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Master's Thesis of International Studies

**The 1986 U.S.-Japan Semiconductor
Trade Agreement:
A Two-Level Game Analysis**

1986 년 미일 반도체 무역 협정: 양면게임 분석

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Abstract

The 1986 U.S.-Japan Semiconductor Trade Agreement: A Two-Level Game Analysis

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This thesis aims to explore the U.S.-Japan bilateral relationship, particularly the contentious trade dispute during the 1980s and America's use of weaponized interdependence during the negotiations of the 1986 semiconductor trade agreement (STA). The U.S. has often used coercive diplomacy to achieve its foreign policy objectives in the past and continues to use this strategy today with mixed results. Recently, the Trump administration attempted to take advantage of South Korea's security dependence on the U.S. to renegotiate the U.S.-Korea Free Trade Agreement provisions. However, these attempts were generally deemed unsuccessful. In contrast, the Reagan Administration was able to successfully leverage Japan's dependence on the U.S. military to draw out Japanese concessions through several trade agreements during the U.S.-Japan trade tensions in the 1980s. The semiconductor industry was one of the main industries at the center of the trade tensions.

The 1986 U.S.-Japan STA is considered by many as a victory for the U.S. as the provisions of the agreement disproportionately benefitted American semiconductor firms over their Japanese counterparts. This thesis conducts a case study on the STA using a combination of historical analysis and two-level game theory analysis to explore how the controversial trade agreement was politically feasible. Many different factors and circumstances influenced the negotiations of the STA. This historical analysis provides an overview of U.S.-Japan relations post-WWII and the context for the semiconductor dispute and the negotiations of the STA. International negotiations are a process that involves negotiations at both the domestic (Level II) and international (Level I) levels. This two-level analysis focuses on three factors that affected the outcome of the trade negotiations: (1) Level II preferences and coalitions, (2) Level II institutions, and (3) Level I negotiators' strategies.

The analysis of this thesis indicates that several key factors made the STA feasible. First, the historical analysis reveals that both the Reagan administration and the Nakasone administration were aware of the importance of the U.S.-Japan alliance in achieving their respective foreign policy objectives. President Reagan's collective security strategy and desire to end the Cold War, and Japan's worsening security environment in the late 1970s with the Soviet Union's military buildup in the Pacific made security a high priority for both countries. In particular, the Japanese government was wary of antagonizing Washington as its pacifist security policy made it

dependent on the U.S.-Japan security alliance for its security. In addition, President Reagan embraced an economic policy that focused on opening foreign markets rather than resorting to protectionist measures, and Japan's economy was still largely dependent on the U.S. despite its incredible postwar economic rise. Therefore, despite the elevated political tensions between the U.S. and Japan during the 1980s, President Reagan and Prime Minister Nakasone worked to build a strong foundation for cooperation and politically postured to resolve the trade dispute and the semiconductor issue diplomatically.

Second, the two-level game analysis indicates that the American and Japanese domestic political institutions and laws including the fast-track authority of the Trade Act of 1974 and the Ohira Principles of 1974, increased the Level II win-set size for both countries, making a final Level I agreement more likely. This analysis also suggests that American negotiators were able to maximize their outcomes during negotiations. Several factors shaped the negotiators' strategies including the persistent and coordinated pressure from American semiconductor firms and Congress, the three anti-dumping cases and the "Section 301" cases initiated by the USTR against Japanese semiconductor firms, the innate asymmetric nature of the bilateral relationship, and Japan's dependence on the U.S. military for its security needs. In the end, the agreement fell within the respective countries' Level II win-sets: it addressed the American constituents' concerns on the issues of

market access and dumping, and in return, the U.S. suspended the antidumping cases it initiated against Japanese semiconductor firms. However, the responsibility of monitoring and enforcement ultimately fell on the Japanese government, effectively giving Japan the power to inadequately implement the agreement. Therefore, while the U.S. was able to utilize its position of power to pressure Japan into making the desired economic concessions, the terms of the STA lacked a comprehensive agenda for monitoring which, in turn, limited the extent to which the U.S. could enforce the agreement.

Overall, this thesis provides a valuable framework for future research on U.S. trade policy. In particular, the most compelling direction for future research is to delve into America's trade policy in the semiconductor industry and how its strategy has evolved since the 1980s. The manufacturing capabilities and the competitiveness of American semiconductor firms remain integral to the U.S. economy and national security today. Throughout the 1980s, the U.S. attempted to limit the exportation of Japanese semiconductor products and expand the presence of U.S. semiconductor firms in the Japanese market. In contrast, the U.S. is currently embracing a new policy of strategic alliance: it is targeting South Korean semiconductor firms like Samsung Electronics and SK Hynix and trying to incentivize these leading firms into entering and investing in the U.S. Regardless of the direction of future research, this thesis can be used to aid American policymakers and

negotiators in formulating ideal trade policies and negotiation strategies, particularly in respect to the semiconductor industry and the use of weaponized interdependence.

Keywords: U.S.-Japan trade, semiconductor industry, two-level game theory, trade agreement case study, collective security

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Chapter I. Introduction

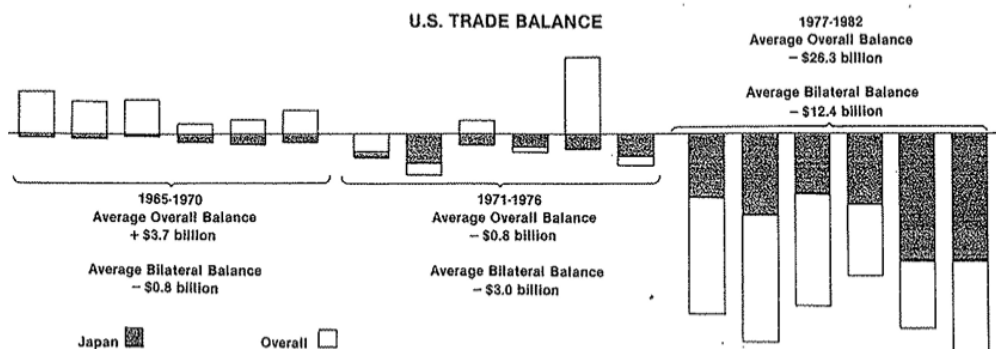
1. Background

Following the end of WWII in 1945, the paradigm of international order shifted as the U.S. and the Soviet Union emerged as the two most powerful countries. The Cold War, which lasted for almost half a century (1947-1991), began shortly after as the two superpowers engaged in an ideological and geopolitical struggle for power over the international order with the U.S. and their allies making up the Western Bloc or Capitalist Bloc and the Soviet Union and their allies made up the Eastern Bloc or Communist Bloc. In Asia, this struggle for influence manifested in the Chinese Communist Revolution and the proxy wars in Korea and Vietnam. Because of the uncertainty caused by these conflicts, America's alliance with Japan was all the more crucial in the region. During this prolonged era of tension, the geopolitical importance of the U.S.-Japan alliance was undeniable. However, the bilateral relationship was not without its issues.

The U.S. and Japan were engaged in a contentious trade dispute throughout the 1980s. While much of the Western world including the U.S. experienced a period of economic stagnation throughout the 1970s, Japan's economy was prospering. As Japan enjoyed an extraordinary economic post-war recovery dubbed the "economic miracle," the large trade deficit the U.S. had with Japan became a primary source of strain on the bilateral relationship

(Burton-Christie, and Cheng 1983). From 1965-1976, the U.S. annual trade deficit with Japan was mostly offset by its surplus with the rest of the world, but from 1977-1982, alarm began to grow among Americans as the U.S. trade deficit extended to the rest of the world and caused its overall trade deficit to skyrocket (refer to Figure 1).

Figure 1. U.S. Trade Balance



Note. This figure shows a comparison between the U.S. overall trade balance and the U.S.-Japan bilateral trade balance from 1965-1970, 1971-1976, and 1977-1982. (Chart is from Mary Ellen Burton-Christie and Hang-Sheng Cheng, April 8, 1983).

The contrasting economic situation combined with the widening trade imbalance between the two countries led many Americans to accuse Japan of engaging in unfair trade practices and benefiting from a “free ride” to achieve its economic success. With tensions escalating and building pressure from the American public and government officials, then-President Ronald Reagan sought to resolve these issues with Japan.

2. Research Question

On September 2, 1986, the U.S. and Japan signed the Arrangement Between the Government of Japan and the Government of the United States of America Concerning Trade in Semiconductor Product (hereinafter referred to as the “Semiconductor Trade Agreement”) after constant and unrelenting pressure from Washington (General Agreement on Tariffs and Trade, 1986). The Semiconductor Trade Agreement (STA) was a five-year arrangement that many argue disproportionately benefited American semiconductor firms over their Japanese counterpart. It included two main provisions: (1) it increased the market share of U.S. chip firms in Japan’s domestic market, and (2) it set price floors for semiconductor products to prevent dumping by Japanese firms. Japan also agreed to grant “national treatment” to U.S. firms such as IBM, Motorola, and Texas Instruments that were producing chips in Japan (GATT, 1986). In a secret side letter that was not officially included in the agreement, Japan agreed to increase the share of U.S. firms in the Japanese market from 8 percent to 20 percent by 1991 (Erdilek, 1989).

After the STA was signed, it was one of the most controversial trade policies at the time. The STA was extremely unpopular with the Japanese public with Japanese semiconductor firms characterizing the agreement as “a bullying, unrealistic attempt to extort fundamental changes in the way [Japanese firms] have successfully done business,” (Erdilek, 1989). There was also some dissent among those in the U.S., particularly the computer

industry and other semiconductor purchasing industries; trade groups such as the Computer & Business Equipment Manufacturers Association (CBEMA) started to mobilize and lobby the Reagan Administration and Congress after the signing of the STA as the higher chip prices would be harmful to these electronic industries (Long 1988). Yet, even with the opposition from various domestic and international parties, the trade agreement was inexplicably signed. Therefore, the following questions arise: (1) why did the U.S. and Japan sign the STA and what factors influenced this decision? and (2) how was the STA politically feasible?

