* to carry out a threat large enough to reverse the target's cost-benefit calculations as well as a material *interest* in doing so that is sufficient to convince the target that this threat is credible.<sup>7</sup> More recent applications of bargaining theory to coercive international negotiations have shifted attention toward the material effects of domestic political institutions, focusing on how domestic institutions affect the ability of parties to establish the credibility of their threats by imposing (material) audience costs on themselves<sup>8</sup> and on how electoral cycles affect the rate at which parties discount future costs and benefits relative to present values.<sup>9</sup>

Although the formal models used by scholars who work in this vein have become more and more complex as they attempt to incorporate "interests, institutions, and information" at the domestic level into their studies of international bargaining,<sup>10</sup> they have retained the simplifying assumption that negotiations between nations take place in an anarchic environment where, because there is no supranational enforcement of rules, states are driven to view all other states as potential threats and to observe social norms (and expect other states to observe them) only when it is in their material interest to do so. These assumptions are challenged by a growing volume of literature in the field of international relations that insists that relations between states are to one degree or another "socially constructed." Relations are not just a function of the material capabilities and interests of nations; they also reflect the way this material is given meaning by the social process through which nations interact. In Alexander Wendt's illustration, five North Korean nuclear weapons are more threatening to the United States than five hundred British nuclear weapons, "because the British are friends and the North Koreans are not"—judgments that reflect the United States' experience interacting with these two nations.<sup>11</sup>

Even the "deterrence literature" generally associated with the materialist camp, as noted earlier, gives pride of place to the essentially social concept of "resolve."

7. See Schelling 1960 and 1966; and Snyder and Diesing 1977.

8. Fearon 1994, 582.

9. Seawright and Way 1997.

10. For example, Milner 1997; O'Halloran 1994; and Bueno de Mesquita and Lalman 1992.

11. Wendt 1995, 73. Stephen Walt's much respected work on how states balance against "threats" rather than capabilities reflects the similar insight that nations inevitably make assumptions about their counterparts' future behavior based on their past interactions, not just on their power and "interests" abstracted from their position in the international system. Walt 1987. Walt himself does not regard himself as a constructivist, however, and takes pains in his more recent book to argue that the empirical cases he examines there do not accord with the predictions of "critical theory." Walt 1996. Constructivists would predict, he claims, that revolutions would be followed uniformly by long-term discontinuities in the revolutionary states' foreign policies because of their effect on states' *self-identities*—a pattern he does not find. Nevertheless, Walt's continuing focus on how states measure *each other's* "intentions" (where at least part of how states evaluate each other's intentions is based on their experience interacting with them) cannot but be seen as importing an element of the *social context* distinct from the usual neorealist emphasis on material capabilities.

Reputations for resolve are social rather than material, because they are constructed through states' interactions, much in the way individuals in domestic society acquire reputations for being resolute or irresolute based on their interactions with peers. This fairly widely accepted social dimension of coercive bargaining provides us with the first basis for predicting patterns of negotiating outcomes based on changes in the social context: *changes over time in a nation's reputation for following through on its threats and promises will, other things being equal, result in parallel shifts in its ability to prevail over its counterparts in coercive international negotiations.*

Work in the field of social psychology that is the source of theorizing about the role of reputations in coercive bargaining, however, also points to the importance of other social constructs in shaping bargaining outcomes. Nevertheless, these phenomena—including norms defining the range of legitimate bargaining tactics and trust—have curiously failed to receive significant attention in studies of coercive international bargaining. This neglect probably reflects, at least in part, the dominance of scholars studying cases of Cold War crisis bargaining in developing theory in this area. When a state is threatening to invade or rain nuclear missiles on your country, legitimacy and trust are not likely to be an important part of the story. In coercive economic bargaining of the type that has become much more common in the post-Cold War era, however, social constructs such as these are much more likely to play a role, especially when bargaining involves states whose relations are generally amicable.

All of the strands of rational materialism summarized earlier argue that coercion works only to the extent that it can credibly threaten to impose sufficient costs on a target. Even reputation for resolve, though part of the social context, contributes to the efficacy of threats through its role in enhancing the credibility of threats to impose costs.<sup>12</sup> The social phenomena I focus on, in contrast, derive their efficacy from features of the social context that facilitate the extraction of concessions *independent of threat magnitude or credibility.*

The first group of social phenomena I consider are norms defining the range of "legitimate" coercive bargaining tactics. That the exercise of coercive power can be "legitimate" or not, and that this makes a difference, is something we take for granted in thinking about domestic society. Weberians have traditionally made the question of whether or not an organization's exercise of coercive power is viewed as legitimate the defining characteristic of the "state." Sociologists have long recognized, however, that other social actors (such as the boss at work) enjoy a measure of legitimacy when they exercise certain kinds of coercive power. A "person's perception that another has legitimate authority," social psychologists have found in a vari-

12. I am not implying that reputation for resolve is the only element of the social context that has been imported into rational materialist bargaining models. Much of the work on signaling by Schelling and his followers, for example, has emphasized the role of discourse between leaders engaged in crisis bargaining. As with reputation for resolve, however, patterns of discourse have been seen to influence bargaining outcomes through their effects on perceptions of threat credibility. Note, too, that more recent formal models focused on signaling (for example, Fearon 1994) have moved away from Schelling's interest in discourse and emphasize how signals have an effect only when they are communicated in ways that threaten to impose material costs on the sender.

ety of experiments, substantially increases the likelihood that the former will comply with the latter's demands, independent of the material context.<sup>13</sup> Although the international system does not have an equivalent to Weber's sovereign authority, "international society" might sometimes create situations that approximate other domestic social settings where the exercise of coercive power is seen as legitimate and where a given measure of coercion therefore yields more concessions with less of a backlash.

First, some international relationships may come to be seen by the elites involved as essentially "hierarchical," creating a situation not unlike the one alluded to in the preceding paragraph where demands made by "the boss" enjoy a measure of legitimacy. As Wendt and Daniel Friedheim argue, international hierarchies are usually established when one state enjoys overwhelming material power over the other and uses it "to manipulate subordinates in a systematic way over time."<sup>14</sup> They argue that over time, however, such relationships "will also affect states' identities."<sup>15</sup> Those in the subordinate state sometimes come to accept the legitimate authority of the superior state within certain limits. Once this happens, hierarchy becomes a "social construct" that is independent to some degree from the material power that gave rise to it in the first place. This line of argument thus presents us with the following hypothesis: *that a decline (rise) in the degree to which elites in one nation see their state as being the subordinate partner in a hierarchical relationship will, other things being equal, lead to a rise (decline) in that nation's ability to stand up to coercive pressure from this partner.*

This social constructivist view of how role identity affects bargaining outcomes leads to predictions about how cross-issue "linkage" might work that are very different from the usual materialist way of thinking about this tactic. In rational materialist bargaining theory, linkage has generally been seen as operating in the following way: a nation with superior power resources in one issue area (for example, it contributes more than its share to a military alliance) *trades* what it could have obtained in this same issue area for enhanced leverage in a second issue area where it has less leverage (for example, trade negotiations). Consequently, though the nation employing a material linkage strategy gains more than it would have in one area, it does so at the expense of gains in another area.<sup>16</sup>

If the efficacy of coercive pressure is in part the product of the social context, however, it is possible that "social linkage" might operate in such a way that no trade is necessary. In a relationship where social ties in one issue area (such as the military side) are distinctly hierarchical, patterns of relations in another area where they are less materially unbalanced (such as the economic side) might nevertheless be affected through patterns of *social* interaction. Rather than relying on threats to withdraw favors on one side to extract concessions on the other, "social linkage" might work through the process whereby elites in the subordinate partner who have been

13. For a review of the experimental evidence, see Tedeschi and Lindskold 1976, 341–42. See also Pruitt and Carnevale 1993, 31.

14. Wendt and Friedheim 1995, 697.

15. *Ibid.*, 702. For a similar argument, see Ikenberry and Kupchan 1990.

16. Wagner 1988.

socialized to accept the authority of the superior partner on the one side of their relations carry their deference over to other issue areas where the partners are engaged in bargaining.

Let us now turn to the second element of the social context that may affect coercive bargaining outcomes through its effects on perceptions of legitimacy: procedural norms. As bargaining theorists Dean Pruitt and Peter Carnevale argue, those who would use threats to improve the terms of their deals can “reduce the resentment and resistance against their tactics” by being careful to employ only “legitimate threats.”<sup>17</sup> A disgruntled employee, they note by way of example, is likely to get better results by threatening to go to the president of the company with a complaint than by threatening to sabotage the production line. What makes the threat more effective in the former case is the social norm that going through organizational channels is acceptable, whereas sabotaging production lines is not. It is possible that similar norms might affect coercive bargaining outcomes at the international level as well, despite the obvious fact that there is no sovereign authority to enforce laws against the international equivalent of sabotaging production.

