

An Analysis of the Double Game Theory in the Negotiation of Structural Obstacles between the United States and Japan

Xinhang Wu

Guangxi Normal University, Guilin, Guangxi, China

Abstract: The U.S.-Japan Structural Barriers Talks took place in 1989 and were initiated by then-U.S. President George W. Bush on the issue of the trade imbalance between Japan and the United States. After the subsequent negotiations between the U.S. and Japanese governments, the two sides signed the U.S.-Japan Agreement on Structural Barriers (hereinafter referred to as the "Agreement") on issues such as forms of savings and investment, land policy, and corporate behavior. The Agreement is an in-depth economic and trade cooperation between the United States and Japan, and is also a microcosm of US-Japan relations in the 80s. Relying on Milner's dual game model, this paper explores the negotiation game between the two sides at the domestic and foreign levels, and studies the situation background, negotiation attitude, negotiation process and focus of the two sides at the international level, as well as the differences in the preferences and systems of the two actors at the domestic level.

Keywords: U.S.-Japan Structural Barriers Negotiations; U.S.-Japan Structural Barriers Agreement; Double Game Theory.

1. Introduction

The double game theory model was first proposed by Putnam, and this paper mainly refers to Helen Milner's analysis of the pattern of international cooperation based on the double game model, and takes the 1989 US-Japan structural obstacle negotiations and the resulting agreement as an example to deeply analyze the negotiation process between the United States and Japan at both the international and domestic levels. At the international level, the balance of national power and the international situation are mainly considered, while at the domestic level, the preferences of various actors, domestic institutions and information are mainly analyzed.

2. The Double Game Theory

The theory of the double game in international politics was first proposed by Robert Putnam in 1988. Putnam pointed out that the political game of many international negotiations can be seen as a double game. The first stage is the negotiation stage at the international level, in which governments seek to maximize their own interests and minimize losses, and strive to meet their own needs and win sufficient bargaining chips for domestic ratification. The second level is the ratification phase at the domestic level, in which domestic actors actively pursue power, individually or in coalitions, to pressure governments to make decisions they want to achieve their goals.[1]

Helen Milner's *Interests, Institutions and Information: Domestic Politics and International Relations* integrates domestic and international politics through the interaction between four actors: the executive, the legislature, interest groups, and foreign governments, emphasizing the importance of actor preferences, institutions, and information in the achievement of international cooperation, which is also groundbreaking.[2]

3. International Background and Attitudes of Both Sides

For a long time after World War II, all the great powers except the United States were demoralized, and so was Japan. However, Japan soon found its own advantages, relying on the natural conditions of the island country, it advocated the policy of "two ends abroad" as a trading country, and constantly recuperated through overseas processing trade; U.S. economic aid to Japan is also a relief in disguise; In addition, under the bipolar pattern of the Cold War, the United States replaced the original political occupation and suppression with the ideological control that it fostered and used, intending to use the power of Japan to confront the socialist alliance; During the Korean War, Japan reaped the benefits of fishermen. For a time, Japan's trade surplus with foreign countries, especially with the United States, reached its peak.[3]

The deeper cause of the trade friction between Japan and the United States lies in the strong rise of the Japanese economy and the relative weakening of the economic advantage of the United States. In 1988, Japan's GDP rose from 8.2% of US GDP in 1960 to 58.5%. This year, Japan's per capita national income even surpassed that of the United States at \$24,700. At the same time, the share of the United States in world GDP fell from 39.6 percent in 1960 to 27.3 percent in 1988. [4] The U.S. trade and fiscal deficits have been swelling, while Japan's trade surplus has been widening year after year. Since 1985, Japan has become the world's largest creditor, with net claims reaching nearly \$450 billion at the end of 1990. The United States became the world's largest debtor, with a net debt of \$760 billion at the end of 1990. In early 1991, a U.S. report entitled "U.S. Public Opinion and U.S. Foreign Policy in 1991" identified Japan's economic power as the primary threat to the United States.[5]

In the face of menacing Japanese products and increasing multipolarity, the United States realizes that its superiority is no longer there. On the one hand, it is worried and anxious, and on the other hand, it has learned from the pain, erected

trade barriers with protectionism, and tried to increase import tariffs on Japan and other countries to block the threat from Japan. The trade friction between the United States and Japan began in the textile industry, and then escalated to the steel, automobile, electrical appliances, semiconductor and other industries, and the trade war seemed to be on the verge of breaking out.