3. Research Significance

Since the collapse of the Soviet Union in 1991, the U.S. has remained the status quo hegemon and U.S. foreign policy objectives have changed accordingly to maintain this position of power. For example, the Bush Administration was focused on the Middle East and the war on terror while the Obama Administration embraced a “pivot to Asia” strategy to address China’s rise in power and the global security threat posed by nuclear North Korea. Today, with the ongoing U.S.-China rivalry, East Asia and more broadly speaking the Indo-Pacific region continues to play a significant role in shaping the trajectory of U.S. hegemonic power, and this relevance is reflected in the continued focus of U.S. foreign policy toward the region during the Trump and Biden administrations. Washington’s main objective in

East Asia is to secure its strategic position and increase its influence in the region. The U.S. cannot maintain its power alone—it must rely on allies around the world to maintain the American-led liberal order. And with the rise of China in the 21st century, the importance of its East Asian alliances including Japan and South Korea has only increased and they are the cornerstone of maintaining security in the East Asian region going forward.

These objectives can be achieved through a variety of different ways including economic and military statecraft and diplomacy. In the globalized age of the twenty-first century where the world is more interconnected and interdependent than ever, the use of military force has become an unfavorable course of action due to its high cost. The global war on terror, which has cost the U.S. an estimated \$8 trillion, has made the U.S. government cautious of resorting to military intervention (Crawford, 2021). In addition, the economic dependence the U.S. has on China limits the methods that the U.S. can utilize to combat the China threat. The linkage between economic and security interests is more relevant than ever with David Baldwin (1994) coining the term “economic statecraft” to characterize the use of economic tools and relationships to achieve foreign policy objectives (Mastanduno, 2011). Today, economic statecraft and diplomacy have become essential tools for the U.S.

Under the Trump administration, the U.S. embraced an aggressive foreign policy vis-à-vis China including attempting to weaponize its security alliance with South Korea. As defined by Drezner (2021), weaponized

interdependence is “a condition under which an actor can exploit its position in an embedded network to gain a bargaining advantage over others in a contained system.” In 2017, Trump expressed his displeasure with the original provisions of the U.S.-Korea Free Trade Agreement (KORUS) and sought more favorable provisions, going as far as to threaten to terminate the trade agreement altogether if it was not renegotiated. The following year in 2018, Trump was able to renegotiate KORUS with the South Korean government under President Moon Jae-in and this marked Trump’s first trade deal as President. However, many critics assert that Trump’s attempts to coerce South Korea into making more economic concessions during these negotiations were generally unsuccessful as the renegotiated agreement did little to improve the provisions to benefit the U.S. (Drezner, 2018).

The U.S. utilized a similar strategy of weaponized interdependence in the past with another important East Asian ally— Japan. Under the Reagan administration, the U.S. took advantage of its position as the global hegemon to force Japan to make several large economic concessions during the U.S.-Japan trade dispute in the 1980s (Zeng, 2004). Among these concessions include the 1986 U.S.-Japan STA. Although Trump used a similarly aggressive strategy to Reagan, the results were vastly different. Therefore, an analysis of the 1986 U.S.-Japan STA can provide insight into what caused the U.S. to not only be able to negotiate the provisions of the agreement to its favor but have Japan sign said agreement. This analysis of the U.S.-Japan

trade dispute and the 1986 STA is significant because untangling the negotiation process of the STA can have important implications for U.S. trade policy and alliance politics.

Alliance politics is a delicate balancing game and being able to use economic statecraft, coercion, and diplomacy effectively is essential to advance U.S. national interests. Although the geopolitical environment today is different from the 1980s, there are still many similarities. The U.S. has not only maintained its hegemonic position and coercion power, but the U.S.-ROK alliance today also has many similarities to the U.S.-Japan alliance in the 1980s. South Korea has grown into one of America's most important regional and global allies and international economic partners, and like in the case of Japan where the U.S. asked Japan to contribute more to the alliance by allocating more funds to building its defense, playing a bigger role in regional security, and supporting U.S. troops overseas, America is asking the same from South Korea (Mastanduno, 2011). Korean officials responded similarly to Japanese officials by pushing back and arguing that the U.S. is asking for too much. In both cases, the benefits of the alliance far outweigh the costs for all parties involved. The U.S.-Japan alliance has been the cornerstone of America's presence in East Asia for decades and its importance, along with the U.S.-ROK alliance, only continues to grow with the rise of China and a nuclear North Korea posing a threat to the stability of American hegemony; Japan and South Korea also play a vital role in the semiconductor

industry.

The semiconductor industry is particularly important as the dual use of semiconductor chips for both commercial and military purposes has significant implications for the U.S. economy and national security. During the 1980s, the rapid rise of Japanese semiconductor firms was viewed not only as a threat to the global competitiveness of American semiconductor firms but losing its dominance over the industry posed a potential national security threat. Today, the central role semiconductors continue to play in the advancement of innovations and technologies such as artificial intelligence (AI) and automated devices make maintaining competitiveness and oversight in the semiconductor industry crucial for the U.S. Therefore, this case study is significant because it provides an important framework for future research and how America should engage in alliance politics, utilize weaponized interdependence and coercion against important allies, and formulate trade policy.

4. Literature Review

The literature on the semiconductor industry dispute during the 1980s U.S.-Japan trade dispute is vast and tends to focus on analyzing U.S. trade policy, particularly Section 301 of the Trade Act of 1974 and the 1986 STA. These studies discuss the role of U.S. semiconductor firms and Section 301 in initiating the semiconductor dispute and the overall effectiveness of the STA

including whether it improved the competitiveness of U.S. firms in the semiconductor market and whether the STA was a good policy that should be renewed and replicated in the future.

Douglas Irwin (1996), professor of economics at Dartmouth College and a former member of President Ronald Reagan's Council of Economic Advisers, has researched extensively on past and present U.S. trade policy. In "The U.S.-Japan Semiconductor Trade Conflict," Irwin provides a comprehensive overview of the semiconductor dispute by discussing the general background of the U.S.- Japan semiconductor rivalry, the initiation of trade action against Japan including the Section 301 case that eventually led to the 1986 STA, and the economic effects and aftermath of the agreement. He identifies several key domestic actors including the Semiconductor Industry Association (SIA) and semiconductor firms Motorola, Texas Instruments, Micron, and Intel on the American side as well as the Electronic Industries Association of Japan (EIAJ) and the Ministry of International Trade and Industry (MITI) on the Japanese side that were responsible for shaping American and Japanese trade policy, respectively. He highlights the internal domestic conflict in Japan between MITI and Japanese firms, noting that although MITI attempted to impose an "antidumping" voluntary export restraint (VER) on its domestic firms because MITI did not have the enforcement mechanism necessary to force firms to comply, it was difficult to regulate (Irwin, 1996).

William Long (1988) utilizes a historical perspective to explore U.S. trade policy in his paper “The U.S.-Japan Semiconductor Dispute: Implications for U.S. Trade Policy” where he divides the evolution of the semiconductor issue into three parts: crisis, resolution, and denouement. One of the main conclusions he draws is that the aggressive trade policy America adopted to address the semiconductor issue was a departure from prior U.S. trade policy concerning other high-technology disputes with Japan (Long 1988). He states that the attempts to resolve the semiconductor dispute through the STA reflect the further politicization of U.S. trade laws and suggests that this will increase the likelihood that U.S. trade laws will be used as an instrument for intensifying political pressure that will result in trade law losing its credibility as being a relatively fair and impartial method for resolving trade disputes. Overall, Long expressed his doubts about the U.S. trade policy toward the semiconductor dispute, further pointing out the potential and likely conflict the provisions of the STA will have with the international trading system (Long 1988).

Several studies including papers by Charles Kaufman (1994), Dorinda Dallmeyer (1989), and Bryan Johnson (1991) discuss the economic implications of the STA. All three of these studies question the effectiveness of the STA and argue that the STA did not benefit the U.S. semiconductor industry as much as the U.S. government claimed it would. Kaufman arrived at this conclusion by assessing the origins of the semiconductor trade issue.

He found that the American semiconductor trade issues did not necessarily stem from Japan's unfair trade practices as the U.S. claimed and although the U.S. semiconductor industry did make some noticeable improvements after the STA was signed, he states, "the phenomenal recovery of the U.S. chip industry probably owes little to the Arrangement," (Kaufman, 1994). Dallmeyer (1989) found similar results stating that the results were "mixed at best." In his study, Johnson (1991) discusses whether the STA was effective in solving the issues the provisions were intended to solve and thus, a policy that should be replicated in the future and he suggests that the agreement should not be renewed.

Overall, these studies provide a comprehensive dialogue on the U.S.-Japan semiconductor rivalry. However, there are several gaps in the literature. First, there is a general lack of interest in understanding the U.S. trade policy decisions that led to the STA. In his paper, Erdilek (1989) states that he is uncertain as to why the U.S. government decided on a diplomatic approach to address the semiconductor conflict with Japan, saying, "It is not entirely clear why the U.S. government took this anti-retaliatory step," referring to the U.S. government's attempts to engage in talks with Japan in November 1985. The STA, parts of which was renewed in 1991, continued to be analyzed and scrutinized by policymakers and economists alike including Timothy Bartl (1992) with many scholars supporting the standing belief that the STA is not as beneficial for the U.S. as initially hoped. Yet like Erdilek, while the

literature tends to focus on the economic implications of U.S. trade policy, understanding how the trade agreements were negotiated in the first place is essential for understanding why the provisions of an agreement may not be as effective as intended.

Another gap in the literature is that much of the literature frames the semiconductor issue through the perspective of the U.S. and its domestic politics and foreign policy. However, the Japanese perspective is just as important, if not more so, to understand the events of the STA negotiations. The U.S. has shown that it is not afraid of taking anti-retaliatory steps against Japan. Many studies discuss the role of Section 301 of the Trade Act of 1974 and how it was used as a retaliatory tool against Japan including Michael Ryan (1995), Ka Zeng (2004), Jean Grier (1992), and many more. At the time, the U.S. was initiating several cases against Japan for various products, alleging unfair trading practices. In the case of semiconductor products, the U.S. alleged Japan was using dumping practices and initiated several antidumping cases against Japanese semiconductor firms. This provides context into the main economic motivations Japan had to reach an agreement. However, Japan's decision to accept the agreement is multidimensional: its negotiation terms and strategy is shaped in large part by its domestic politics and extends beyond the economic realm. Therefore, analyzing Japan's domestic politics and overall foreign policy objectives is necessary to understand the different interests that shaped Japan's negotiation strategy

during the STA negotiations.