The analogous possibility, to be more precise, is that the degree to which a state targeted by a threat will offer concessions may vary according to how a sender’s tactics accord with procedural rules stipulated under an international regime. International institutions and regimes are actually another element of the “social context” that have been taken seriously in rationalist bargaining theory. Robert Keohane, for example, has argued that international regimes facilitate cooperation by reducing transaction costs and facilitating enforcement through tit-for-tat strategies that only work when relations are iterated.<sup>18</sup> Similarly, Lisa Martin has argued that threats made within an institutionalized environment are more credible because of the greater “audience costs” at stake.<sup>19</sup> More recently, Fearon has argued that reaching cooperative deals in institutionalized environments will be more difficult because the greater likelihood that such agreements will be self-enforcing further into the future leads states to bargain harder over the distribution of gains.<sup>20</sup>

Although this work goes part way toward recognizing the effects of institutions on bargaining outcomes, it has largely neglected the possibility that the normative content of international rules might have an effect on the distributive terms of bargains independent of the power and interests of the nations that make the rules.<sup>21</sup> More recent social constructivist work as well as a longer tradition of work in the area of

17. Pruitt and Carnevale 1993, 31.

18. Keohane 1984.

19. Martin 1993.

20. Fearon 1998.

21. On this literature’s neglect of distributive terms, see Krasner 1991; and Fearon 1998. The neglect flows from the fact that neo-institutionalists like Keohane and Martin have accepted rational materialist assumptions about the way that anarchy constrains the degree to which states will respect international rules. They will follow rules only when it is in their material interest to do so. This view leads to the expectation that institutions will reflect the interests of the most powerful state or states and that such strong states will rarely be constrained by norms that work in such a way as to limit their material gains or impose material costs.



international law takes norms seriously, but most of this literature focuses on *prescriptive* norms such as those related to the use of unconventional weapons.<sup>22</sup> Here I want to take seriously the possibility that international regimes can facilitate the effectiveness of threats by giving them a measure of *procedural* legitimacy in the eyes of the target state. Targets of threats should offer concessions more readily if they perceive that threats are being made through a process that is “fair”—that is, in the sense that the process applies equally to weak and strong states. If procedural norms matter, we are presented with the following hypothesis: *the more a party's coercive tactics accord with procedural norms governing international bargaining, the more effective these tactics will be.*

The final component of the social context with possible effects on the terms of coercive bargaining outcomes is trust. In studies of bargaining, great efforts have been made to show how certain *institutions* can help self-interested parties cooperate even under conditions (such as the Prisoners' Dilemma) where there are incentives for one or both parties to take advantage of the situation by cheating or lying. Increasingly, however, analysts have recognized that such institutions are a poor substitute for the social phenomenon of trust. “Concrete personal relations and the obligations inherent in them,” writes Mark Granovetter, can do much more to foster cooperation than reliance on “elaborate explicit and implicit contracts” that on their own leave self-interested parties with incentives to devise ever more elaborate means to evade the rules.<sup>23</sup> Consequently, social psychologists have emphasized that the amount of trust in a relationship dramatically affects the degree to which parties can arrive at cooperative agreements.<sup>24</sup> Trust is especially important, they find, “in settings where agreements must be implemented, because trust should encourage a belief that the other party will uphold its end of the bargain.”<sup>25</sup>

Although bargaining theorists have emphasized the role of trust in fostering, in particular, “coordinative” or “integrative” deals, there is no reason to expect it to matter any less when the bargaining is more coercive. Even under these conditions, we can expect that the willingness of negotiators in a nation that is the target of a threat to make concessions will be affected by their perceptions of whether their counterparts in the nation making the threats can be trusted to respect the terms of the (albeit one-sided) deal. If those in the target nation fear that the sender will cheat by stretching the concessions even further during the implementation phase or by coming back repeatedly with demands for more concessions, they will come to the conclusion that it is better to let the negotiations fail. A decline in the degree to which negotiators in the nation making the threats trust the target can also adversely affect bargaining outcomes, since it leads the sender to demand deeper and more explicit concessions in the expectation that the target will cheat during the implementation phase and rob it of concessions it thought it had won. The target may then find these

22. For example, Katzenstein 1996b; and Legro 1995.

23. Granovetter 1985, 489. For similar arguments, see Putnam 1993, 167–85; Fukuyama 1995; and Kramer and Tyler 1996.

24. Pruitt 1981.

25. Pruitt and Carnevale 1993, 133.

deeper and more explicit concessions unpalatable and refuse to come to a settlement. These observations lead us to the following hypothesis: *a decline over time in the degree to which negotiators trust each other to carry out the terms of their agreements in good faith will negatively affect their nations' ability to reach (even one-sided) agreements, thus making it more difficult for one nation to prevail over the other in coercive bargaining.*

Measuring shifts in abstract qualities such as trust, deference, and attitudes toward the procedural legitimacy of specific types of sanction threats, of course, is not an easy task. Moreover, to be confident that we have identified an important cause of changing bargaining outcomes, the evidence that shifts in the social context have occurred needs to be independent of the behavior that is being explained. My analysis of changes in the social context is therefore based on extensive personal interviews with Japanese elites spanning the period 1992–98, supplemented by an analysis of the language used by elites in published sources. In judging whether elites see their nation playing a subordinate role, for example, I focus on the language they use in characterizing the relationship. If we notice changes over time in the choice of language used by elites, this will be taken as evidence of a shift in role identity. Similarly, the evaluation of whether trust has declined between U.S. and Japanese officials will be based on comments made by officials during negotiations about the degree to which they trust their counterparts. Although public opinion polls have periodically attempted to gauge levels of trust and friendship between Americans and Japanese, I decided not to draw on this data because negotiators on both sides are more likely to be influenced by their personal experience of U.S.–Japan bargaining than by the climate of public opinion.

### *Changes in the Social Context*

Social phenomena like norms tend to be “sticky” and so are usually employed to help explain *continuity* in outcomes. Peter Katzenstein’s recent work, for example, has looked at how norms developed over the postwar period in Japan have helped perpetuate that nation’s passive and pacifist security policies even as the underlying material context has changed.<sup>26</sup> All of the preceding hypotheses positing a link between the social context and coercive bargaining outcomes, in contrast, focus on how *changes* in the social context might lead to *changes* in outcomes. Inevitably, therefore, we are led to the question of what drives change in the social context itself.

As noted earlier, this question has received much less attention in social constructivist work to this point. The chapter by Kowert and Legro in the Katzenstein volume that raises this critique of the constructivist project to date, however, does offer a useful place to start thinking about the process of change in the social context. In brief, they identify three mechanisms through which the social context is generated, maintained, and changed that they term social, ecological, and internal.<sup>27</sup> I focus on the first two of these here.

26. Katzenstein 1996a.

27. Kowert and Legro 1996, 470–83.

One way social phenomena evolve, Kowert and Legro argue, is through the process of social interaction. That the social context emerges socially may not seem surprising, but it in fact contradicts assumptions that are at the heart of the dominant approaches to social science in the contemporary disciplines. These approaches, modeled on neoclassical economics, prefer to view the material and social context in which actors operate as an exogenous given, an assumption that facilitates model building and empirical “testing.” Social constructivists in a variety of disciplines, however, have begun to insist that this assumption misrepresents the way social phenomena work. As sociologist Granovetter notes, “culture is not a once-for-all influence but an ongoing process, continuously constructed and reconstructed during interaction. It not only shapes its members but also is shaped by them, in part for their own strategic reasons.”<sup>28</sup>

If this is true in domestic society, it ought to be true as well at the international level where groups of negotiators and other elites from different nations interact regularly over time. Especially in an important bilateral relationship of the type that will be examined later, this view of social reality leads us to focus on how the actions of leaders and negotiators in the two states may have reshaped the social context in which they bargain even as they have been constrained by it. Trust, for example, may be high at a given point in time, but it should be expected to remain high only if negotiators representing the two nations regularly act in good faith, respecting their agreements and not twisting their terms. Acts of bad faith, repeated often enough, can at a certain point be expected to lead to a loss of trust.

Kowert and Legro identify the second mechanism shaping the social context as an “ecological” process, defined as “the patterned interaction of actors and their environment.” A stable environment, they posit, is likely to reinforce the social context. In contrast, “dramatic shocks in the environment (to the international system, for example) loosen commitments to existing identities and behavioral norms.” This mechanism clearly links change in the social context to changes in the material, but not smoothly and continuously. It suggests that though a feature of the social context such as “hierarchy” can survive a gradual shift in the material environment that gave rise to it, it may not survive a “dramatic shock” that leads the states that are involved in the hierarchical relationship to reexamine their identities and roles.

Whereas Kowert and Legro posit that change in the social context emerges in these ways, the cases in the Katzenstein volume do not provide them with the basis for drawing many firm conclusions, leaving them with more questions than answers. This is partly because the cases in the volume were chosen primarily with the aim of evaluating the importance of social norms rather than with the aim of examining how they change. The period of U.S.–Japan bargaining to be examined in the next section, in contrast, was chosen partly because the changes in the material and social context of the relationship over those years allow us to examine how changes in the two interact to shape bargaining outcomes. The empirical cases should also clarify how changes in the social context are transmitted into changes in bargaining outcomes.

28. Granovetter 1985, 486.

## The Changing Social Context and the Pattern of U.S.–Japan Bargaining Outcomes

Having surveyed the variety of ways in which the social context of bargaining can be expected to influence bargaining outcomes and the forces likely to shape and reshape the social context itself, we are now ready to turn our attention to the empirical cases of U.S.–Japan trade bargaining. I first examine how the features of the environment identified in the preceding hypotheses have changed over time for this particular set of cases, arguing that a confluence of forces in the early 1990s combined to transform the social context surrounding U.S.–Japan economic negotiations from one that had been unusually supportive of coercive pressure into one that was much less supportive of the use of aggressive unilateralism. I then demonstrate the plausibility of my argument that changes in the social context played a key role in shaping bargaining outcomes by examining the recent pattern of U.S.–Japan economic bargaining outcomes.

