

ED WALLACE

Trade: Negotiations, Not Wars

BY ED WALLACE
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Years ago in this column I referenced the 1995 trade war Bill Clinton waged against Japan for its failure to appreciate the value of having Chevrolet Cavaliers to sell its citizens and for not purchasing enough automotive parts from American manufacturers. It seemed strange at the time; Clinton had campaigned saying he would be getting tougher on China's policies.

For those who have forgotten, it was a very public, full frontal attack against Japan and doomed to failure from the start. We went so far as to get the CIA involved in bugging the Japanese delegation's hotel rooms during the negotiations, while manipulating the currency exchange to raise the yen to 79 to the dollar. In consequence, Japanese cars' prices jumped dramatically overnight; Neal Hancock, then general manager for Hiley Mazda in Arlington, showed me that his Protege went from \$13,999 to over \$18,000. Acura's Legend jumped from \$34,000 to over \$42,000, as did the Infiniti J30 and every other car imported from Japan.

There's nothing worse than beating down the American consumer while claiming you're winning a trade war in their name. The Automotive News reported that Honda turned a profit of just \$85 per car sold worldwide that year, and that changed the company's culture forever.

So the Japanese agreed to buy more American-made auto parts, but GM and Ford which owned a large chunk of the parts manufacturing business would sell their parts divisions. Makes one question why they demanded more business from Japan. We sent a shipload of Dodge Neons and Saturns to Japan — that

accomplishment put into TV ads, as some sort of victory dance — while Toyota purchased 20,000 Chevy Cavaliers and rebadged them as Toyota Cavaliers back home. A year later Toyota slashed the price of those cars in half to get rid of them. Once Clinton declared victory, the yen weakened back to around 115 to the dollar, but the prices of imported Japanese cars never went back down. Similarly, remember the Chicken Tariff Tax of 1964 that LBJ put on imported trucks and commercial vans, in retribution for Europe's adding a tax on imported American chicken? That tax is still in place; not long ago, Ford imported transit vans with passenger seats into the U.S. from Spain, removing the seats once they cleared customs to avoid paying that 25 percent tariff on imported commercial vans.

Oh, and they got caught doing so.

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LBJ declared victory in that trade war, but for the past 56 years the public has paid for it in the price of imported trucks and commercial vans. Therein lies today's problem with yet another series of trade wars; they often end with Washington claiming they have bested our international competitors, but the American public's buying power for those goods is the collateral damage. This is not to be confused with ongoing trade negotiations to improve trade agreements, hopefully to both sides' satisfaction. But don't be misled, these are always sold as "free trade" agreements, but in reality they are managed trade agreements. That's why they take so long to negotiate.

It was President Reagan who first proposed a trade agreement with Mexico, because for the better part of a decade American jobs in manufacturing had been moving south of the border. It started with auto parts suppliers, looking to gain any sort of price advantage to ensure their profitability. While the public claims we don't like good-paying American jobs going to other countries, we all line up to buy the cheap imported products rather than American-made goods.

Then too, in 1988 Mexico had a new president, Carlos Salinas de Gortari, who gained office under cloudy circumstances; he wanted to legitimize his position by claiming Mexico was now a first-world country, and he would do so by signing a free trade agreement with America. Suddenly, Canada didn't want to be left out in the cold; they wanted in on the action. That's a key point on how to do trade negotiations right. You start with one country that already wants to do business with you, and another country that doesn't want to be left out comes to the table, too. Or the opposite of how Clinton dealt with Japan in the mid-Nineties. Only it took so long to negotiate NAFTA that Reagan doesn't get credit for it; George H. W. Bush did his best to wrap it up, but the signing actually happened in Clinton's administration.