This leads to the final gap in the literature. Trade policy is shaped by not only economic interests but various political and security considerations that all hold various levels of weight and priority. The geopolitical environment at the time with the ongoing Cold War and the security relationship between the U.S. and Japan are major background factors that indirectly influenced the STA negotiations. Scholars have somewhat acknowledged the nexus of security, economics, and international relations in relation to U.S. trade policy. In his conclusion, Long (1988) notes how the aggressive trade policy adopted by the U.S. appears to be linked to concerns over U.S. national security, and Kaufman (1994) also includes a brief paragraph acknowledging the defense and strategic concerns that were present over the potential that dependence on Japan for defense electronics would have for American security. But the scope of analysis that discusses the non-economic factors that influenced the negotiations of the STA is limited. Acknowledging these interests can help scholars like Erdilek discern America's complex trade policy decisions that ranged from coercive to anti-retaliatory.

Based on these gaps in the literature, the question of what led to the STA being signed remains unanswered. While many of these studies make general suggestions for why both countries agreed to sign the STA, there has not yet been a study that has conducted a comprehensive case study analysis

to answer this question. There is a general belief among American scholars that Japan accepted the agreement mainly because of its dependence on the U.S. for military security. However, without expanding the scope of analysis and incorporating the Japanese perspective and a more in-depth analysis of various security and economic considerations shaping trade policy, this statement cannot be confirmed. Therefore, this thesis expands the scope of analysis and directly addresses the question of what made the STA politically feasible and why the Japanese government in particular agreed to the concessions it made in the STA.

This thesis consists of five chapters: Chapter I discusses the background, research question, research significance, and literature review; Chapter II discusses the research methodology and research hypothesis; Chapter III explores the U.S.-Japan security and economic relationship and the roles President Reagan and Prime Minister Nakasone played during the 1980s trade dispute; Chapter IV delves into the case study and the two-level game analysis of the 1986 STA; and Chapter V concludes with the summary of the findings, the aftermath of the STA, policy recommendations, and the direction for future research.

Chapter II. Methodology

The research aims to analyze the political feasibility of the 1986 STA. According to Meltsner (1972) and Dror (1969), political feasibility analysis involves first identifying the political environment the policy issue exists and then identifying factors such as key actors, motivations, resources, and public opinion. Based on this definition of political feasibility analysis, a practical approach for this study is to conduct a historical analysis and a two-level game analysis.

1. Historical Analysis

First, this thesis leverages historical analysis to provide an overview of U.S.-Japan relations after WWII. The overview is divided into three sections: (1) security, (2) economy, and (3) the Reagan-Nakasone cooperative relationship. Despite the mutual benefits of the alliance, the asymmetric nature of the U.S.-Japan bilateral relationship played a significant role in the negotiation process. Japan's role as the "junior partner" and its overreliance on the U.S. for its security needs restricted its ability to resist Washington's economic demands. In addition, Ronald Reagan who served as the U.S. President from 1981-1989, and Yasuhiro Nakasone who served as the Japanese Prime Minister from 1982-1987, were key figures who shaped trade policy and U.S.-Japan relations throughout the 1980s at the height of trade tensions. Thus, this

historical analysis provides a background of the environment during the semiconductor trade dispute and supplements the two-level game analysis by providing important context for the eventual negotiations and signing of the STA.

The data for this analysis is collected from primary sources including archives, manuscripts, libraries, oral transcripts, and testimonies of official statements made by President Reagan and Prime Minister Yasuhiro Nakasone, official documents provided by organizations such as the U.S. Congress, Japan's Ministry of Foreign Affairs (MOFA), and the General Agreement on Tariffs and Trade (GATT), and other relevant secondary sources. These sources provide insight into several important factors including the asymmetric nature of the bilateral relationship and the foreign policy strategies and objectives of the American and Japanese governments. In particular, this analysis aims to shed light on the actions of the Japanese government and their reasoning behind accepting the STA.

2. Two-Level Game Theory

According to Robert Putnam (1988), two-level game theory views international negotiations as a process that involves negotiations at both the domestic and international levels. Domestic politics determines international relations and vice versa: at the national level, domestic groups pursue their

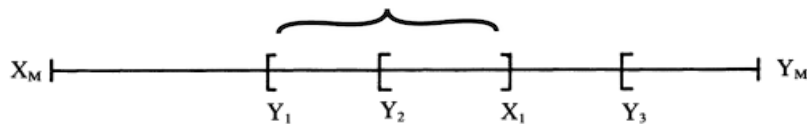
own interests by pressuring their government to adopt favorable policies while at the international level, national governments strive to satisfy their domestic demands in a manner that minimizes the potential consequences (Putnam, 1988). The two-level approach is practical because it recognizes that central decision-makers (“the state”) attempt to reconcile both domestic and international imperatives simultaneously unlike the “Second Image” and “Second Image Reversed” approaches (Putnam, 1988). Moreover, it also recognizes that there is domestic disagreement over what “national interest” entails, unlike state-centric theories. This approach has been used to analyze international negotiations such as the 1978 Bonn Summit and can provide insight into the case of the 1986 STA.

“Win-sets”

The two-level game theory revolves around the concept of “win-sets” and the size of these win-sets is particularly important. The theory is aptly divided into two levels: Level I (the international level) and Level II (the domestic level). According to Putnam (1988), Level I refers to the bargaining that occurs between the “chief negotiators” from each side while Level II refers to the discussions that occur internally within each group of constituents on whether to ratify the agreement; a “win-set” is the set of all possible Level I agreements that would gain the required majority among the Level II constituents (Putnam, 1988). A successful agreement is possible when the

Level II win-sets of each party overlap and the larger the size of each win-set, the higher chance they have of overlapping (Putnam, 1988). As seen in Figure 2, the size of the Level II win-sets is important for shaping the range of feasible agreements. The Level I negotiators' ability to strategically manipulate the win-set size in one's own favor can lead to more favorable outcomes of an agreement for that negotiator's country.

Figure 2. Effects of Win-set Size



Note This figure depicts the effects of Level II win-set size during negotiations. X_M and Y_M represent the maximum outcomes for countries X and Y respectively with X_1 and Y_1 representing the minimal outcomes where an agreement can be ratified by both countries; any agreement in the range between X_1 and Y_1 as indicated by the bracket can be ratified. However, the smaller the win-set sizes, the less likely it is for an agreement to be reached. For example, when the win-set of country Y contracts from Y_1 to Y_2 , the range of feasible agreements decreases and shifts in country Y's favor. However, if country Y's win-set contracts even further to Y_3 , the negotiators would be deadlocked in a situation where an agreement cannot be reached. (This figure is from Robert D. Putnam, "Diplomacy and Domestic Politics: The Logic of Two-Level Games," *International Organization*, 1988, 441).

As Putnam (1988) notes, three factors, in particular, are relevant to understand what affects win-set size: (1) Level II preferences and coalitions, (2) Level II institutions, and (3) Level I negotiators' strategies. The two-level game analysis of the 1986 STA case study will focus on these three factors.

3. Research Hypothesis

The negotiation process for any international trade agreement is arduous: it can last from months to years, and it may still end without an agreement being reached. As the dispute stretched on and hostility within the U.S. toward Japan began to grow, the allies were at a crossroads. Both countries had reasons for wanting to de-escalate the trade tensions and resolve the semiconductor dispute diplomatically. Based on the aforementioned three factors that affect win-set size, this thesis considered several questions. First, how did domestic politics including the preferences and coalitions of the American and Japanese constituents and the domestic political institutions and the overall foreign policy objectives influence the respective strategies of the American and Japanese trade negotiators? And second, how did these strategies, in turn, affect the political feasibility of the trade policy?

This thesis hypothesizes that the geopolitical environment, the asymmetric nature of the U.S.-Japan alliance, and the U.S. and Japan foreign policy objectives at the time made a diplomatic resolution to the semiconductor issue more likely and that the Level II Preferences and Coalitions, the Level II Institutions, and the Level I Negotiator Strategies affected the Level II win-sets to make the STA politically feasible. More specifically, several factors including the coordinated lobbying by domestic semiconductor coalitions in the U.S., Japan's reliance on the U.S. military for its security, and the higher cost of no-agreement for Japan affected the Level

II win-sets and gave the American negotiators leverage over their Japanese counterpart during negotiations.

Additionally, given that the STA signaled the Japanese government's willingness to make economic concessions to the U.S., the question of how the STA was politically feasible cannot be answered without understanding why Japan ultimately accepted the STA. Therefore, this thesis postulates that the immediate benefits Japan would reap with the suspension of the antidumping and Section 301 cases combined with the ambiguous monitoring provisions and the Japanese government's desire to appease the U.S. government and Congress gave Japan enough incentive to accept the provisions of the STA.

Limitations

As a single case study analysis, the biggest limitation of this study's methodology is that it is difficult for definitive conclusions to be drawn and the conclusions cannot be generalized to a larger context. However, this thesis provides important insight into the 1980s U.S.-Japan trade dispute and how the U.S. successfully weaponized Japan's dependence on the U.S. to force Japan into making economic concessions and peacefully resolving the trade dispute. Furthermore, the final chapter of this thesis makes policy recommendations for how the U.S. should engage in alliance politics and

utilize weaponized interdependence against important allies. It also discusses the direction for future research. The most compelling direction for this future research is to compare America's trade strategy toward Japanese semiconductor firms during the 1980s to its strategy toward South Korean semiconductor firms today.

Chapter III. Overview of U.S.-Japan Relations

This chapter gives a historical overview of the U.S. and Japan security and economic relationship in the post-WWII period and the roles President Reagan and Prime Minister Nakasone played in shaping trade policy during the 1980s U.S.-Japan trade dispute. The purpose of this analysis is to give context to the political climate, the attitude, and the public opinion the U.S. and Japan held toward each other at the time of the STA negotiations. Mike Mansfield, the longest-standing U.S. Ambassador to Japan who served from 1977 to 1988, stated in an interview with Nihon Keizai Shimbun that he viewed the U.S.-Japan relationship as “the most important bilateral relationship in the world, bar none” throughout his tenure (Mike Mansfield, 1999).