### *Formulating Predictions Based on Changes in the Social Context*

Changes in social norms defining the range of legitimate coercive tactics, I argued earlier, are likely to affect the degree to which a given coercive strategy will yield the most concessions with the least backlash. In particular, changes in the degree to which the target of coercion views itself as being involved in a hierarchical relationship with the sender and changes in rules established under international regimes are among the more specific factors likely to redefine the range of tactics viewed as legitimate and thus affect the terms of bargaining outcomes. At the same time, the efficacy of coercive tactics will likely be affected by whether or not the parties trust one another. Applying these insights to the U.S.–Japan relationship, I argue in this section that social norms defining the range of legitimate tactics and the amount of trust in the relationship remained remarkably stable and supportive of coercive bargaining by the United States over the postwar period, shaped by the *social structure* of the Cold War, actions that generally reinforced the tendency of the partners to trust one another and the terms of the original GATT (General Agreements on Tariffs and Trade) regime. The end of the Cold War and the establishment of new rules under the World Trade Organization (WTO) in 1994, however, redefined norms in ways that limited the range of coercive tactics that were viewed as legitimate. At about the same time, actions taken by the United States and Japan that were perceived, respectively, by officials on the other side to be in “bad faith” reduced each nation’s trust that the other would respect the terms of their economic agreements. These changes in the social context, all of them coming to a head at about the same time, led to the prediction of a sharp downturn in the efficacy of U.S. pressure in the early 1990s.

Norms defining the range of legitimate coercive tactics in U.S.–Japan relations were shaped initially during the U.S. occupation of Japan after World War II. Devastated and forced to submit to unconditional surrender, Japan was placed in the most subservient of positions in the aftermath of the war. For the Japanese officials, politi-

cians, and even the public who lived through these years, this period of indirect rule by the United States was at once humbling and reassuring. Humbling for obvious reasons. Reassuring because the U.S. occupation was relatively benign.<sup>29</sup> These experiences left many of those who began their careers during this era with a lingering sense of deference toward the United States.

These attitudes were further nurtured in the succeeding decades of the Cold War. During the Cold War, the United States' relationship with Japan, as with its European allies, was constructed around their overriding common interest in containing Soviet expansion. Although this was a cooperative effort, with all parties contributing something toward it, it was also a hierarchical one in which the United States was clearly the leader and the rest merely supporters. Even more than in Europe, where the United States was just the first among equals and where the European nations were pledged to aid in a collective security effort, the U.S.–Japan alliance was *socially* unbalanced by the absence of a collective security commitment from Japan. The United States was committed to aid Japan, but Japan was not committed to aid the United States except in its own defense.

This imbalance, I want to emphasize, was *social* and not material. Materially, the Japanese government from the beginning saw its provision of military basing rights to U.S. forces as largely balancing the accounts. The U.S. government, in turn, saw these bases as vital to its own national interests, going so far as to overlook trade barriers in Japan in an effort to maintain smooth security ties in the early years of the relationship. Even as late as the 1980s, U.S. government personnel on the political side devoted extraordinary efforts to making sure the two nations' economic conflicts did not jeopardize U.S. access to these bases and other forms of U.S.–Japan cooperation in military and political affairs.<sup>30</sup> Instead, these officials sought to take advantage of growing friction on the economic side, in effect using some of the leverage the United States enjoyed on this side of the relationship to get an even better deal on the military alliance: coercing the Japanese into covering a growing share of the cost of stationing U.S. troops in Japan, convincing them to share in the cost of Ronald Reagan's Star Wars initiative, and pressing them to faithfully support U.S. political-military initiatives such as the Soviet and Iran embargoes.

That the material accounts were more than balanced in all of these ways, however, does not necessarily mean the allies were social equals. A boss who pays his or her workers is engaged in a balanced exchange but still enjoys a higher status. In the same way, Japan provided bases and support to the United States during the Cold War, but the Japanese officials and politicians involved on the political-military side of the relationship were never under the illusion that their nation was anything but a junior partner.

As the Cold War continued for forty years and absent any other dramatic shock, the pattern of the two nations' interactions reinforced Japan's identity as a junior partner and the norms of deference toward U.S. demands that accompanied this

29. On the occupation, see Dower 1979; and Cohen 1987.

30. Fukushima 1992.

self-image. This national identity and these norms, of course, were not experienced—literally—by the nation, but by the political elites who managed the relationship. Notably, the stability of the Liberal Democratic Party's (LDP) rule and the personnel system employed in the bureaucracy served to extend the effects of norms formed during the occupation and nurtured during the height of the Cold War well into the 1980s.

First, the strict workings of the Japanese bureaucracy's seniority system meant that officials who were in senior positions in the Ministry of International Trade and Industry (MITI), the Ministry of Finance, and the Ministry of Foreign Affairs during the trade disputes of the 1980s *all* began their careers during the occupation and experienced personally the cooperative spirit at the peak of the Cold War. Likewise, Japanese prime ministers as recently as 1993 traced their careers back to the occupation era. Miyazawa Kiichi, prime minister in 1991–93, had been a young aide to Prime Minister Yoshida Shigeru, the architect of a foreign policy that institutionalized deference and dependence in Japanese relations with the United States.<sup>31</sup> It is also notable that the personnel institutions of Japan facilitated what I call “social linkage,” since elites involved on the political-military side of relations were given positions of power in resolving economic disputes. Until the early 1990s, for example, the Ministry of Foreign Affairs consistently promoted to its top positions officials who had extensive experience managing the *political side* of the U.S.–Japan relationship.<sup>32</sup> The Cold War thus combined with these features of Japanese personnel systems to prolong the tendency of the Japanese to view their role as a junior one, thus facilitating the use of coercive pressure tactics by the United States long after its economic power had begun to decline.

The rules of the GATT regime also facilitated the United States' aggressive pursuit of its trade demands by legitimizing its coercive tactics. It did so in two related ways. First, as long as Japan had formal trade barriers on the books that violated GATT rules and principles (such as its many quotas on agricultural imports), U.S. pressure targeting these barriers was likely to be seen as falling within the range of tactics that were legitimate under the rules of the GATT game.<sup>33</sup> At the same time, the United States' use of what has been called “aggressive unilateralism” was legitimized to some degree by the weakness of the formal dispute settlement mechanism under GATT. The rules of this dispute settlement system allowed lengthy delays by parties who sought to slow the process of establishing a tribunal and allowed a single GATT member, including the party charged with a violation by a dispute panel, to block the finding on appeal—leading many nations to view it as a largely ineffective remedy.<sup>34</sup> Until a new system was established under the WTO (discussed later), the United States defended its use of its own unilateral trade muscle by pointing to these weaknesses in the regime. Japanese officials did not readily accept these arguments, but the excuse—combined with the fact that Japan itself remained accused of violating

31. See Dower 1979; and Pyle 1992.

32. Interviews by the author with Japanese officials, Tokyo, August 1996.

33. Ryan 1995.

34. Schott 1994.

GATT rules with its agricultural protections—left their respective normative positions balanced enough that Japan was not yet in a position to stake out the moral high ground and firmly resist the United States' aggressive unilateral tactics.<sup>35</sup>

The final feature of the social context that operated in a way predicted to facilitate the use of coercive pressure through the 1980s was the two nations' careful effort to respect the terms of their agreements, fostering a fairly high degree of trust. Most of the agreements negotiated during this period involved formal government rules such as tariff and quota levels and procurement practices. Although these changes in rules did not always generate the kind of trade effects that the United States envisioned, the Japanese government was very careful to make sure that it fully implemented all of the rule changes to which it agreed. Thus Thomas Bayard and Kimberly Ann Elliott's survey of Section 301 cases involving Japan, for example, does not report any cases where the Japanese failed to implement agreed changes in rules.<sup>36</sup> U.S. administrations, too, through 1987, were more likely to defend the Japanese government when it was criticized in Congress than they were to press the Japanese for more when the original terms of agreements did not yield the kind of trade effects they hoped to see. As long as the Japanese could trust U.S. administrations not to ask for more than what the Japanese thought they had offered in formal trade agreements, they were more willing to enter into such deals. The high degree of trust, along with continuities in the hierarchy of the Cold War and in the GATT regime as discussed earlier, therefore lead us to expect on all counts that *the Japanese would remain willing to tolerate and respond to U.S. pressure with relatively generous concessions until something caused them to change the way they viewed their relationship with the United States.*

The first factor causing the Japanese to change their view of the United States was the abrupt end of the Cold War. The fall of the Berlin Wall in 1989, the subsequent breakup of the Soviet Union, and Boris Yeltsin's success in consolidating his power combined to present Japan with a genuine "shock" of the kind described by Kowert and Legro. The hierarchical relationship between the United States and Japan had been predicated on the Cold War conflict with the Soviet Union, so the sudden disappearance of this threat naturally led the Japanese to question whether established ways of relating to the United States were still appropriate. Japanese politicians, officials, and academics published a barrage of books arguing over how Japan should adjust its foreign policy in the wake of the end of the Cold War.<sup>37</sup> Although they disagreed about exactly how Japan's policy should change, all agreed that Japan had come to a turning point. Prominent among those arguing for a new course was Ozawa

35. Representative of Japanese elite opinion challenging U.S. claims that it was justified in resorting to aggressive unilateral tactics are the reflections of Ministry of Foreign Affairs official Yabunaka Mitoji. Yabunaka 1991, 103–106. MOFA and MITI officials I interviewed put primary emphasis on Japan's own problems with GATT (on agriculture) in explaining why they did not resist the United States' use of unilateral tactics more firmly at this point. Interviews by the author with MOFA and MITI officials, Tokyo, August 1996.

36. Bayard and Elliott 1994, 371–465. They do note the failure to reach the semiconductor market share targets (a "result" rather than a rule change) in the late 1980s.

37. The most important were probably Ozawa 1994; and Funabashi 1993.

Ichiro, then a leading LDP politician, who argued that the end of the Cold War meant it was time for Japan to become a “normal country.”<sup>38</sup> And as part of this shift to being a normal country, he argued, Japan should stop relying on U.S. pressure to achieve policy change. Japan had grown up, and it was now time for it to start acting like it had.