At the same time, the U.S. Congress passed the 'Super 301 provision' as part of the 'Comprehensive Trade Act' and decided to impose sanctions on Japan's trade practices, causing the Japanese authorities to panic. When U.S. Trade Representative HILLS identified Japan as the target of suppression under the 'Super 301 provision', President Bush announced the initiation of SII coordination talks between the United States and Japan.[6] This was an effort by the Bush administration to regain trade policy initiative from Congress, an attempt to peacefully address the 'Thucydides trap', open Japan's trade barriers through pressure, and alleviate or even reverse its own economic deficit disadvantage. For Japan, it was a cornerstone for reshaping U.S.-Japan relations and an opportunity to optimize its economic structure in response to the economic bubble crisis of the 1990s. Thus, the two countries began the negotiation process.

4. International Negotiations

In September 1989, U.S. President George W. Bush and Japanese Prime Minister Uno convened the first round of the Japan-U.S. Agreement on Structural Barriers in Tokyo, marking the official start of negotiations on structural barriers. The next four meetings were held in Washington, D.C., and Tokyo. In April 1990, an interim report was issued, representing the completion of negotiations between the two countries, and in June of the same year, the final report was published. Subsequently, the two countries agreed to conduct a follow-up assessment of the implementation of the agreement and publish a report on the basis of the agreement on an annual basis. The follow-up phase of the negotiations was not fully concluded until June 1993.[7]

The entire process of international negotiations can be said to be dominated by the United States. First, as far as the proposers are concerned, the negotiations were made by the United States and were an attempt by the Bush administration to wrest the trade initiative from Congress, when the US trade deficit was clearly at its peak. It is not that the proposer of the negotiations will have the upper hand, and experience has shown that the opposite is true, but the hawkish and strong administration of the Bush administration is not friendly to the Japanese negotiations; Second, as far as external pressure is concerned, the pressure given by the United States is much greater than that of the other side, because the "Super 301 Clause" passed by the US Congress has confirmed that Japan is the target of suppression, and once it is implemented, the United States will launch all-round sanctions on trade with Japan, and the United States itself, as the largest source of Japan's trade surplus, will inevitably have a great impact on Japan, and Japan's accumulation after World War II will inevitably fall short; Finally, the root cause is that although Japan is a rising star, it itself depends on the support of the United States, and the United States, as the world's largest economic aggregate for a long time, has a trade deficit, and its economic size and international discourse power are above Japan's. The disparity in overall national power is obvious and fatal, and although Japan has the advantage of the status quo, that is, it is closer to Milner's recovery point, it has to submit

to the United States.

The reason why the negotiations themselves are called "structural obstacle negotiations" is that the US side believes that there are structural obstacles in the Japanese side in terms of savings and investment, product distribution system, land use policy, and interlocking consortium system. In formulating the agenda, the United States took into account Japan's research and discussion of economic distortions, and the American representative emphasized that removing these barriers would benefit not only the U.S. economy, but also Japanese consumers. Therefore, the content of the negotiations mainly revolves around the above issues.

Among the most controversial and critical issues in the U.S.-Japan treaty, Japan's savings-investment imbalance is the issue. Japan's strong emphasis on financial savings and neglect of public sector investment is the root cause of its trade surplus with the United States, and it is also the trigger that led to the bubble crisis of the 90s and the collapse of the domestic economy. The condition put forward by the United States is that Japan should increase its investment in infrastructure construction in order to improve its economic structure and increase imports. Other important provisions mainly include the distribution policy, which requires the rectification of access and approval procedures in Japan to facilitate the supply and marketing of foreign goods; optimize and adjust land prices to help foreign enterprises gain a foothold in development; Controlling the tendency of Japan's domestic consortium system to collude with each other for self-sufficiency, and leaving enough room for foreign capital to be demanded.

In contrast, Japan's terms with the United States are not only reasonable, but even humane. The U.S. trade deficit is largely due to its very different economic model from Japan's, when the U.S. was heavily invested over saving, resulting in a large fiscal deficit. The Japanese side demanded that the United States increase financial savings in order to reduce the fiscal deficit and replenish the national treasury surplus. In addition, the Japanese side suggested that the United States should increase investment management of local enterprises and enhance their competitiveness, so as to maintain the dominant position of innovation and creativity in the United States. [8] The introduction of these articles is not so much a constraint as a proof of the enhancement of friendly relations between the United States and Japan.

The respective terms of each party were almost always adopted in the final report, albeit with several twists and turns. The main point of contention is not the type and content of the clauses, but the quantity and quality. For example, in the savings and investment provisions, the United States demanded that Japan increase the public investment ratio from 6.7 percent of GDP in 1989 to 10 percent within three to five years. Japan's compromise in the negotiations on the entire structural handicap is undoubtedly enormous. First of all, the disparity in the overall national strength of the two sides is still the main reason, and second, Japan's own huge trade surplus with the United States makes it undeserving of the bargain and then betrayal, and in the whole process of negotiations, it can be realized that both the United States and Japan have paid more attention to absolute interests than relative interests, and the final result reached is far more wise than the status quo.