1. Security

Since the end of WWII, the U.S. has maintained and expanded its presence in East Asia with its occupation of Japan and the proxy wars in Korea and Vietnam; the region was the battleground for the Cold War, and this made the security alliance between the U.S. and Japan particularly significant. The original U.S.-Japan security agreement, which was signed in conjunction with the San Francisco Peace Treaty in 1951 and established the military alliance between U.S. and Japan, was revised and replaced with an updated version in

1960. This updated U.S.-Japan Security Treaty, known as the 安保条約 (Anpo jōyaku) in Japanese, was a considerable improvement to the previous version, particularly for Japan, and is still in force today (Ministry of Foreign Affairs, 1960a and 1960b). The mutually valuable security pact was an important aspect of the U.S.-Japan alliance that shaped their diplomatic strategies and interactions.

U.S. security policy: collective security

Geopolitical tensions fluctuated throughout the different stages of the Cold War with a notable easing of tensions in the 1970s with then-President Nixon's policy of *détente*. However, after the Soviet Union invaded Afghanistan in December 1979, tensions reemerged and after Ronald Reagan was voted into office in 1980, there was a shift in U.S. attitude toward the Soviet Union. Breaking from Truman's policy of "containment," Reagan officially ended the brief period of *détente* and embraced a policy of rollback known as the "Reagan Doctrine" which had the objective of finally putting an end to the Cold War (U.S. Department of State, 2001a). In his famous "Evil Empire" speech, President Reagan (1983) referred to the Soviet Union as an "evil empire" and "the focus of evil in the modern world" and he adopted a defense policy of military buildup, increasing the U.S. military spending to unprecedented levels to combat this "evil" (Rowland and Jones, 2016).

Along with America's military buildup, the administration encouraged a strategy of collective security and emphasized the importance of the explicit support of its allies in fighting the expansion of the USSR's influence. A declassified 1983 directive from the U.S. Department of State (2008) best epitomized how the U.S. planned to succeed in its rollback strategy, stating, "The U.S. must rebuild the credibility of its commitment to resist Soviet encroachment on U.S. interests and those of its Allies and friends, and to support effectively those Third World states that are willing to resist Soviet pressures or oppose Soviet initiatives hostile to the United States, or are special targets of Soviet policy." One of the key allies this directive was referring to was Japan.

As one of America's most loyal allies, Japan was an important asset to the U.S. and its support was crucial for expanding U.S. influence in the East during the Cold War era. When asked in an interview with representatives of the Japanese newspaper Yomiuri Shimbun about Japan's security role in the context of U.S.-Japanese cooperation vis-à-vis the Soviet Union, President Reagan (1986b) responded:

The United States views Japan as a cornerstone of our mutual security. The facilities made available to U.S. forces in Japan and U.S. access to those facilities are vital to the defense of our common interests in the Far East. Japan's self-defense roles and missions, as described by former Prime Minister Suzuki in 1981, are to protect its territory, seas

and skies, and its sealanes out to 1,000 nautical miles. The United States endorses these Japanese undertakings and hopes that Japan will attain the capability of fulfilling these roles and missions as soon as possible.

In this statement, Reagan acknowledged the important role Japan plays in supporting both U.S. national security and international security. When asked whether Japan should extend its military role, Reagan (1986b) stated, “Neither the United States nor, we believe, Japan seeks a broader military role beyond that of self-defense,” implying that he believed the Japanese government was satisfied with their current security role and would continue to rely almost solely on the U.S. military for its security. This was a practical assessment given Japan’s long-standing postwar security policy of self-defense and minimal military rearmament. However, despite this passive security policy, Japan still viewed security as an issue of high importance, especially as its security environment worsened in the late 1970s.

Japan’s security policy: “buck-passing” strategy

Following the end of WWII, Japan maintained a foreign policy based on a framework formed by Shigeru Yoshida. This so-called “Yoshida Doctrine” emphasized Japan’s economic recovery while relying on its bilateral alliance with the U.S. for its security needs (Shinoda, 2011). From this framework,

Japan developed a security policy aimed at building a defense force for purely defensive reasons rather than attempting to become a military power. The three major pillars of Japan's security policy are (1) smooth and effective operation of the Japan-U.S. security arrangements, (2) improved defense capability, and (3) active diplomatic efforts (The Japan-U.S. Study Group, 1982). This policy aligned with the sentiment of the Japanese public who were extremely resistant to the idea of Japan building a substantial military presence. Even the Self-Defense Forces (SDF), which the Yoshida government created in 1954, was met with substantial domestic opposition (Shinoda 2011).

Yet despite Japan's pledge to improve its defense capabilities, the actions of the Japanese government indicated otherwise. For example, in 1976, Japan's National Defense Council and Cabinet implemented a defense spending ceiling of 1 percent of GNP to keep its spending in check and this decision had the full support of the Japanese people (The Japan-U.S. Study Group, 1982). From the perspective of officials in Washington, Japan's actions reflected its lack of contribution and commitment to the security arrangement; Japan's "buck-passing" grand security strategy frustrated the U.S. and its leaders who urged Japan to participate in a collective security strategy.

In response to America's displeasure, Japanese officials cited several reasons for its actions. First, Japan argued that it had to be cautious of the

perception its neighboring Asian countries had of its defense activities given its military history; the former colonial power did not want to increase apprehension by playing a deterrent role in the region (The Japan-U.S. Study Group 1982). Additionally, Japanese officials cited Japan's Constitution, which went into effect in 1947, as a reason for why Japan was restricted in its ability to increase its security capabilities: Article 9 Paragraph 1 of the Constitution of Japan (1946) states that "the Japanese people forever renounce war as a sovereign right of the nation and the threat or use of force as means of settling international disputes." This provision in particular was cited by many conservative Japanese politicians to justify Japan's lack of military assistance overseas and to rebuff U.S. pressure for Japan to increase its security contributions (Shinoda 2011).

U.S.-Japan collective security

During the late 1970s, the Soviet Union began to rapidly increase its military capabilities in the Pacific and the Kuril Islands, and this military buildup made Japan particularly uneasy (Lind, 2016). In response, Japan took steps to embrace new roles in the security realm of the U.S.-Japan alliance and build its own military capabilities. According to Lind (2016), the allies signed the Guidelines for Defense Cooperation in 1978 which stipulated that Japan would expand its military participation beyond its borders to operations that

aimed to provide “peace and stability” throughout East Asia and in 1981, Prime Minister Suzuki pledged that Japan would patrol its territory, its seas and skies, and its sea lanes up to 1,000 nautical miles from its coasts. In addition, Prime Minister Nakasone, who served as the director general of the Japan Defense Agency or Bōei-shō (防衛相) from 1970 to 1971, was an outspoken nationalist and advocate of the SDF and he actively pushed for Japan to increase its defensive capabilities throughout his political career (Johnson, 1986). During his premiership from the early to late 1980s, Nakasone reversed the liberal trend of Japan’s security policy and made various efforts to improve Japan’s defense capabilities and increase Japan’s contributions to America’s collective security efforts (Shinoda, 2011).

Given the tumultuous security environment at the time, both the American and Japanese governments recognized the importance of their security arrangement, despite their reservations. For Japan, the foundation of Japan’s security policy was the U.S.-Japan alliance, and it could not afford to antagonize the more powerful nation. For the U.S., Japan played a central role in its collective security strategy. Although many Americans were still unsatisfied with the extent of Japan’s security contributions, the Japanese government was showing its willingness to take on more roles to ensure security in the region. Moreover, Japan’s reliance on the U.S.-Japan security pact also gave the U.S. significant clout over its East Asian ally. Japan relied not only on the United States forces in Japan (USFJ) and America’s military

resources, but it also fell under the protection of America's nuclear umbrella and this security dependence made Japan more vulnerable to America's coercive power. As Japan's security environment worsened in the 1980s and the two allies were embroiled in escalating trade tensions, the U.S. was in a prime position to coerce Japan into making one-sided trade agreements.

2. Economic

Following the end of WWII, Japan's economy was in the stage of recovery, and over time, Japan was able to reintegrate into the global economy and rebuild its economic infrastructure. Over the entire post-war period, from 1946-1976, Japan's economy was said to have increased 55-fold (Johnson, 1982). After the war, the *zaibatsu* was partially dismantled and gave way to the *keiretsu* conglomerates (Aoki, 1988), and from 1960 to 1964, Japan's Prime Minister Hayato Ikeda's policy of heavy industrialization is often credited for laying the foundation for Japan's so-called economic miracle (The Japan-U.S. Study Group, 1982). By the 1970s, Japanese companies were rapidly capturing world markets and supplanted U.S. leaders in key industries including steel, automobiles, and consumer electronics. In contrast to Japan's economic rise, the rest of the global economy was experiencing stagnation. Throughout the 1970s, the world was experiencing an energy crisis, and the West was hit particularly hard.

Growing trade tensions

By the early 1980s, the U.S. economic situation was especially dire with rising inflation and Japan became an easy scapegoat for both the U.S. government, particularly conservative members of Congress, and the American public as America's trade deficit with Japan continued to increase into the early 1980s. Many Americans claimed that Japan's economy was benefiting from a "free ride" due to its minimal defense expenditure and its access to American markets (Smith, 2011). Additionally, American firms expressed their displeasure with Japanese firms and their alleged dumping practices; American workers including those in the steel and automobile industries also blamed Japan for high unemployment rates.

The Japan trade issue was a main talking point during the 1984 U.S. presidential election, and then-presidential candidate Walter Mondale, who had consistently advocated against protectionism throughout his entire political career, encouraged the U.S. to embrace a tougher, more protectionist stance, according to Reston (1982). In a campaign speech, Mondale declared, "We have got to get tough, and I mean really tough, with nations that use our markets but deny us their markets. And I'll tell you today that if you try to sell an American car in Japan, you better have the United States Army with you when they land on the docks" (Reston, 1982). Anti-Japanese sentiment

among the American public was at its highest since WWII.