Part of what led Japanese leaders to think of their relations to the United States in more equal terms, of course, was the growth in Japan’s economic power (further discussed in the section on possible materialist explanations). Although Japan’s economic power had been growing for many years, however, not until the end of the Cold War transformed the way Japan related to the United States on the security side of their relationship did mainstream Japanese elites begin to speak of bargaining with the United States as equals. This turn of events thus acted as a kind of trigger, leading the Japanese, who were accustomed to thinking of Japan as the junior partner, to change the way they viewed their role, their identity. Once they began to identify themselves as equals, they were much less likely to defer to U.S. pressure in the way they had before.

The second transformative event for the Japanese was the often delayed but eventually successful conclusion of the Uruguay Round trade talks in December 1993. One part of this settlement, revealed only at the very last minute, was Japan’s acceptance of a compromise agreement on agricultural market opening that committed it to “tariffication” and gradually open markets that had been governed by strict import quotas—including (at a future date) its market for rice. Because this settlement brought Japan into compliance with GATT law in areas where it had long been criticized and challenged before GATT tribunals, this development nullified the advantage the United States had enjoyed when its aggressive trade pressure had been legitimized by its exercise in support of GATT norms. It also freed Japan to use GATT and WTO norms to its own advantage in defense against U.S. aggressive unilateralism with less worry that these norms would be used against it.

The other relevant part of the Uruguay Round deal, pushed through with strong support from both the United States and Japan, was a new dispute settlement mechanism. Whereas nations charged with violating GATT rules had been able to delay and veto rulings of dispute panels under the old system, the new one provided for strict timetables and prevented a loser from blocking rulings on appeal.<sup>39</sup> Though the new rules promised to make America’s defense of its trade rights through the multilateral regime more effective (this was the reason the United States advocated the change), they prevented the United States from using the weakness of this mechanism to legitimize its use of aggressive unilateral measures like Section 301 against Japan. In effect, the adoption of a more effective dispute settlement mechanism shifted *procedural norms* as the United States’ trading partners became much more adamant that all trade disputes should be routed through the WTO. At the same time, the new rules allowed the United States’ trading partners to be more certain that they could press a

38. Ozawa 1994.

39. Schott 1994, 125–32.



complaint against it to the point where a WTO panel would brand unilateral U.S. trade sanctions “illegal.” Indeed, Japanese officials trumpeted this change in the dispute mechanism as one of Japan’s primary gains in the Uruguay Round settlement. One official, for example, claimed that “unilateral U.S. actions using these laws [Section 301 and Super 301] will now be impossible where multilateral rules are established.” He added that the new rules would make it “morally difficult” for the United States and Japan to reach results-oriented deals.<sup>40</sup>

The official’s use of the term *morally difficult* points to the essential role played by shifting *norms* here. The rule change, it must be remembered, did not change any nation’s material power resources. With or without the WTO’s blessing, Japan always had the ability to impose countersanctions against the United States if it thought that would help it stand up to U.S. pressure. What changed was that under the new WTO rules, U.S. unilateral sanctions were likely to be judged “illegal” even as Japan’s countersanctions would be dubbed “legal.” The new international rules shifted the *meaning* these two material exercises of power had in Japanese and third-country eyes, changing the social context in which Japan was operating in such a way as to give it added impetus to take advantage of its growing material power and finally stand up to U.S. pressure.

The final change in the social context was more a product of the two nations’ own actions and the effect these choices had on the social climate in which they negotiated. Though Japanese officials were bothered by the incessant stream of trade demands by the United States, what upset them most was what they perceived to be American duplicity in interpreting the terms of their trade deals, starting in the mid-1980s. In the 1986 Semiconductor Agreement, the Japanese government had agreed to help U.S. firms achieve “their goal of a 20 percent market share.” Before long, however, the United States began telling the Japanese government that it would be held responsible for making sure that Japanese semiconductor users were moving steadily toward this “goal”—leaving MITI officials with the uncomfortable task of begging and cajoling private firms into increasing their purchases of foreign chips.<sup>41</sup> Although some Japanese officials were willing to excuse a single experience of this sort as a misunderstanding, a second similar experience served to convince even these officials that the United States could no longer be trusted.

This second case involved the auto parts deal the Bush administration had won in 1992 when it convinced Japanese auto firms to commit to “voluntary” plans to purchase U.S.-made parts. Despite the fact that the Japanese government had made it clear that these were private forecasts, Clinton administration officials Mickey Kantor and Ron Brown wrote a letter in early 1994 demanding that the government deliver on the “pledge”—or else. Even the U.S. officials who had been involved in

40. *Nikkei Weekly*, 20 December 1993, 1. In interviews in August 1996 with several officials from MITI and the Ministry of Foreign Affairs, all emphasized the significance of the WTO reforms and the role these played in leading their ministries to emphasize multilateral channels in economic negotiations with the United States.

41. U.S. officials insisted they had been told at the time the Semiconductor Accords were negotiated that the “goal” was a guarantee. Flamm 1996, 229.

negotiating the 1992 auto deal agreed that Clinton officials were acting in bad faith. As Robert Zoellick put it, “you can’t blame the Japanese for not trusting the U.S. when they see an ambiguous agreement.”<sup>42</sup> That Japanese elites increasingly distrusted their U.S. counterparts is evidenced by repeated references to the episode by Japanese officials. Japanese officials repeatedly cited the letter as an example of how U.S. negotiators could not be trusted with numbers. Any commitment they might make would be twisted after the fact into something more than what the Japanese had actually promised.<sup>43</sup> Their trust having been violated, the Japanese were likely to be much more resistant to U.S. pressure to enter into additional deals of this sort.

The decline in trust, however, was a characteristic of American attitudes toward Japan as much as it was a characteristic of the Japanese side. The failure of the bilateral trade imbalance to decline significantly after repeated rounds of trade negotiations as well as complaints about how the Japanese had implemented specific deals led to growing frustration among U.S. trade officials by the early 1990s.<sup>44</sup> Trade officials such as Glen Fukushima complained about how market access issues that the United States thought were settled through changes in Japanese government rules in the mid-1980s repeatedly reemerged after it became clear that barriers remained.<sup>45</sup> The way in which the Japanese implemented changes in the area of cellular telecommunications (allowing the U.S. firm Motorola access to outlying areas of Japan but barring it from the Nagoya-Tokyo corridor), for example, was seen as particularly duplicitous.<sup>46</sup> This experience led U.S. trade negotiators to put increasing emphasis on “results.” If the Japanese had trouble trusting the United States with numbers, U.S. negotiators insisted they could not trust the Japanese *without* them.

All of the earlier mentioned changes in the social context, on the Japanese side at least, were experienced by a new generation of political elites that had not experienced the U.S. occupation and had more experience of U.S.–Japan economic conflict than they did of U.S.–Japan security cooperation. The process through which old attitudes toward the United States were replaced by new attitudes, therefore, was assisted by a generational transfer of power that was well under way by the early 1990s. The officials at the top of MITI, the Ministry of Foreign Affairs (MOFA), and the Ministry of Finance (MOF) were by that time uniformly members of classes that had begun their careers in their ministries in the late 1950s and early 1960s. Most reached their first positions of responsibility in the 1970s, just as the U.S. was beginning to step up its economic pressure. MITI official Sakamoto Yoshihiro, who played a key role in the recent film dispute, for example, began his career in 1962, well after the occupation. His attitudes toward the United States were instead shaped much more by recent trade conflicts, such as the conflict over semiconductors that he experienced from his position as director of the MITI division in charge of that industry.

42. *Washington Post*, 22 June 1995, D9.

43. For published comments along these lines, see the remarks of MITI vice-minister Noboru Hatakeyama and one other unnamed Japanese official in the *Washington Post*, 25 April 1993, A28.

44. For a more detailed discussion of shifting attitudes on the U.S. side, see Schoppa 1997, 51–76.

45. Fukushima 1992, 194.

46. Tyson 1993, 68.

Even at the Ministry of Foreign Affairs, long the agency most likely to urge moderation in dealing with the United States, personnel moves had brought a different breed of official to top positions by the early 1990s. Instead of promoting a man experienced in dealing with the United States on the political-security side as was customary, in 1995 that agency promoted to its top career position Hayashi Sadayuki, a man whose extensive experience on the economic side of the relationship meant that he had been personally involved in almost all of the bilateral disputes of the previous two decades.<sup>47</sup>

This discussion of the process of generational change completes the description of a period of time in which Japanese attitudes toward the United States and its aggressive trade pressure was rapidly changing. It was changing because of the “shock” of the end of the Cold War, because new WTO rules took away an excuse that had legitimized U.S. unilateralism, because U.S. actions led the Japanese to lose trust in the United States’ respect for the terms of their agreements, and because all of these changes were personally experienced by a new generation of political elites who were rising to positions of power. *All of these changes in the social context of U.S.–Japan bargaining lead us to expect a sharp drop off in the effectiveness of U.S. pressure in the early 1990s.*

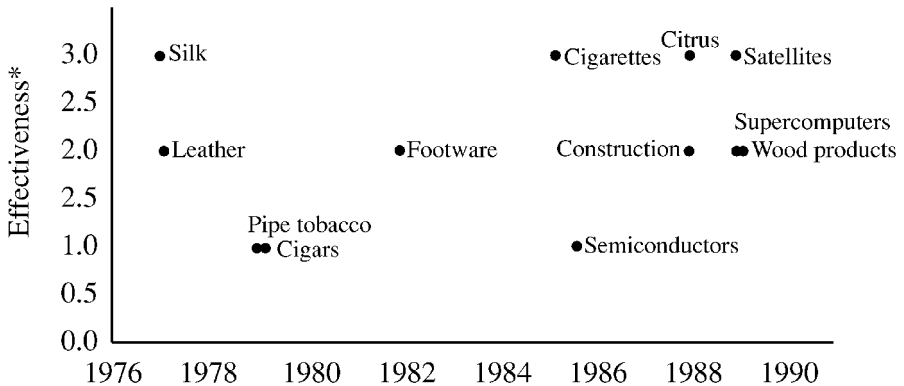
#### *The Empirical Record of U.S.–Japan Economic Bargaining Cases*

The record of U.S.–Japan economic bargaining cases over the past two decades clearly fits the preceding predictions based on shifts in the social context. Members of Congress may find it hard to believe, but the preponderance of evidence suggests that, until the early 1990s, Japan was more responsive than any other major trading partner to U.S. unilateral trade pressure. The best evidence for this comes from a study by Bayard and Elliott that evaluated the results of all complaints brought under Section 301 of U.S. trade law.<sup>48</sup> Though Bayard and Elliott do not average the results of U.S. pressure by country (instead treating each episode as a discrete unit), their data show that on average Japan was more responsive than any other major trading partner of the United States, significantly more responsive than the European Community and more responsive even than neighboring East Asian nations such as Taiwan and Korea that are much more dependent on U.S. export markets than is Japan.