Two points: One, the hard lift on NAFTA was Reagan and Bush I. And two, NAFTA only legitimized the previous decades' massive shift of U.S. manufacturing into Mexico — though we believed it would moderate the movement. As it turned out, it got Mexico a lot of new auto factories that might have been built here. That's right, Detroit managed to get language into that trade agreement stating that, unless you owned a car factory in Mexico, you could not take advantage of NAFTA for shipping cars in either direction without the much higher tariff. At the time only Volkswagen, Nissan, and Detroit's Big Three had factories in Mexico. So NAFTA pushed Honda, Toyota, Mazda, and everyone else into building full-fledged new car factories in Mexico.

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And lately we have targeted China, the EU, Canada, and others. First, it's wise not to negotiate based on publicly made threats. That's what Clinton did to Japan, and in the end it cost Americans billions of dollars in

higher prices and accomplished nothing. There was never a second shipment of Neons and Saturns to Japan, and as mentioned Ford and GM spun off their parts divisions, so that was useless, too. But we forget that other countries' leaders also need to save face with their citizens; when they're challenged directly, they're almost forced to resist, lest their own people start to think they are weak. Appearing to be weak is how political power disappears.

But there's also confusion about why all of this happens. At the end of the Second World War, we originally intended to put Japan back into the 19th century; but, once the communists took over China, we decided instead to re-industrialize Japan as the Pacific's Beacon of Capitalism against worldwide communist aggression. And it worked spectacularly well, so well that within 40 years we were so scared of Japan's capturing our business that we talked about them the way we fear China's industrialization today. Similarly, Japanese companies helped South Korea to ward off threats from the North; the first Hyundais to arrive here had decade-old Mitsubishi technology in them, and now the South Korean car industry is a threat to Japan's.

The argument is that this has cost us dearly in our manufacturing base, but that's not completely true. In 1998 our manufacturing output was \$1.379.89 billion and today it's \$2.173.32 billion. However, as a percentage of our total Gross Domestic Product manufacturing has fallen from 16.09 percent to just 11.5 percent, according to the World Bank. That does place us behind China's \$3.8 trillion in 2018, but that's not what it appears, either.

You see, when Apple had its iPhone and computers assembled in China, giving China the value of that industrial output, Apple also built a new headquarters in Cupertino that can probably be seen from the moon without a telescope; Apple today employs around 16,000 in that region. Those are high-paying jobs, especially when compared to assembly line iPhone workers' jobs. Besides, the real value in manufacturing for those goods is the high-tech chips, which often come from Japan and Germany. So the higher-paying manufacturing jobs we should want to create in America are not assembling computers and iPhones for shipment, but making the internal parts that come from better paid high-tech workers. Don't forget, one of our recent moves to handicap China's Huawei was cutting them off from buying those high-end chips from other countries, including Taiwan.

Since the growth of Japan, China, and South Korea and their access to our markets for their goods, we've also seen the extreme growth of our own upper middle class, along with sizable wage increases for that group. It's a nationwide phenomenon that has been created by moving many formerly middle-class families upward. The losses are in what we once referred to as the blue-collar middle class. But again, manufacturing output is way up in this country, so those jobs were not always lost because of foreign goods; they were mainly lost because of factories' increased automation over the past 40 years.

Trade negotiations are always worthwhile to improve a country's economic standing, public trade wars not so much. But the real issue America needs to deal with is not finding a way to create \$10 jobs assembling iPhones here, it's pushing to be America's high-tech capital of the world for the next generation. Those jobs pay much better and increase the knowledge of all involved in that type of manufacturing. After all, we created the personal computer and the Internet, and we went to the moon, and those goals were all worthwhile and changed the entire world. Or we could spend our time creating hard feelings with all of the world's competitors while ignoring the fact everyone still shops at the big box discount stores for their cheaper products anyhow.

*Ed Wallace is a recipient of the Gerald R. Loeb Award for business journalism, bestowed by the Anderson School of Business at UCLA, and hosts the top-rated talk show, *Wheels*, 8:00 to 1:00 Saturdays on 570 KLIF AM. Email: edwallace570@gmail.com*

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