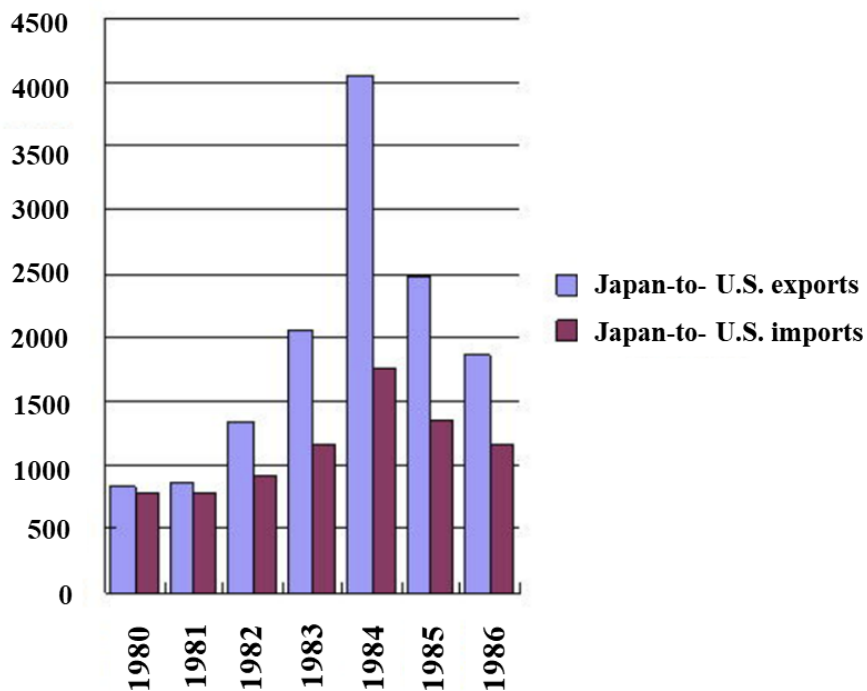
In response to this hostility, Japan insisted that many Americans were simply not well-informed about the inner workings of Japan's economic market. According to Japan, although many Americans were accusing Japan of being a closed market, Japan, like most other nations, was both an open and closed market depending on the product in question. While Americans were quick to blame Japan's unfair trade practices for causing the huge bilateral trade deficit, Japan countered these accusations and claimed that other factors such as America's high-interest rates were more likely to blame for its huge trade deficit (The Japan-U.S. Study Group, 1982). This idea that Japan's alleged "unfair trade practices" was not the main source of America's trade imbalance with Japan was supported by the findings of the study by Johnson (1991) which argued that the STA was not effective in improving the competitiveness of American semiconductor firms because it did not address the source of the issue. Japan also pointed out that when considering the invisible trade balance including capital accounts like services, this balance between the U.S. and Japan has consistently been in America's favor: for example, the U.S. had a \$3.3 billion surplus in 1980 (The Japan-U.S. Study Group, 1982). Finally, to contradict America's "free ride" accusations, Chalmers Johnson (1982) noted that Japan's economic growth depended more on the development of its domestic market than on exports. Regardless of whether there was actual evidence to support America's various

accusations toward Japan's trade practices, the U.S. and Japanese governments hoped to resolve these economic disputes including in the semiconductor industry.

The semiconductor industry

American semiconductor firms have historically dominated the global semiconductor market since the formation of the industry in the 1960s. The Japanese semiconductor industry steadily grew throughout the 1970s, but it was not until the early 1980s that concerns began to mount among Americans over the rapid rise of Japanese semiconductor firms (refer to Figure 3). By 1980, the U.S. and Japan controlled around 75 percent of the overall global semiconductor market, and in 1981, the Japanese market share in 64K dynamic random-access memory (DRAMs) overtook the U.S. market share (Society of Semiconductor Industry Specialists, 2011). A sense of crisis began to overtake the American semiconductor firms and the general public alike as Japanese semiconductor firms began to seriously challenge America's dominance in the industry. According to Kaufman (1994), in the period from 1985-1986, the U.S. semiconductor industry reportedly lost nearly \$2 billion and 25,000 jobs, and the SIA claimed that MITI had imposed an undisclosed quota on U.S. semiconductor imports.

Figure 3. Japan Semiconductor Trade with the U.S. (1980-1986)



Note. This figure depicts Japan’s semiconductor trade with the U.S., in 100 million yen, from 1980-1986 (Data is from the Society of Semiconductor Industry Specialists, 2011).

3. Reagan-Nakasone

President Reagan and Prime Minister Nakasone were the heads of the U.S. and Japanese governments, respectively, at the height of the trade conflict, and despite the hostile political environment, the two leaders were able to overcome this obstacle and cultivate a golden era of U.S.-Japanese cooperation. After being elected Prime Minister in November 1982, Nakasone expressed his desire to improve relations with the U.S. and

schedule s meeting as soon as possible. The Japanese Foreign Ministry, on the other hand, suggested he hold off the first official visit to the U.S. until the spring of 1983 due to the ongoing bilateral trade friction (Kyodo News, 2015). The first meeting between Reagan and Nakasone occurred in January 1983 in Washington and this meeting would be the first of many between the two heads of state (see Figures 4 and 5).

Figure 4. Official Visits to the U.S. by Japan (1982-1987)

Date	Country Visited	Visitor	Description
January 17-20, 1983	USA	Prime Minister Yasuhiro Nakasone	Official working visit.
May 26-28, 1983	USA	Prime Minister Yasuhiro Nakasone	Official working visit.
May 28-31, 1983	USA	Prime Minister Yasuhiro Nakasone	Attended Economic Summit Meeting, Williamsburg VA.
January 1-2, 1985	USA	Prime Minister Yasuhiro Nakasone	Official Working Visit in Los Angeles.
October 25, 1985	USA	Prime Minister Yasuhiro Nakasone	Met with President Reagan in New York City
April 12-14, 1986	USA	Prime Minister Yasuhiro Nakasone	Official Working Visit. Met with President Reagan at Washington and Camp David.
April 29-May 5, 1987	USA	Prime Minister Yasuhiro Nakasone	Official Visit. Private visit to Maui, Hawaii, afterward.

Note. This figure lists all of Prime Minister Yasuhiro Nakasone’s visits to the U.S. during his premiership (Data is from the U.S. Department of State, n.d.)

Figure 5. Official Visits to Japan by the U.S. (1981-1989)

Date	Country Visited	Visitor	Events
November 8-12, 1983	Japan	President Ronald Reagan	
November 10, 1983	Japan	President Ronald Reagan	Meetings with Prime Minister Nakasone
November 11, 1983	Japan	President Ronald Reagan	Address before the Japanese Diet; Japan-United States Energy Cooperation Agreement
May 2-7, 1986	Japan	President Ronald Reagan	
May 2-3, 1986	Japan	President Ronald Reagan	Bilateral Meetings
May 4, 1986	Japan	President Ronald Reagan	Opening Dinner hosted by Prime Minister Nakasone
May 5-6, 1986	Japan	President Ronald Reagan	Summit of Industrialized Nations “G7” Economic Summit

Note. This figure lists all of President Ronald Reagan’s visits to Japan during his presidency. (Data is from U.S. Department of State, 2001b)

Nakasone’s insistence would set in motion Japan’s attempts to improve U.S.-Japanese relations in the following years. The close relationship that would eventually develop between the two leaders, known as the “Ron and Yasu” friendship, and the actions they took in increasing the levels of cooperation would have positive effects on the U.S.-Japan alliance (Nakasone, 2004). In particular, Nakasone made efforts to reaffirm Japan’s support for the U.S. through his foreign policy.

At the top of the agenda of these Reagan-Nakasone meetings was the U.S.-Japan trade dispute. Both leaders sought to alleviate the ongoing U.S.-Japan trade tensions and actively worked to address the grievances brought forward by American industries in a multitude of different ways including

through diplomatic discussions such as the Market-Oriented Sector Selective (MOSS) talks. The MOSS talks were initiated at the Reagan-Nakasone meeting during Nakasone's third official working visit to the U.S. in January 1985 (refer to Figure 4) to discuss the matter of U.S. firms conducting business in Japan. These discussions were unprecedented as they aimed at not only increasing American imports to Japan but also opening Japanese markets (U.S. Government Accountability Office, 1988). This trade negotiation framework marked a shift in American trade policy and reflected Reagan's trade policy in action. Despite the belief that America would move toward an increasingly protectionist strategy that would unilaterally close its domestic markets, Reagan instead focused on opening foreign markets, signaling that the U.S. would continue to uphold the liberal principles of free trade (Mikanagi, 1996).

According to the U.S. GAO (1988), MOSS negotiations concluded with agreements being made in five sectors: telecommunications, medical equipment/ pharmaceuticals, electronics, forestry products, and transportation machinery. The level of success of these talks varied across industries. While a majority of the issues involving telecommunications and pharmaceuticals products were resolved, the MOSS talks in electronics did not have the same success; two of the most important issues in the sector- semiconductors and supercomputers- were negotiated out of the MOSS framework (GAO, 1988). The failure of the MOSS talks and other failed

attempts in addressing the semiconductor issues set the stage for the initiation of the semiconductor dispute by American semiconductor firms.

Chapter IV. Case Study

1. 1986 U.S.-Japan STA

A final agreement on semiconductor products was successfully reached and signed by the U.S. and Japan in 1986 and the provisions of the agreement were divided into three sections: (1) Market Access, (2) Prevention of Dumping, and (3) General Provisions (GATT, 1986). According to the two-level game theory, the successful conclusion of the STA indicates that the final provisions for this agreement fell somewhere within the U.S. and Japan's Level II win-sets (refer to Figure 6).

Figure 6. U.S.-Japan 1986 STA Win-set



Note. This figure depicts the hypothetical win-set of the 1986 U.S.-Japan STA and is not drawn to scale. US_M and $Japan_M$ represent the maximum outcomes for the U.S. and Japan, respectively while US_F and $Japan_F$ represent the final minimal outcomes necessary for ratification for the U.S. and Japan, respectively, after accounting for the three factors that affected the win-set size. The negotiations landed somewhere within the area where these win-sets overlap as indicated by the bracket.

Therefore, even though the STA appears to disproportionately benefit the U.S. and its domestic firms, Japan would not have accepted the agreement unless it deemed the agreement beneficial to its national interests. The next section discusses the factors that shaped these Level II win-sets in more detail: (1)

Level II preferences and coalitions, (2) Level II institutions, and (3) Level I negotiators' strategies.