Critics of Japan, of course, raise questions about whether these trade concessions were “real.” They claim that the Japanese market is like an onion: peeling away one barrier only exposes yet another one below. But Bayard and Elliott report numbers showing that over 75 percent of the real increases in sales resulting from concessions negotiated under Section 301 came in trade with Japan. The barriers removed under U.S. pressure in just three Japanese sectors (beef, tobacco, and semiconductors) have

47. Interview by the author with senior MITI official, Tokyo, August 1996. On generational change in Japanese officials’ attitudes toward the United States, see also *Washington Post*, 20 May 1995, D1; and Glen Fukushima, “The U.S. and Japan: friends and rivals,” *Japan Times*, 17 May 1996, 1.

48. Bayard and Elliott 1994.



\*Effectiveness rating based on Bayard and Elliot 1994 evaluations of the degree to which the United States succeeded in achieving its objectives, where cases rated 3 were largely successful, and cases rated 0 were not at all successful.

FIGURE 1. U.S. Section 301 cases, 1977–92

produced approximately \$3 billion in additional exports to Japan.<sup>49</sup> Japan's market still has its share of barriers, but these data make it clear that U.S. pressure has resulted in meaningful liberalization.

Bayard and Elliott's data also allow us to plot the results of U.S. efforts to use Section 301 against Japan across time—at least for cases resolved as of 1992, the last year covered in their data set. This information is presented in Figure 1. The figure shows that though the results of U.S. pressure varied a great deal across issues from one year to the next, reflecting the undoubtedly great variation in interests at stake for each side, there is no evidence of a secular decline in the degree to which the United States was able to win concessions over this fifteen-year period.<sup>50</sup>

Unfortunately, Bayard and Elliott's data cover Section 301 cases only through 1992, so we have no strictly comparable data for the most recent period. Furthermore, in the last couple of years only a few discrete cases have involved Japan, so the "small *n*" makes it possible that any attempt to generalize about recent results could be biased. As I have argued in earlier work, the results of U.S. pressure on Japan depend very much on the nature of U.S. demands—on whether the domestic politics in specific issue areas is supportive of U.S. pressure tactics.<sup>51</sup> If Clinton has been

49. *Ibid.*, 334.

50. In fact, a trendline based on a bivariate linear regression model would slope slightly upward over the period leading up to 1992, though the wide scattering of points would make the slope of this trendline statistically indistinguishable from zero. The coefficient for the time variable in the linear regression model is slightly positive at .046 but clearly insignificant ( $p = .372$ ). Note also that a linear regression is technically an inappropriate way to model this relationship given the fact that the variable is ordinal and discrete. An ordered probit model would be preferable here given the nature of the dependent variable "effectiveness," but the small sample size makes its use problematic as well.

51. Schoppa 1993 and 1997.

	Before Clinton	After Clinton
Results-oriented	Semiconductor Accords of 1986 and 1991 (Japan concedes) Auto deal of 1992 (Japan concedes)	Framework telecom and medical technology—1994 (Japan holds out) Framework autos—1995 (Japan holds out) Semiconductor renewal—1996 (Japan holds out)
Rule-oriented	Beef and oranges—1988 (Japan concedes) Cigarettes—1986 (Japan concedes)	Auto parts aftermarket—1995 (Japan concedes) Photographic film—1996 (Japan forces U.S. into WTO, where it wins case before dispute panel)
Macroeconomic	Locomotive deal—1978 (Japan concedes) Endaka stimulus—1987 (Japan concedes) SII public works—1990 (Japan concedes)	Current account imbalance reduction target—1993 (Japan holds out) No-offset permanent tax cut—1994 (Japan holds out)

FIGURE 2. *Record of U.S.–Japan trade talks, by type*

making different kinds of demands, the recent decline in the effectiveness of U.S. pressure might be purely a function of this shift in U.S. demands and not a decline in Japan's general responsiveness. The only way to determine if there has been a decline, I propose, is to compare like demands with like demands.

Fortunately, despite a general shift in emphasis during the Clinton administration from “rule-oriented” to “results-oriented” demands, we have a mixture of demand types that allows us to do the kind of like-to-like comparison I proposed. Figure 2 summarizes the results of Reagan–Bush and Clinton demands in each of the major categories of demands. The efforts of the Clinton administration have produced fewer results for each and every one of the demand types. What follows is a brief summary contrasting the results of U.S. pressure before and after the start of the Clinton administration for each demand type.

**Results-oriented demands.** Although the Reagan and Bush administrations claimed that they opposed the idea of “managed trade,” they negotiated such deals—

known as “voluntary import expansions” (or VIEs)—with Japan in two famous cases. In the Semiconductor Accords of 1986 (renewed in 1991), they convinced the Japanese to agree, not just to changes in trade rules, but to import targets. Japan, which had been importing about 10 percent of its semiconductors, agreed to aim for 20 percent—a figure it finally reached in the fourth quarter of 1992.<sup>52</sup> Similarly, in 1992 (during the trip when Bush got sick all over Prime Minister Miyazawa), U.S. and Japanese automakers came to an agreement under which the Japanese makers agreed to work their way up to the point where in fiscal year 1994 they would aim to buy \$19 billion of U.S.-made parts, including \$4 billion in imports.

These deals were in many ways the model for what the Clinton administration sought in the U.S.–Japan Framework for a New Economic Partnership (or Framework) Talks that began in the summer of 1993. As Commerce Secretary Ron Brown put it during one of his early visits to Tokyo, “Removal of barriers will not be the ultimate measure of success but rather, sales will be. . . . Markets will be considered open not when rules and regulations and arrangements change, but when we see that American products, successful all over the world, have equal success in Japan.”<sup>53</sup> The group of officials charged with drawing up the new administration’s trade policy vis-à-vis Japan concluded in the spring of 1992 that future agreements had to include firm “benchmarks” for evaluating progress in market opening. During the talks, the Clinton team repeatedly attempted to get the Japanese to agree to use market share numbers in other G-7 countries as a reference point for evaluating progress in the sectors under negotiation. In February 1994, Clinton allowed his summit meeting with Hosokawa to fail and withdrew the U.S. negotiating team to bring home to the Japanese his resolve in insisting on “results.” And in May 1995, the president threatened to impose prohibitive tariffs on \$6 billion in Japanese luxury cars unless the Japanese agreed to put firm numbers in the auto and auto parts deal.

Despite this focused attempt to get the Japanese to commit to a “results-oriented” deal, the Clinton administration completely failed to budge the Japanese, who insisted from the beginning that they would “never again” agree to put numbers in trade deals with the United States. For months the Japanese matched every American show of resolve with an equal demonstration of their new willingness to say “no.” As Hosokawa explained at the press conference in February 1994 after he had allowed a bilateral summit meeting to fail for the first time in the postwar period over this issue, Japan had “matured” to the point where it could now relate to the United States as one “grown-up” to another.<sup>54</sup> The language was an interesting expression of a change in the way the Japanese perceived their relations with the United States in the new post–Cold War era.

In the first set of Framework deals reached in September 1994 (for government procurement in the telecommunications and medical technology areas), the United

52. On the semiconductor accords, see Flamm 1996.

53. *Washington Post*, 24 April 1993.

54. Text of Hosokawa’s statement reprinted in *Daily Yomiuri*, 13 February 1994, 3. The choice of language was not coincidental because Hosokawa’s cabinet relied heavily on Ozawa’s break-away conservative party for its support.

States could not even get the Japanese to commit to “annual progress” in foreign access and sales, settling for muddled language that did not commit the Japanese to any market share increase. The United States refused to settle for such language in the auto sectors at that point and upped the ante with a Section 301 case and threats of sanctions. A year later, however, Clinton settled for a deal where all of the numbers were in (vague) voluntary plans of Japanese auto makers or in side letters issued by the U.S. government alone. The Japanese government, the deal made clear, had nothing to do with these estimates, and the United States agreed that the numbers were “not commitments and are not subject to the trade remedy laws of either country.” While Clinton claimed victory, analysts on both sides of the Pacific uniformly described the deal as a U.S. defeat.<sup>55</sup>

The last attempt by the Clinton administration to secure a “results-oriented” deal, its effort to win renewal of the Semiconductor Accords, ended in August 1996, again with U.S. concessions on most key issues. The Clinton team began the negotiations by seeking a renewal of the market share commitment in the 1987 and 1991 Semiconductor Accords through language stressing the need to preserve and continue the progress made in market access under the accords. Finding no willingness on the part of the Japanese to settle for such language (which the Japanese feared would be interpreted as a guarantee that the foreign market share would not fall below levels that had by then reached 30 percent), the United States tried several other formulations, including references to “comparable access to all markets.”<sup>56</sup> None of these formulations, however, proved acceptable to the Japanese.