5. Domestic Negotiations

According to Helen Milner, domestic politics is equally

important to international cooperation, and the success of domestic negotiations depends mainly on the preferences of domestic actors, domestic institutions, and the symmetry of information, which mainly involves the interaction between the executive, the legislature, interest groups, and foreign governments. The following article also analyzes the operation and principles of the U.S.-Japan negotiations in China based on this theory.

First of all, domestic politics is simpler in the United States. The negotiations took place in 1989, when US President George W. Bush was a Republican Party and Congress was led by the Democratic Party. However, a comprehensive review of the behavior of the United States in the negotiations shows that the United States as a whole is not only very united, but can even be regarded as a single actor. It has been learned that the attitude in the United States toward the US-Japan structural trade talks is unprecedentedly unanimous, and both Congress and the government have agreed to reduce Japan's trade barriers and open up Japan's trade market through trade talks, mainly because the US trade deficit with Japan has reached its peak. The U.S. Congress and the U.S. government, though partisan but both aimed at serving the people and strengthening the United States, cannot ignore the huge trade deficit, and it is understandable that the trade negotiations will be approved readily. As for the specific measures for the implementation of trade sanctions against Japan, some departments of the US Government believe that Japan should be strongly suppressed and its development should be suppressed, while others believe that it is necessary to establish a rational trade operation mechanism. Of course, such minor disputes between domestic sectors are not enough to hinder the smooth running of the overall trade negotiations.

As the representative of the executive branch, Bush himself is precisely the proposer of the negotiations and a key figure in the conclusion of structural trade between the United States and Japan. He served as president of the United States from 1989 to 1993, so if the 1989 trade negotiations with Japan were agreed to solve the long-term trade deficit problem of the United States, such glorious deeds would not only help the American economy turn the crisis into a safe one, but also enable him to quickly gain a foothold in the early days of his tenure, accumulate a large number of followers and supporters inside and outside the government, build up political connections, and lay the foundation for his own re-election and even future generations.

Needless to say, after a long period of trade deficits, the structural barriers negotiations can greatly promote their own interests by opening up the Japanese market, increasing exports, and rightfully backing the legislature.

As for Japan's domestic politics, it has always been a model for a mature political system in East Asia with its stability and superiority. In Japan, the ruling Liberal Democratic Party (LDP) and the executive branch of the Cabinet are the main actors in determining Japan's foreign trade policy, business groups and large financial institutions have direct influence on trade policy, and farmers and labor organizations are important organizations outside the government, political parties, and large business alliances, and the Diet has the authority to approve it. Behind a relatively perfect political system is the difference in the preferences of multiple actors. Japan's Liberal Democratic Party (LDP) is rooted in the grassroots, and the peasant masses and small business groups are its foundation, which means that they support each other. The most controversial issues in the U.S.-Japan structural

barriers negotiations are the U.S. proposal to repeal the Big Store Act in the distribution policy reform and the increase in land taxes in the land policy. The former violated the interests of small business groups, while the latter went against the will of peasant workers, and both were strongly opposed by the LDP. Thanks to this, the US side finally made a compromise and did not abolish the "Big Store Law" but amended it. At the macro level, Japan's coalition representing peasants and labor organizations has been in opposition to the coalition representing financial companies and capitalists, reflecting the disparity in the preferences of various political actors in Japan. In the end, the agreement was reached thanks to the Liberal Democratic Party's research and consultation, which examined each issue of the agreement one by one, and the final result was that the agreement itself would do more good than harm to Japan.

6. Reasons for the Success of the Negotiations

6.1. The Position of the Executive and Legislative Bodies is the Same

For the U.S.-Japan structural handicap negotiations to succeed, unanimous attitude within the United States is crucial. Although the president and the head of Congress belonged to different political parties at that time, in the face of the long-term trade deficit of the United States, they still insisted on the development of the United States as the ultimate goal, after all, the benefits of trade negotiations with Japan, the reduction of trade barriers, and the opening of the Japanese market far outweighed the disadvantages of the United States, so they would be unanimously agreed by the executive and legislative branches, and the two sides were on the same camp.

6.2. Endorsement and Support from Interest Groups

Interest groups themselves are independent of the executive and legislative bodies, but they exert influence on the executive and legislative bodies through their own property, social capital, social influence, cultural ideology, and other aspects, and their importance should not be underestimated. At the same time, interest groups are also a key factor in what Milner believes is that the probability of success of international cooperation increases dramatically by endorsing the legislature under conditions of information asymmetry.