1-1. Level II Preferences and Coalitions

The SIA and American domestic pressure

With the general lack of progress being made toward resolving the adverse competitive situation vis-à-vis Japan's semiconductor firms, President Reagan was receiving pressure from both American semiconductor firms and Congress to introduce retaliatory measures against Japan. The SIA, a trade association and lobbying group formed in 1977 to represent American semiconductor firms in addressing various industry-wide issues, took the first measures toward getting the U.S. government to address the Japan issue (Rea et al., 1997).

In June 1985, Micron, a relatively small firm that was not a member of the SIA at the time, filed an antidumping complaint for 64K DRAMS, and other SIA members followed suit with Intel, National Semiconductor, and AMD filing for antidumping actions in September for erasable programmable read-only memories (EPROMs); the Department of Commerce under the Reagan Administration then self-initiated an antidumping case in December for 256K and future generations of DRAMs (Irwin 1996). From these investigations, the Department of Commerce found evidence of dumping

while the U.S. International Trade Commission (USITC), under Section 201 of the Trade Act of 1974, found evidence of injury to American firms (Brown 2020). That same June, the SIA also filed a Section 301 petition with the USTR and provided circumstantial evidence of Japan's alleged market barriers, and as stipulated in the Trade Act of 1974, the USTR had to seek negotiations with Japan to resolve these complaints (Irwin 1996). These three antidumping investigations against imports of Japanese semiconductor products and the USTR-initiated Section 301 investigations against Japan's semiconductor industry gave the Reagan Administration the grounds to impose duties against Japan unless an agreement was negotiated.

Not only were American semiconductor firms actively petitioning their government, but they were also vocal in their criticism toward Japan and using scare tactics to successfully sway public opinion on the issue. In April of 1982, Chairman of the Board of Advanced Micro Devices W.J. Sanders took out a full-page ad in the Wall Street Journal to reiterate his belief of Japan's dumping practices and the inherent threat Japan's rise in the semiconductor industry posed to national security (Okimoto, Sugano, and Weinstein, 1984). The semiconductor industry itself was quite small and did not have a significant amount of lobbying power. But the nature of the semiconductor industry as a strategic industry that was essential for the rest of the high technology sector and national security was used to the industry's advantage. Although Japanese semiconductor firms likely did not pose a real

threat to U.S. security, the SIA was able to capitalize on the fear it cultivated among the public and government officials (Johnson, 1991). Through this controlled narrative, the semiconductor issue became a main point of focus for the American public, and addressing the American semiconductor firms' grievances became a main priority for the American government.

Japan's higher cost of no-agreement

During negotiations, Japan's negotiators needed to consider the country's overall national interests as the fallout from failed negotiations had the possibility of having serious consequences for Japan's security and economic interests. As discussed previously, Japan's passive security policy made it dependent on U.S. forces. Although Prime Minister Nakasone reversed the liberal trend of Japan's security policy of his predecessor and made efforts to improve Japan's security capabilities, his efforts were met with domestic resistance and had minimal effect in decreasing Japan's dependence on the U.S. for its security (Shinoda, 2011). Nakasone also attempted to improve relations with China and the Soviet Union during his premiership, but Japan still considered the Soviet Union a serious national security threat. In particular, the Soviet Union's rapid military buildup in the late 1970s was perceived by the Japanese government to target Japan specifically. When questioned about the threat posed by the Soviet Union to Japan, Nakasone

(2012) responded:

The words and deeds of the Soviet Communist Party as well as their policies toward Japan were extremely unfriendly, and they seemed to view Japan with a cold stare...Since it was clear that, in an extension of Soviet expansionism that started with the occupation of the Northern Territories, the Soviets would perhaps attempt to invade Hokkaido from the island of Sakhalin [Karafuto, in Japanese]. Therefore, I was particularly cautious.

Along with these security considerations, failure to reach an agreement on the antidumping and Section 301 cases would harm Japan's economic interests as well: its semiconductor firms would be subject to American retaliatory measures in the case of non-agreement and the U.S. has proven in the past that it is willing to such measures if necessary to address Japan's unfair trade practices. For example, in response to Japan's restrictions on imports of U.S. leather and footwear products, President Reagan (1986a) used Section 301 to increase the rate of U.S. import duties on certain articles from Japan. Japanese officials were aware that if Japan continued to encourage the U.S. to take retaliatory actions, this sort of retaliatory action had the potential of trickling to other industries and escalating the trade dispute, especially as the trade war including the semiconductor industry dispute became increasingly politicized.

The U.S. and Japan's Level II preferences and coalitions affected the

size of the Level II win-sets in several ways. The three antidumping investigations against imports of Japanese semiconductor products and the Section 301 case initiated by the USTR set a clear framework for negotiations that skewed the range of feasible agreements in America's favor (refer to Figure 7): the consolidated domestic effort by these domestic actors essentially ensured that the issues of market access and dumping were non-negotiable and needed to be addressed for ratification for American negotiators.

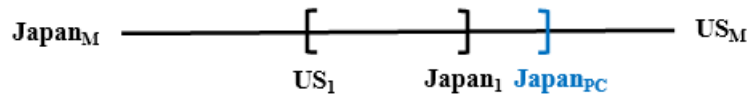
Figure 7. America's Level II Win-Set



Note. US_{PC} depicts the effects of America's Level II preferences and coalitions on its win-set. Neither this figure nor Figure 8. are not drawn to scale and are hypothetical assessments. US₁ and Japan₁ represent arbitrary minimal outcomes for ratification for the U.S. and Japan, respectively, and are used as a reference point to show the effects of the Level II preferences and coalitions on Level II win-set size.

Additionally, Japan's higher cost of no-agreement relative to America also likely gave the U.S. more leverage over Japan during negotiations (refer to Figure 8).

Figure 8. Japan's Level II Win-Set



Note. Japan_{PC} depicts the effects of Japan's Level II preferences and coalitions on its win-set.

1-2. Level II Institutions

The Trade Act of 1974

The U.S. Constitution formally divides the American government into three separate branches, effectively assigning individual power to different levels of government to ensure that no one holds too much power. This separation of power would in theory impose a tighter constraint on the American win-set, but when it comes to the affairs of international trade, the executive branch of government has considerable oversight.

The Trade Act of 1974 created fast-track authority which gave the President the ability to negotiate international agreements in an expedited manner with limited Congress oversight— although Congress could approve or disapprove an agreement, it could not amend or filibuster the agreement (Trade Act of 1974). Fast track authority was passed mainly to give the President the power to counteract unfair foreign trade practices and help U.S. industries become more competitive in the global market. The Trade Act also gave the USTR the responsibility of developing U.S. international trade policy and conducting international trade negotiations (Trade Act of 1974). It

stipulates that Section 301 cases could either be self-initiated by the USTR or the USTR could initiate cases after a firm or industry group filed a petition (Trade Act of 1974).

As the negotiations to resolve the Section 301 cases against Japanese semiconductor firms were initiated through the authority of the President and the USTR, Japanese negotiators could be reassured that the antidumping cases would be suspended through a resolution with the Department of Commerce and would not require oversight from Congress (GATT, 1986).

The Ohira Principles

Similar to the intentions of the U.S. Constitution, the Japanese Constitution also encourages the division of power in the Japanese government between its executive system (the Cabinet) and its parliamentary system (the Diet). Article 73 item 3 of the Japanese Constitution states that the Cabinet has the power to conclude treaties, but it includes the reservation that “[the Cabinet] shall obtain prior or, depending on circumstances, subsequent approval of the Diet.” However, the ambiguous wording of the statement “depending on circumstances” and the fact that Article 73 does not specifically stipulate the types of treaties and international agreements that must be approved by the Diet has left ambiguity over Japan’s treaty-making process and allowed for situations where trade agreements do not have to be approved by the Diet

(Hirobe, 1987).

In 1974, the Ohira Principles established three criteria of treaties that required the approval of the Diet: (1) International agreements including “legislative issues,” (2) International agreements including “budgetary issues” and (3) International agreements that are politically important in the sense that the agreements stipulate basic relations between/among countries (Mori, 2019). According to Mori (2019), the Cabinet has the authority to determine whether or not an international agreement falls under these three categories and if it finds that the agreement does not fall within any of these categories, it can conclude the agreement without the Diet’s approval. Japanese negotiators likely used this principle and the ambiguity of Japan’s treaty-making process to reassure American negotiators that the STA would be able to circumvent the usual treaty approval process in the Diet as the Cabinet could claim that the agreement did not fall under any of the three categories.

Therefore, the Level II institutions and the authority given to the U.S. President and the USTR under Section 301 and the Ohira Principles likely made Level I agreement more likely for both countries.

1-3. Level I Negotiators’ Strategy

According to Putnam (1988), Level I refers to the bargaining that occurs between “chief negotiators,” but negotiations are often a collective effort that

involves a group or team of different negotiators. In the case of the STA negotiations, the main correspondence occurred between the head of the USTR Clayton Yeutter for the American negotiators and Ambassador Nobuo Matsunaga for the Japanese negotiators (GATT, 1986).

American negotiators

After considering the historical analysis and the domestic factors that affected the Level II win-sets, American negotiators had a clear advantage. Moreover, the cost of no-agreement for America was also likely to be fairly high, thus, making Level I agreement more likely. The Reagan administration's reluctance to impose protectionist measures and go against his trade policy objectives to address domestic pressures made it a high priority for the American negotiators to reach an agreement, especially as Congress began to introduce increasingly protectionist legislation. For example, on May 22, 1986, the House of Representatives approved H.R. 4800: Trade and International Economic Policy Reform Act of 1986. This bill was meant to enhance the competitiveness of American industries by imposing mandatory quotas against countries like Japan and mandatory retaliation in certain trade cases. In response, the Principal Deputy Press Secretary Speakes (1986) made an official statement condemning the bill and reiterating the administration's support for President Reagan's policy of promoting free trade:

H.R. 4800 is not a trade policy, but an abandonment of trade policy. This administration is pursuing an activist trade policy grounded squarely on the notion of free and fair trade. Our aim is removing foreign trade barriers and opening foreign markets. In the past year alone we have made more aggressive and creative use of our laws to enforce our trading rights than any previous administration.

Although the bill ultimately failed to pass the Senate, Congress would likely continue to be persistent until real progress was made in resolving the semiconductor issue.

Although Reagan's foreign policy objectives made the cost of no-agreement high, American negotiators likely downplayed their own desire to reach an agreement during negotiations. Instead, these negotiators likely leveraged Congress's actions to demonstrate that the alternative policies would be worse than the proposed agreement and threatened that if an agreement was not reached, more widespread protectionist measures would be inevitable.