In the end, the United States had to concede not only to leaving out all references to market share targets but also had to accept a deal that was downgraded from an “Arrangement between the Government of Japan and the Government of the U.S.” (a legally binding agreement clearly subject to enforcement under Section 301 of U.S. trade law) to one that was merely a “joint statement” of the governments regarding their future intentions. The government of Japan, furthermore, was absolved even of its previous responsibility for collecting data on market shares. That task would be left to a separate private sector Semiconductor Council.<sup>57</sup> According to the Japanese, the combined effect of the U.S. concessions was to eliminate the threat that the United States would ever again be able to hold the government accountable for market share results by using Section 301 as it had in 1987. In exactly the sector where the United States had previously won a “results-oriented” deal, therefore, Clinton had accepted something where the only Japanese “concession” was the government’s acceptance of a new multilateral Global Government Forum in which Japanese officials might still be asked to respond to concerns raised by other parties.<sup>58</sup>

55. For details, see Schoppa 1997, 254–70.

56. Shikata Noriyuki, “Reviewing the Japan–United States Semiconductor Consultations,” *The Japan Economic Review*, 15 September 1996, 3.

57. *Nikkei Weekly*, 5 August 1996, 1.

58. *Ibid.* See also Glen Fukushima, “Let the Chips Fall,” *Asahi Evening News*, 13 August 1996, 1. The Japanese themselves had proposed this compromise and helped build momentum for it by soliciting support from the Europeans.

**Rule-oriented Section 301 cases.** A large number of this type of cases were pursued by the Reagan and Bush administrations, and as seen in the Bayard and Elliott evaluations cited earlier, many of these resulted in the achievement of U.S. negotiating goals and measurable increases in U.S. exports to Japan. The Clinton administration was less interested in rule changes than in “results,” but it has made a few attempts with—I argue—much less success than its predecessors. It had modest success in its attempt to use Section 301 to get the Japanese to liberalize regulations governing the auto parts aftermarket, convincing the government to allow more garages unaffiliated with Japanese makers into the business and to exempt more parts from inspection requirements.<sup>59</sup>

In the most recent photographic film case, however, the administration was not even able to get the Japanese government to the negotiating table to talk about its Section 301 complaint. MITI announced in March 1996 that it would henceforth refuse to negotiate bilaterally with the United States under unilateral threats, insisting instead that the issue be referred to some multilateral organization.<sup>60</sup> When MITI stuck with this position up to the deadline by which the administration could have imposed 301-based sanctions, the U.S. gave up on its unilateral pressure tactics, taking its case to the WTO instead—where, in December 1997, it lost on all major points.<sup>61</sup> The ability of the Japanese to stand firm in this high profile case stands in stark contrast to the United States’ past success in using Section 301 to force changes in official Japanese rules and regulations.

**Macroeconomic demands.** The final type of demand that the United States has frequently made of Japan has been in the area of macroeconomics. Since bilateral trade balances to a large extent reflect the savings and investment balances of the United States and Japan, the United States has naturally attempted to reduce its deficits with Japan by convincing it to spend and invest more money, especially through stimulative fiscal policy. In 1978 and again in 1987, the United States played a critical role in pushing Japan to adopt stimulus budgets. And in 1990, the United States was even able to overcome stiff MOF resistance to get the Japanese government to agree that it would spend 430 trillion yen on public investment over the next ten years.<sup>62</sup>

Clinton, too, has sought to put pressure on Japan in this area at several points during his two terms, again, however, with much less success. The Clinton administration abandoned its first demand in this area, calling on the Japanese government to commit to a specific target for reducing the size of its trade surplus relative to its gross domestic product (GDP), before the Framework Talks even began. Instead, U.S. officials reverted to the familiar position of pressuring the Japanese to beef up

59. Schoppa 1997, 273–74.

60. Sakamoto 1996.

61. See *Washington Post*, 12 June 1996, F1; *Japan Times*, 14 August 1996, 1; and *Financial Times*, 6 December 1997.

62. Schoppa 1997, 117–45.



their fiscal stimulus packages, specifically by incorporating large income tax cuts. Toward this end, Clinton wrote Hosokawa in the fall of 1993 urging him to adopt a tax cut much larger than the 5–6 trillion yen cut that was being discussed at the time in the government council. Although Clinton did not recommend a specific figure, the administration reportedly was seeking a cut on the order of 10 trillion yen. In addition, Clinton urged Hosokawa to delay by three to four years any increase in the consumption tax designed to finance the tax cut—a move that would rob the income tax cut of its stimulative effect.<sup>63</sup>

Although the Japanese government ultimately did adopt an income tax cut, its size and the manner in which it was implemented left it without much punch. The initial cut, announced by Hosokawa in February 1994, amounted to just 5.5 trillion yen and was limited to just one year after Hosokawa stumbled in his attempt to announce simultaneously a plan to increase the consumption tax to 7 percent. The final plan, adopted after further delay, still called for just a temporary cut—with a permanent change held hostage pending a government decision to go ahead with a consumption tax increase in three years.

Looking back on the budgets adopted during this period, economist Adam Posen has concluded that Japan adopted only a minimum of “real” fiscal stimulus.<sup>64</sup> The six stimulus packages announced between March 1992 and April 1995 contained stimulus spending worth 0–1.1 percent of Japan’s GDP—far below the proportions of GDP devoted to fiscal stimulus under similar circumstances in other advanced industrialized nations. The one stimulus budget of any significant size (the package dated September 1995 that added up to 1.6 percent of GDP) did revive the Japanese economy for a short period, but Japan returned to fiscal restraint in 1997 with budget cuts and a major tax increase, throwing the economy back into recession. As the United States pressed Japan again to revive its economy—this time in the interest of helping Asia out of its new financial crisis—it continued to waffle and delay. As late as the spring of 1998, with the economy clearly in decline, Prime Minister Hashimoto was hesitant to suspend the government’s recently adopted fiscal austerity plan that called on it to steadily reduce reliance on deficit bonds.

Given the small size of the income tax cut, the delays, and the linkage to an eventual consumption tax increase, it is difficult to credit U.S. pressure with having done anything significant to bolster fiscal policy during this whole period. Throughout the debate, MOF made every effort to limit U.S. involvement, vetoing a visit by Treasury Undersecretary Lawrence Summers to talk about the income tax cut in the fall of 1993 and making Ambassador Walter Mondale wait a day before allowing him to set up a visit by Treasury Secretary Lloyd Bentsen in the spring of 1994.<sup>65</sup> MOF made it clear throughout the process that it did not consider tax policy a subject of international negotiations.

63. *Daily Yomiuri*, 12 November 1993.

64. Posen 1998.

65. See *Daily Yomiuri*, 12 November 1993; and Bruce Stokes, “Immovable Mandarins,” *National Journal*, 30 April 1994, 1008.

In summary, the experiences of the Clinton administration so far show that, for all types of demands, the United States has had much less success in convincing the Japanese to make concessions. Relative to its position through 1992 when Japan was more responsive to U.S. pressure than any other trading partner, Japan seems to have become much more like a normal country in its resistance to foreign pressure. If we were to update Figure 1, we would find a discontinuous pattern, showing the effectiveness of U.S. efforts to pressure Japan varying widely but rising slightly on average through 1992 and then falling sharply since the Clinton administration came to power—exactly the pattern that was anticipated in the discussion of how the changing social context surrounding U.S.–Japan economic negotiations was likely to affect the efficacy of U.S. coercive pressure.

### Alternative Materialist Explanations

That the pattern of recent U.S.–Japan bargaining outcomes fits the predictions based on changes in the social context, of course, does not necessarily mean that the social context was the most important factor driving the shift in bargaining outcomes. My argument would be especially weak if there were obvious changes in the *material* context—in the balance of power, in interests, in the ability to send costly signals—that fit the pattern just as well. What I try to do in this section is to anticipate some of the possible rational materialist explanations for the empirical results described earlier and to make the case that none of these are *sufficient* to account for the abrupt decline in the effectiveness of U.S. trade pressure. I want to emphasize again that the argument here is not that the material context of bargaining does not matter, or even that it is less important than the social context. Some of the changes in the material context, I will argue, are actually a very important part of the explanation for shifting U.S.–Japan bargaining outcomes. What we need to appreciate is that shifts in the social context are a necessary and important aspect of the explanation.

As briefly summarized earlier, rational materialist studies of coercive international bargaining stress the important role played by material capabilities and interests in shaping bargaining outcomes. Within the category of material capabilities, I first want to consider possible explanations for the shift in U.S.–Japan bargaining outcomes arising from changes in the economic power balance. As scholars since Albert Hirschman have emphasized, power arises from asymmetries in interdependent relationships,<sup>66</sup> and throughout the postwar period Japan's asymmetric dependence on the U.S. export market has provided the latter with its most important source of leverage. Changes in the degree of asymmetry in this trading relationship, this strand of materialist theory suggests, ought to drive a parallel shift in bargaining outcomes.