In the U.S.-Japan structural obstacle negotiations, interest groups play a considerable role in decision-making issues and the drafting of terms, and this is especially evident in Japan's domestic politics. For example, the influence of Japan's small business groups and agro-industrial organizations had to be taken into account in decisions concerning distribution policy and land policy, and these grassroots stalwarts were the foundation of Japan's Liberal Democratic Party, and even the United States had to make concessions and compromises to it in the preparation of the final report in order to win the support of interest groups on both sides.

6.3. Absolute Interests are Paramount, Not Relative

The successful conclusion of the US-Japan structural obstacle negotiations is inseparable from the compromise of

the two sides, which is the result of the rational choice of various actors. The negotiations were also initiated by President Bush of the United States to reduce Japan's trade barriers and open up its domestic market through peaceful negotiations. Although the final agreement reached was clearly biased in favor of the United States and Japan made huge compromises, it itself was on the verge of the collapse of a bubble economy, and the timely transformation of the economic structure and the rational allocation of capital were the bargaining chips that could help it stabilize the domestic economy. In addition, the benefits of the structural barriers negotiation outweigh the disadvantages for both sides, and the results have improved compared to the status quo and the future expectations are clear, so international cooperation between the two sides will naturally come naturally.

6.4. There is no Change in the Approval Procedure

The ratification process, which is an important part of the domestic political system, also plays a key role in the success of international cooperation, and the power of ratification is usually in the hands of Congress. During the domestic negotiation phase of the U.S.-Japan structural agreement, there was no change in the ratification process due to the relatively consistent preferences of domestic actors on both sides. The U.S. Congress has not obstructed the government's actions, and there has been no referendum, which has greatly improved the success rate and efficiency of negotiations.

7. Conclusion

Referring to the argumentation process of the above full text, it can be found that it is feasible and scientific to analyze the case with double game theory, which can explain the behavioral tendencies of actors and their causes, as well as the root cause of the final achievement of international cooperation. The interests of the actors determine their preferences, preferences are fundamental, and institutions determine whether or to what extent preferences can be realized, both of which are indispensable and serve domestic negotiations in international cooperation. But reality is not a static theory after all, and model analysis cannot fit perfectly.

If Japan's status quo is closer to its sweet spot, i.e., Japan is closer to the recovery point, and its willingness to cooperate is lower than that of the United States, the United States should make greater compromises, but the opposite is true, and this has changed because of the "Super 301" trade sanctions that the United States is about to impose on Japan and the disparity of power between the two sides. In addition, domestic politics in the United States is a type of divided government, that is, the executive branch and the legislature belong to different parties and are more likely to interfere with each other, but it is indeed rare for the two to have the same position as it actually happens.

References

- [1] Putnam, Robert D. "Diplomacy and Domestic Politics: The Logic of Two-Level Games." *International Organization* 42, no. 3 (1988): 427-460.
- [2] Milner, Helen. *Interests, Institutions, and Information: Domestic Politics and International Relations*. Translated by Bo Qu. Shanghai: Shanghai People's Publishing House, 2010.
- [3] Li, Nanzhu. "The Reasons for Japan's Rapid Economic Development in the Early Postwar Period." *Enterprise Herald*, no. 5 (2016): 18. DOI: 10.19354/j.cnki.42-1616/f.2016.05.008.
- [4] Sun, Jie. "Reassessing Japan-US Trade Frictions: From the Plaza Accord to Structural Reforms." *Jiangsu Social Sciences*, no. 2 (2020).
- [5] Jin, Yiwen. "Historical Parallels: Lessons from Japan-US Trade Frictions." Accessed February 1, 2024. <https://baijiahao.baidu.com/s?id=1781953846838722731&wfr=spider&for=pc> (Original publication date: November 8, 2023).
- [6] Ye, Weiyang. "CRS Report: Japan-US Trade Negotiations and the Structural Impediments Initiative." Accessed February 1, 2024. <https://www.baidu.com/link?url=Gb7xuaJhBfxLBNF-llwfc475AC9Hudq0OAlu8fNq1-6Z4861oJPZ4L tprkoLQw wS& wd=& eqid=fa25cbc500a890ba 0000000565c64872> (Original publication date: December 2, 2018).
- [7] He, Ping, and Yinghua Zhou. "A Comparative Study of Three Negotiation Mechanisms in Japan-US Trade Frictions." *Northeast Asia Forum* 19, no. 5 (2010).
- [8] Wang, Lei. "The Dual Game of US-Japan Trade Frictions and Negotiations." PhD diss., Shandong University, 2012.