Japanese negotiators

After considering the historical analysis and the domestic factors that affected the Level II win-sets, Japanese negotiators were at a clear disadvantage: the

negotiators knew that agreement or no agreement, its semiconductor firms would likely be negatively affected either way. There was little flexibility for them to refuse the concessions on market access and dumping that were on the table. The STA, however, needed an enforcement mechanism, and this responsibility would fall to Japan. This leaves a high level of uncertainty and concern among the American negotiators over the enforcement of the provisions of the STA. For Japan, however, having oversight over its industry and being given the responsibility of monitoring costs was a small but necessary incentive for Japanese negotiators.

Another concern that was raised during negotiations was the issue of third parties. Negotiators from both sides were worried about the possibility of receiving complaints from third-party countries claiming the antidumping provisions were “price fixing,” so a clause for monitoring third-party markets was also included to alleviate these concerns (GATT, 1986). In contrast to this uncertainty for American firms, the one positive takeaway for Japanese firms is that they had the benefit of certainty. As the first condition under III. General Provisions of the STA stipulates, “Both Governments agree that the terms of this Arrangement shall not be implemented until and unless mutually satisfactory Suspension Agreements on EPROMs and 256k and above DRAMs are worked out on the existing antidumping investigations” (GATT, 1986).

Because of the American negotiator’s bargaining advantage, Japanese

negotiators could not counteract the concessions asked by Washington; however, the STA gave Japan the responsibility of monitoring costs and a high level of certainty that the U.S. would meet its end of the bargain.

Chapter V. Conclusion

1. Summary of the Findings

The 1986 U.S.-Japan STA is often described by scholars as an unfair trade agreement, and the purpose of this study was to answer the research question of what made the STA politically feasible. The analysis identified several factors and circumstances. First, the overall foreign policy objectives of President Reagan and Prime Minister Nakasone and the importance of the U.S.-Japan bilateral alliance in achieving these objectives made both countries inclined to resolve the semiconductor issue diplomatically through the conclusion of the STA. President Reagan wanted to appease the SIA and Congress and avoid having to use protectionist measures against Japan, and Nakasone did not want to put Japan's national security at risk by alienating America, nor could he ignore the trade cases initiated against Japanese semiconductor firms. Although the negotiations revolved around economic issues, the semiconductor dispute had far greater implications for the U.S.-Japan alliance as a whole which contributed to amplifying the urgency to reach an agreement. For these reasons, this appears to have made the cost of no-agreement high for both countries, thus Level I agreement more likely.

In addition, the Level II institutions with the fast-track authority and the Ohira Principles of 1974 gave the executive branch of both governments more oversight over international trade agreements. This also contributed to

increasing the Level II win-set size for both countries and making overlap more likely.

The two-level analysis demonstrates that American negotiators had a bargaining advantage over Japanese negotiators during negotiations and were able to maximize their outcomes. The Level II preferences and coalitions affected the size of the Level II win-sets and the Level I negotiators' strategies in several ways. The three antidumping investigations against imports of Japanese semiconductor products and the Section 301 case initiated by the USTR set a clear framework for negotiations that skewed the range of feasible agreements in America's favor (refer to Figure 7). In particular, Japanese officials were shocked by the actions of the Department of Commerce and the U.S. government in self-initiating one of the three anti-dumping cases. Japan likely believed that failure to reach an agreement would pose a real threat to its national interests and this allowed American negotiators to push for larger concessions. In addition, the innate asymmetric nature of the bilateral relationship and Japan's dependence on the U.S. military for its security made Japan's cost of no-agreement higher relative to America and this likely contributed to giving the U.S. more leverage over Japan during negotiations (refer to Figure 8).

In the end, the agreement fell within the respective countries' Level II win-sets: it addressed the American constituents' concerns on the issues of market access and dumping, and in return, the antidumping cases initiated by

the U.S. against Japanese semiconductor firms were suspended. American negotiators were successful in drawing out Japanese concessions. However, the responsibility of monitoring and enforcement ultimately fell on the Japanese government, effectively giving Japan the power to inadequately implement the agreement. In addition, the wording of the STA was vague enough to pose challenges to its enforcement in the future. For example, the STA merely stated that Japan would make "a gradual and steady improvement" for the U.S. and other foreign firms to access the Japanese market (GATT, 1986) and it was only through a secret side letter that was not included in the official agreement where Japan offered specific figures, agreeing to increase the share of U.S. firms in the Japanese market from 8 percent to 20 percent.

Therefore, this thesis indicates that while the U.S. was able to utilize its position of power to pressure Japan into making the desired economic concessions, the terms of the STA lacked a comprehensive agenda for monitoring which limited the extent to which the U.S. could enforce the agreement. Meeting the terms of the STA requires collective action from Japanese semiconductor firms, but as seen in the case of MITI and their attempts to curb Japanese firms dumping practices by imposing VER measures in the past (Irwin, 1996), compliance is not guaranteed, and can be difficult to enforce. Because of the uncertainty around the enforcement of the STA and America's lack of enforcement capabilities, there was only a brief

period of respite over the semiconductor dispute after the STA was signed before the U.S. began to accuse Japan of failing to comply with the agreement.

2. Aftermath of the STA and its Implications

Following the conclusion of the STA negotiations, President Reagan (1986c) continually praised the success of the negotiations, calling the agreement “a landmark pact,” and he was finally able to appease domestic pressure with both the SIA and members of Congress complimenting the agreement for opening the right path to a competitive market (Long, 1988). This eased the heat Japanese semiconductor firms were under, at least momentarily, especially as the dumping cases were dropped. After the STA was signed in September of 1986, the GATT (1988) confirmed in November that the agreement was connected to the suspension of anti-dumping procedures initiated in the U.S. against imports of certain categories of Japanese semiconductors and to the suspension of the Section 301 proceedings on access to the Japanese market for US-made semiconductors. However, Congress including Senate Finance Committee Chairman Bob Packwood warned that they intended to hold hearings within six months to ensure that Japan was abiding by the terms of the agreement (Long, 1988).

Over time, American officials began to question the effectiveness of the STA and similar trade agreements signed with Japan around the same time,

especially as American industries were not seeing the benefits of these trade agreements. During a Congressional committee hearing, U.S. Senator Max Baucus made the following statement:

For many years U.S. exports have been shut out of foreign markets, particularly in the country of Japan. For many years, administration after administration has paid lip service to not only these trade barriers but many others. Sometimes administrations even negotiated trade agreements to eliminate foreign barriers, but unfortunately, these agreements were often half-heartedly negotiated and inadequately implemented (U.S. Congress, 1990).

From the American perspective, because these trade agreements were ineffective, Japan was perceived to be continuing to engage in unfair trading practices. In addition, the potential for third-party countries to challenge the STA also manifested with the European Communities (EC) filing a dispute with the GATT (1988) which deemed the antidumping provisions of the STA as illegal. This mounting grievance resulted in U.S. trade policy moving toward unilateralism in retaliation.

On March 27, 1987, President Reagan (1987) announced his intent to raise tariffs on Japanese exports to the U.S. in response to Japan's inability to enforce the provisions of the 1986 STA, reiterating that he intended to fully enforce an agreement that was "designed to provide American industry with

free and fair-trade opportunities.” As Irwin (1996) notes, some reports claimed that MITI was secretly pleased with Reagan’s actions as it was proof to Japanese firms that its directives should not be ignored or taken lightly. Awareness of these setbacks is imperative for formulating ideal trade policies around this knowledge. Congress also passed the Omnibus Trade and Competitiveness Act or Trade Act 1988 which included a provision known as Super 301 which was intended to strengthen Section 301 of the Trade Act of 1974 and further break down foreign trade barriers. While Section 301 dealt with disputes about specific products, the updated Super 301 provision would allow America to accuse countries of a broad range of unfair trade practices. Accordingly, this increased America’s leveraging power vis-à-vis Japan and allowed the U.S. to make improved trade agreements that eliminated the vague and ambiguous provisions of the past negotiations (Grier, 1992). However, this new trend in U.S. trade policy toward unilateralism raised concerns both within the U.S. and outside the U.S. with economists such as Jagdish Dhagwat claiming that the Super 301 designations acted as the U.S. government “taking the law into [its] hands” (King, 1991).

Resolution of the U.S.-Japan trade dispute

Japan’s trade policy and response to America’s retaliatory trade policy throughout the U.S.-Japan trade dispute would prove to be effective in

eventually de-escalating trade tensions and strengthening its relationship with the U.S. When the Bush administration initiated three Super 301 cases against Japan in 1989, the Japanese government once again proved its willingness to cooperate with the U.S. to resolve these issues. The following year in 1990, the allies were able to resolve all of the open Super 301 cases and successfully conclude various trade agreements (U.S. Congress, 1990). The resolution for these trade disputes was far more satisfactory for the U.S. than the previous trade agreements.

In short, the U.S. was a conservative hub throughout the 1980s under the Reagan Administration and the STA reflected Reagan's foreign policy objectives and America's coercive capabilities with its superior military and economic position undoubtedly shaping the outcome of the U.S.-Japan trade dispute. Even though Japan was experiencing incredible growth in its economic power at the time, it still could not contend with America's overwhelming economic dominance over the international economic system. The debate around the economic effects of these trade policies persists, but there is a consensus among scholars that the U.S. was able to successfully coerce Japan into adopting several unfavorable and one-sided economic legislations throughout the 1980s and into the early 1990s because of Japan's limited bargaining power to counteract the U.S. due to its dependence on the U.S. for its security and economic means. The U.S. also capitalized on the Japanese government's desire to mend the turbulent state of the alliance. In

particular, the Reagan-Nakasone golden period of cooperation set an important precedent for U.S.-Japan relations and affirmed Japan's commitment to the U.S. even at the most contentious of times. The unwavering support Japan continued to demonstrate towards its alliance with America in the period following the resolution of the trade dispute has further reinforced the foundation of trust in the bilateral relationship that remains strong today.