The degree of asymmetry has actually changed significantly over the past several decades. In the early 1970s, Japan's exports to the United States accounted for close to 3 percent of its GDP at a time when U.S. exports to Japan represented a barely

66. Hirschman 1945. See also Baldwin 1980.

TABLE 1. *Japanese and American dependence on bilateral exports*

<i>Date</i>	<i>Japanese exports to United States as share of Japan's GDP (%)</i>	<i>U.S. exports to Japan as share of U.S. GDP (%)</i>	<i>Ratio</i>	<i>Japanese exports to Asia as share of Japan's GDP (%)</i>
1970	2.4	0.38	6.3	2.1
1971	2.7	0.31	8.7	2.1
1972	2.5	0.34	7.4	1.9
1973	1.9	0.51	3.7	2.0
1974	2.4	0.60	4.0	2.7
1975	1.9	0.50	3.8	2.5
1976	2.4	0.47	5.1	2.4
1977	2.4	0.44	5.5	2.3
1978	2.2	0.48	4.6	2.3
1979	2.2	0.58	3.8	2.5
1980	2.5	0.63	4.0	2.9
1981	2.8	0.60	4.7	2.8
1982	2.8	0.55	5.1	2.7
1983	3.1	0.54	5.7	2.8
1984	4.0	0.53	7.5	2.9
1985	4.2	0.48	8.8	2.9
1986	3.5	0.53	6.6	2.2
1987	3.0	0.53	5.7	2.2
1988	2.6	0.65	4.0	2.2
1989	2.7	0.72	3.8	2.4
1990	2.6	0.74	3.5	2.5
1991	2.3	0.71	3.2	2.6
1992	2.2	0.67	3.3	2.6
1993	2.1	0.64	3.3	2.6
1994	2.1	0.64	3.3	2.8
1995	2.0	0.74	2.7	3.1

*Source:* Calculated based on OECD data.

noticed fraction of the U.S. economy—meaning that Japan's dependence on the U.S. market exceeded the inverse by factors ranging from 6.3 to 8.7. By the 1990s, however, U.S. exports to Japan had grown to around 0.7 percent of the U.S. economy, and the ratio of Japan's dependence to that of the United States had shrunk to around 3.3:1. The degree of asymmetry was roughly cut in half. At the same time, Japan was increasingly able to turn to growing export markets in Asia as an alternative to its traditionally greater dependence on exports to the United States (see Table 1).

Another dimension of the bilateral economic relationship where asymmetries have shifted in recent years is in the area of capital flows. During the 1980s, Japan emerged as the world's leading source of capital exports, even as the United States became the world's leading capital importer. In the process, Japan arguably acquired a major source of economic leverage that it could use to offset U.S. leverage arising from asymmetries on the trade side. R. Taggart Murphy has argued, for example, that this

U.S. dependence on Japanese capital has dramatically reduced its leverage over its economic rival.<sup>67</sup>

What is notable about all of these shifts in economic power asymmetries, however, is that all have taken place gradually and were well underway by the Bush years. Although Japan's export dependence ratio shown in Table 1 rose for a few years in the mid-1980s (when the strong dollar boosted Japanese exports to the United States), the numbers have tended to decline in a roughly linear fashion over the past twenty-five years. Similarly, the inverse increase in Japanese exports going to Asia took place gradually over the course of the 1980s, exceeding the share going to the United States already in the Bush years. Finally, the United States' dependence on Japan for capital to finance the shortage of savings available for investment actually peaked during the Bush administration when U.S. budget deficits reached their highest level.

What the data suggest is that, if shifts in economic power were the main force driving U.S.–Japan bargaining outcomes, the effectiveness of U.S. pressure should have declined steadily throughout the period under study. Instead, what we see in the Bayard and Elliott data presented in Figure 1 is that no evidence indicates a decline in the efficacy of U.S. pressure through the end of the Bush administration. When Hosokawa finally stood up and said “no” to the United States in February 1994, the economic power shifts described here were no doubt an important part of what made that possible, but the fact that Japan did not take advantage of its gradually improving power position earlier tells us that shifts in capabilities by themselves were not sufficient to change bargaining outcomes.

We thus turn to changes in the material context that might better account for the timing of the shift in bargaining outcomes. The first obvious candidate is the end of the Cold War as a *material* event. What happened to the Soviet Union between 1989 and 1992 clearly reduced the nation's military threat to U.S. and Japanese interests in the Far East, and this change in the material context could account for the shift in U.S.–Japan economic bargaining outcomes if its net effect was to shift asymmetries in their security relationship such that the United States could less easily draw on the leverage it enjoyed because Japan depended on its security guarantee.

The first problem with this line of argument is that it is not clear whether the United States ever enjoyed *material* leverage on the economic side of its relationship from Japan's dependence on the U.S. security guarantee during the Cold War. As discussed earlier, the United States did take advantage of this asymmetry to extract concessions from the Japanese on the security side: it secured continued and liberal use of bases located in Japan, increasing Japanese financial contributions to cover the costs of stationing troops in Japan, and Japanese support for U.S. diplomatic initiatives around the world. There are no known cases prior to the end of the Cold War, however, where the United States threatened to reduce its commitment to the alliance unless Japan made economic concessions. If anything, Americans seem to have valued the alliance so highly during the Cold War that they sometimes drew on the leverage they enjoyed due to Japan's dependence on the U.S. export market to win

67. Murphy 1996.

greater burden-sharing commitments on the security side of their relationship. If the security alliance did not provide the United States with material leverage in its economic negotiations with Japan during the Cold War, the end of the Cold War cannot be seen as a *material* explanation for the shift in bargaining outcomes.

The second problem with this line of argument is that, since the end of the Cold War, Japan and the United States have mutually reduced their degree of dependence on each other in their security relationship. Although Japan needs the U.S. security guarantee somewhat less than it used to and hence can more credibly stand firm in its economic bargaining with the United States even at the risk of endangering this relationship, the United States needs Japan less than it did when the military bases in Okinawa and elsewhere in Japan represented indispensable assets in the global struggle with the Soviet Union. The United States' greater freedom to maneuver means its own threats should now be more credible.

Finally, the argument overlooks the fact that the reductions in the degree to which the two countries need each other since the end of the Cold War have not been that great. For Japan, the U.S. alliance remains an essential part of its defense strategy in an uncertain world where Chinese power is growing and a rupture in U.S.–Japan relations could fuel a regional power rivalry and arms race.<sup>68</sup> At the same time, for the United States the security relationship remains the indispensable cornerstone of its security policy in a region where North Korea and China are seen, respectively, as near-term and long-term security threats and where the Japanese alliance is seen as so important that the U.S. government in 1995 committed to maintaining 45,000 troops in Japan and 100,000 in the Far East for the foreseeable future.<sup>69</sup> Again, if Japan and the United States continue to need each other, and the security alliance continues to be very important to both of them, it is not clear how the end of the Cold War could have shifted bargaining outcomes by reducing U.S. *material* leverage over Japan.

I have belabored the preceding points, dealing with the Cold War materialist hypothesis in three ways, because practitioners of materialist bargaining theory find it hard to accept that the end of the Cold War could not have had more material effects on economic bargaining outcomes. Instead, I have argued, its primary effect was to alter the *social* context in which the two sides bargained, leading the Japanese to change the way they looked at the alliance. The shock of the Cold War's end led Japanese elites to move away from the view that the alliance was a hierarchical one where they were the junior partner and toward the view that it was an alliance of equal, sovereign nations, where they were contributing a great deal and so had less need to be deferential.

The other development that can be dated to around the time of the shift in bargaining outcomes (which therefore might make it the basis for a materialist explanation) is the end of the LDP's thirty-eight-year reign as a predominant party in 1993 and the reform of the Japanese Lower House electoral system in 1994. These domestic politi-

68. See Japan Defense Agency 1995; and Friedberg 1993, 31–32.

69. Mochizuki 1997, 10–13.

cal events could be the basis for a materialist argument based on the strand of rational materialist bargaining theory focusing on the effects of imperfect information on coercive bargaining outcomes.<sup>70</sup> Bargaining only takes place, these models assume, when there is imperfect information about power and interests. If one nation has clearly superior power and/or clearly more vital interests at stake, it will prevail without the need for extended bargaining. This assumption leads to the conclusion that bargaining will tend to bog down at the point where the nations involved are fairly evenly matched once their perceived power and interests have been taken into account. In this standoff, the key to whether a nation prevails depends on its ability to establish the credibility of its bargaining positions (including threats) by *imposing costs on itself*, for example, by having a leader incur domestic or foreign audience costs by stating publicly that he or she will not back down.

With its focus on audience costs, this strand of rational materialist theory points to the role played by domestic and international institutions in shaping bargaining outcomes. The argument has been used, for example, to explain the “democratic peace” by pointing to the ability of democracies to signal their resolve by incurring domestic audience costs in ways that cannot be duplicated by nondemocracies.<sup>71</sup> Changes over time in the ability of a given nation to prevail over another, it therefore predicts, will tend to reflect changes in domestic or international institutions that reduce or enhance the ability of each nation’s negotiators to impose audience costs on themselves.

This strand of materialist bargaining theory could explain the recent decline in the efficacy of U.S. pressure on Japan if the end of LDP supremacy and the electoral reform in 1993–94 have had the effect of enhancing the credibility of Japanese bargaining positions by making Japan into more of a “real democracy.” According to this line of analysis, Japan would be expected to have enjoyed relatively little success in resisting U.S. demands before 1993–94 because its negotiators—secure in office—could not credibly threaten to impose domestic audience costs on themselves. At the same time, Japan would be expected to have enjoyed much more success in recent years because the LDP’s temporary loss of power and the adoption of electoral reforms that eliminated some of the advantages it enjoyed under the old system have made recent cabinets more vulnerable to electoral defeat and thus enhanced its ability to impose audience costs on itself.

I reject this line of analysis, however, on the grounds that it is a mistake to assume that Japanese cabinets enjoyed security in office before 1993–94 or to characterize Japan’s pre-reform system as undemocratic. The average duration of a Japanese cabinet between 1972 and 1993 was less than two years, and Japanese prime ministers in fact spent a tremendous amount of time worrying about their security in office. Among the many factors that affected their ability to remain in office was their performance in managing the U.S.–Japan relationship, with those who were successful (Nakasone and Kaifu) managing to stay in office longer than expected and those who were

70. See Fearon 1994; and Martin 1993.

71. Fearon 1994.

unsuccessful (Suzuki) being forced to resign. The LDP's electoral hold on power, though remarkable for its duration, was also hardly secure. It often had to rely on postelection additions to its ranks to line up a majority of Diet members behind its cabinets and won an average of just fourteen seats more than it needed for a majority in elections between 1972 and 1990. Given that Japanese governments were insecure and vulnerable to electoral results before 1993, I propose that there is no basis for predicting any change in the pattern of U.S.–Japan economic bargaining results under this class of materialist bargaining theories.

It is of course impossible for me to anticipate all possible materialist explanations for the pattern of U.S.–Japan economic bargaining described earlier. Materialist bargaining models, for example, put great emphasis on differences in parties' discount factors—the rates at which they discount costs and benefits of a future deal relative to costs and benefits of a similar deal today. One recent analysis has pointed to differences in the discount factors of U.S. presidents over the course of an electoral cycle as the possible basis for differences in the degree to which presidents stand tough or make concessions in bargaining with the Japanese.<sup>72</sup> Whereas such shifts in discount factors across electoral cycles cannot explain the long-term trend that I identify, other scholars may conceive of a rational materialist explanation rooted in discount factors that I have not anticipated.

Similarly, rational materialists might point to the recent prolonged period of stagnant growth in Japan as an explanation, arguing that this has raised Japan's costs of giving in to U.S. demands, thus giving Japanese negotiators the credibility needed to make their “no” stick. At the same time, however, the shift in the two nations' economic fortunes has reversed the previous trend toward rising Japanese economic power relative to the United States, so that this particular development could be the basis for the opposite prediction: that the United States should be able to extract more concessions now than it did in the 1980s. Given material factors that are this slippery, I prefer to offer my argument emphasizing changes in the social context as a plausible explanation for the recent changes in U.S.–Japan bargaining results and to await further developments (for example, will Japan begin giving in to U.S. pressure again when the recession is over?) to see if they can help us further sort out which factors have been most important in shaping negotiation outcomes.

## Conclusions

This empirical record of U.S.–Japan economic bargaining over the past two decades, especially the timing and magnitude of the shift in results, fits very well with predictions based on an appreciation of how the social context surrounding international bargaining is likely to affect outcomes. Until the 1990s, a persistent Cold War that nurtured deferential attitudes, old GATT rules that allowed Americans to cast their

72. Seawright and Way 1997.

aggressive unilateralism as a necessary substitute for a defective multilateral mechanism, and the care taken by both sides to respect the terms of their bargains all worked in ways predicted to legitimize and facilitate the United States' use of coercive tactics in economic bargaining with Japan. The empirical record up until 1992 confirms that Japan indeed remained much more responsive than one would have expected given its relatively strong (and improving) economic power position relative to the United States.

The end of the Cold War, the inauguration of a new WTO dispute settlement mechanism, behavior on both sides that reduced their trust of each other, and the effects of a generational transition of political elites, however, combined by the start of the Clinton administration to eliminate all of these advantageous features of the social context. The Japanese viewed their nation as more of an equal to the United States in the aftermath of the Cold War, saw the United States as the nation that was violating the new WTO norms, and no longer trusted U.S. economic negotiators. We expected that the United States, robbed of the advantages it had enjoyed under the old social context, would no longer be able to extract concessions at the previous rate. Once again, with Japan refusing to accept U.S. demands across a wide range of issues, the empirical record fits this prediction.

My finding of a close fit between the changing social context and the empirical pattern in this set of cases—combined with the analysis showing that none of the anticipated alternative materialist explanations can account for the timing and magnitude of the shift in bargaining results—is important for a number of reasons. First, it challenges the discipline's tendency to model coercive international bargaining almost exclusively in terms of the material context. Scholars ranging from Schelling to Fearon concentrate on the rational material world in their efforts to explain bargaining outcomes. For Schelling, the emphasis is on material power and interests and the way these factors determine threat credibility. For Fearon, it is on the ability of the material world to convey "costly signals." Although rationalist theories have incorporated elements of the social context in their models (reputation for resolve), they have failed to recognize other important ways in which bargaining is shaped by the social climate that has developed through states' interactions. A state that views its partner as a superior with legitimate rights to exercise power, that views this partner as a trusted patron, and that views this partner as playing within the rules of the game as set out in an international regime will respond to threats in a different way than will a state that views its partner as a distrusted rival who is in violation of international norms.

There are two ways to view the theoretical contribution of this article. One is to see it as an argument for *adding* consideration of more social factors to material bargaining theories. Materialists might be persuaded to add consideration of legitimacy, "social linkage," and trust in much the same way that deterrence theorists have imported "resolve" into their otherwise material world. I have not argued in any way that material factors are unimportant in explaining bargaining outcomes. I simply argue that changes in material power alone are sometimes not sufficient to shift



bargaining outcomes. In the cases examined here it took a combination of shifts in economic power and changes in the social context to drive Japan toward a more assertive bargaining behavior. The underlying shift in Japan's relative economic power, the emergence of alternative markets in Asia, and other material factors made it possible for Japan to say "no," but it didn't actually do so until the social context changed as well.

But there is also a more far-reaching way to view this article's contribution, that is, to see it as an argument for recognizing that even "material bargaining theories" assume a certain social context: one in which actors are self-interested rivals operating in a context of distrust and latent hostility.<sup>73</sup> In some cases, such as those involving nuclear blackmail, this may be a perfectly acceptable assumption, but my examination of the U.S.–Japan cases suggests that at least in some economic bargaining situations, the social context can be very different and can lead to very different negotiating outcomes. Once we realize that the social context varies, it is only one step to the realization that the actors in the state system to one degree or another are responsible for the social context in which they operate. It can be a completely self-help world, or it can be one where nations engage each other with trust and respect.

This observation relates closely to my secondary interest in when and how the social context changes. As noted at the outset, most studies that have taken the role of norms and other social constructs in international relations seriously have looked at cases where the social context is stable. This study, too, showed the power of a stable social context to extend the influence of the United States even after its material power began to decline. The more novel characteristic of this inquiry, however, was its focus on a set of cases where the social context was in the process of changing. While showing that this kind of change matters, we also had an opportunity to examine what drove the process of change.

What we saw is that social change is driven in part by changes in the broader international environment (what Kowert and Legro called an "ecological" process), especially when these shifts were dramatic enough to constitute a "shock." The end of the Cold War thus influenced U.S.–Japan economic outcomes primarily by acting as a trigger that led the Japanese to reflect on their role in the world and to begin constructing a new identity as a "mature," "normal" nation deserving to be treated as an equal by the United States. The process of social change was not driven entirely by exogenous change, however. Again, as Kowert and Legro anticipated, it was also driven by the process of social interaction. Japan participated in the negotiations leading to the establishment of a new WTO dispute settlement mechanism, and its officials were quite conscious of how the rules of the new regime would present them with a better opportunity to challenge American aggressive unilateralism on normative grounds. U.S. officials, though apparently less conscious of the effects of their tactics, also helped reshape the social context in which they bargained through their decision to stretch their interpretation of earlier trade agreements. Although the endo-

73. My thanks to Alexander Wendt for this point.

geneity of this process of social change fits poorly with currently dominant social science approaches, these complexities are no reason to assume away a process that is apparently integral to understanding bargaining outcomes.

My arguments that the social context matters and that negotiators' choices help shape the context in which they bargain lead us neatly to its implications for policy. If U.S. policymakers want to improve the terms of their deals with Japan and operate according to the assumption that the material context is all that matters, they will do the following: they will try to augment U.S. power; they will try to identify untapped sources of U.S. leverage, perhaps even threatening to reduce the United States' security contribution in the region in order to get a better deal in economic negotiations;<sup>74</sup> they will continue to twist the terms of their deals whenever they can; and they will try to improve U.S. threat credibility by having elected leaders stake out firmer and more public positions. If the social context is to some extent shaped by the bargaining process and it, in turn, has much to do with bargaining outcomes, however, these moves are actually more likely to harm the ability of the United States to win concessions. Public posturing by U.S. presidents will make the Japanese regard the United States as even more of a bully; twisting will lead to a further loss of trust; and efforts to increase U.S. leverage, especially if done unilaterally, may make U.S. pressure even less legitimate.

Instead, a bargaining strategy sensitive to the social context would look for ways the United States can pressure Japan while restoring the legitimacy and trust the United States once enjoyed. To do so, the United States needs, first, to respect the terms of earlier agreements, renounce its earlier strategy of seeking quantitative import expansion agreements, and announce that it will henceforth impose sanctions only when authorized to do so by the WTO. Instead, switching to a strategy that employs only "legitimate threats," it needs to work through the WTO to target barriers that are illegal under the rules of the international regime. To restore a measure of the advantage it enjoyed under the Cold War, the United States should be clear that it will *not* employ security leverage to achieve economic gain but instead count on benefiting from "social linkage" as continued security cooperation fosters the kind of trust and communication that will facilitate agreements on the economic side as well. Realizing the limits of its leverage, the United States should be much more selective in choosing its demands and select only those (such as cases where U.S. demands are favored by a significant faction within Japanese domestic politics) where the balance of interests favors the United States. It should then work to *sell* these demands to the Japanese public and elites, instead of relying on brute and very public threats of trade retaliation.<sup>75</sup> Given that bargaining theories emphasizing material versus social factors arguably lead to quite different policy prescriptions in at least this case, it is all the more important that scholars pay close attention to the issues highlighted here.

74. This approach is advocated by Johnson and Keehn 1995, 112.

75. These recommendations are developed in more detail in Schoppa 1997, 311–18.

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