3. Policy Recommendations

The case of the 1986 STA negotiations is an example of how the circumstances including the political environment, public opinion, and the various actors and their motivations allowed the U.S. to successfully employ a strategy of weaponized interdependence; the findings of this thesis provide a valuable framework that can be used to help American policymakers and negotiators formulate trade policies and negotiation strategies going forward. The trade conflict between the U.S. and Japan in the 1980s and early 1990s is particularly relevant to the recent U.S.-China trade war in 2018 as the Trump administration used Section 301 of the Trade Act of 1974 to justify the various tariffs that were levied against China. Although Trump's strategy of protectionism and weaponized interdependence has been heavily scrutinized, history has shown that if used properly and strategically, the U.S. can effectively utilize its advantageous position of power to achieve its national

security objectives and strengthen its global influence. As seen in the case of the U.S.-Japan trade dispute, the U.S. was able to utilize its coercive influence due to its security dependence. However, given the nature of the U.S.-China rivalry, America could not capitalize on its security relationship. Therefore, policymakers need to conduct a thorough assessment of the potential risks including that of retaliation before utilizing the strategy of coercion and weaponized interdependence against allies and enemies, alike.

Another consideration policymakers should consider when creating trade policies are the changes in the political environment: the geopolitical environment and the challenges America faces today have evolved since the 1980s. Currently, the U.S. holds less leveraging power over other countries in negotiations. For example, according to Maizland and Cheng (2021), the recent increase in Japan's defense capabilities in the past decade has made the alliance more balanced according to many analysts. Moreover, the level of interdependence the current world economy has on China has complicated how America can address the threat posed by the rise of China. For policies aimed at its allies, American policymakers, and negotiators need to be well informed about the dynamics between international relations and domestic politics of the other country. As the more powerful country, the U.S. possesses the advantage during negotiations, albeit less than it had in the past, and can expect the other weaker country to make concessions with different levels of success. The international system is evolving but it is unclear what the

outcome of these changes will have on America's hold over the liberal international order. Therefore, awareness of the political environment is essential when forming trade policies to avoid implementing suboptimal trade policies.

Finally, policymakers should consider the economic feasibility of trade policies and any unintentional negative effects they may have on other industries. Despite having bargaining power over Japan, American negotiators were constrained in the sense that they were limited in the scope in which they could formally address the larger concern over the competitiveness of U.S. semiconductor firms. The cases brought forward by the American semiconductor firms and the Reagan administration regarded specific complaints over market access and dumping. However, the STA's anti-dumping provision, which set a price floor for semiconductor chips, would inevitably negatively affect other American industries such as the computer industry and other semiconductor purchasing industries with higher chip prices. Moreover, many economists expressed their doubts over whether the market access and dumping prevention provisions would actually increase the competitiveness of American semiconductor firms as they argued that the root source that affected the competitiveness of American firms lay elsewhere. Therefore, policymakers should identify the limitations of proposed trade policies and work with economists to assess the economic feasibility of these policies.

4. Future Research

Finally, this study also provides a valuable framework for future research on U.S. trade policy in the East Asian region. A main criticism of single-case studies is that the conclusions it draws are generally weak and its findings cannot be generalized to other cases. Thus, to reduce the effects of this limitation, future research should expand on this case study and analyze other similar trade agreement cases to conduct a controlled comparison analysis. There are several directions this future research can take.

Section 301 and the U.S.-China trade war

The first potential direction to consider is to compare Trump's use of Section 301 against China and Reagan's use of Section 301 against Japan during the U.S.-China trade war and the U.S.-Japan trade dispute, respectively. The U.S.-China trade war was far more high stakes for America as escalating tensions with China would have far more serious security and economic consequences for the U.S. than it would with Japan. Moreover, China was not only America's rival but also a more powerful and imposing opponent than Japan. While Japan's security dependency made it easy for the U.S. to manipulate Japan, China could not be so easily controlled. A two-level game analysis of the U.S.-China trade war can explore how the U.S.-China rivalry,

domestic politics, and the foreign policy objectives of Trump and Xi Jinping led to the escalation of the trade war and had vastly different outcomes to the U.S.-Japan trade dispute in the 1980s. Section 301 and the fast-track authority, renamed the trade promotion authority (TPA) in the Trade Act of 2002, gives the U.S. President substantial power over trade and this authority continues to be relevant today.

Weaponized interdependence

Another potential direction to consider is to analyze U.S. trade policy and the efficacy of weaponized interdependence and coercion against Japan and other important allies such as South Korea. Future research can expand on the U.S.-Japan trade relationship and conduct a comparison of various other U.S.-Japan trade agreements to observe how different security concerns such as the rise of China and the threat of a nuclear North Korea, domestic factors such as the passing of the Trade Act of 1988 and Super 301 and the Democratic Party of Japan (DPJ) gaining control of the Diet in 2009, and international factors such as the creation of the World Trade Organization in 1995 affected the negotiations of the relevant bilateral agreement and America's use of coercion against Japan. This research can also expand to analyze America's use of coercion against other allies such as South Korea.

As mentioned previously in the research significance section of this

thesis, the U.S.-ROK alliance today also has many similarities to the U.S.-Japan alliance in the 1980s with South Korea and Japan both relying heavily on the U.S. military for its security. Moreover, both Trump and Reagan sought to leverage America's advantageous security position against South Korea and Japan, respectively, in an attempt to force these East Asian allies to make economic concessions. For example, President Trump circumvented Section 301 and the fast-track authority and initiated the KORUS renegotiations more directly through the Joint Committee stipulated in Article 22.2 of the trade agreement. However, the outcomes of their coercive trade policies on trade negotiations were vastly different, and this could be due to several different factors. The security dynamic of the U.S.-ROK alliance and the U.S.-Japan alliance still has its nuances, particularly on the issue of North Korea and nuclear weapons. In addition, Trump's trade policy of nationalism and protectionism in an attempt to "Make American Great Again" was in stark contrast to Reagan's trade policy which encouraged free trade and focused on opening foreign markets. Exploring the effects of Korea's soft power on shaping America's public opinion of South Korea would be another interesting factor to consider when analyzing the political feasibility of KORUS.

The semiconductor industry

This leads to the final and most compelling direction for future research which is to conduct a comparative analysis between the U.S. strategy toward Japanese semiconductor firms during the 1980s to the U.S. strategy toward South Korean semiconductor firms today. As the U.S. Congressional Office of Technology Assessment correctly asserted in 1987, "It is probably not an exaggeration to say that the semiconductor industry, and particularly the application of a semiconductor manufacturing technology, are now the future of an advanced industrial economy" (Long, 1988). America's semiconductor manufacturing capabilities and competitiveness remain integral for the U.S. economy and national security and the government's strategy regarding the semiconductor industry has evolved since the 1980s. While the U.S. was trying to limit the exportation of Japanese semiconductor products and expand the presence of U.S. semiconductor firms in the Japanese market throughout the 1980s, the U.S. is now embracing a new policy of strategic alliance. For this new strategy, the U.S. is targeting South Korean semiconductor firms in particular and is trying to incentivize leading firms like Samsung Electronics and SK Hynix to enter and invest in the U.S. This new strategy is arguably more difficult to achieve than the strategy in the 1980s.

Concluding remarks

Regardless of the direction of future research, the prospective analysis should proceed with several main questions in mind. First, what is the political environment in which the policy issue existed? Second, who are the significant actors and what were the significant factors and constraints that are relevant to the case? And lastly, how do these factors affect the political feasibility of the trade policy? Examining these three questions and conducting a comparative analysis that expands on the findings of this thesis can provide a compelling analysis of U.S. trade policy and the semiconductor industry.

In conclusion, the use of carrots and sticks to influence allies and adversaries alike has been a strategy used by the U.S. for decades to achieve its foreign policy objectives. In the globalized age where military intervention and the use of force have become more costly and countries are more interconnected than ever, diplomacy and economic statecraft have become attractive strategies for Washington. America continues to use its security and economic influence to reinforce its bilateral alliances and the larger “hub-and-spoke” security structure in East Asia to counteract China’s so-called “peaceful” rise to power. Today, this traditional “hub-and-spoke” system has slowly evolved into a “spoke-and-spoke” system as more responsibilities are being shifted to America’s East Asian allies. In a time of heightened uncertainty and change, especially with the effects of the COVID-19 pandemic and the ongoing war in Ukraine, equipping American policymakers

and negotiators with the necessary information to formulate ideal trade policies and negotiation strategies is imperative for advancing U.S. national interests and preserving the overall well-being of the international order.

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Appendix 1. List of Abbreviations and Acronyms

Abbreviation	Definition
AI	artificial intelligence
CBEMA	Computer & Business Equipment Manufacturers Association
GAO	General Accounting Office
GATT	General Agreement on Tariffs and Trade
DPJ	Democratic Party of Japan
DRAM	dynamic random-access memory
EIAJ	Electronic Industries Association of Japan
EPROM	erasable programmable read-only memories
FTA	Free Trade Agreement
KORUS	U.S.-Korea Free Trade Agreement
LDP	Liberal Democratic Party
MITI	Ministry of International Trade and Industry
MOFA	Ministry of Foreign Affairs
MOSS	Market-Oriented Sector Selective
NARA	National Archives and Records Administration
SDF	Self-Defense Force
SIA	Semiconductor Industry Association
STA	Semiconductor Trade Agreement
TPA	trade promotion authority
USFJ	U.S. forces in Japan
USITC	U.S. International Trade Commission
USTR	United States Trade Representative
VER	voluntary export restraint
WTO	World Trade Organization

Abstract in Korean (국문 초록)

1986 년 미일 반도체 무역 협정: 양면게임 분석

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이 논문의 목적은 미일 양국 관계를 탐구하는 것이다, 특히, 1980년대
대의 무역 전쟁과 1986년 반도체 무역 협정 (STA)의 협상 동안 미
국의 무기화된 상호 의존성 (weaponized interdependence) 사용. 미국
은 과거 외교정책 목표를 달성하기 위해 강압적인 외교를 자주 해
왔고 오늘날에도 이 전략을 계속 사용하고 있지만 결과는 엇갈리
고 있다. 최근, 트럼프 행정부는 한미 자유무역협정(FTA)의 조항들
을 재협상하기 위해 미국에 대한 한국의 안보 의존도를 이용하려
고 시도했지만 이러한 시도는 일반적으로 성공하지 못한 것으로
간주되었다. 반면 레이건 행정부는 1980년대 미일 무역전쟁 당시
일본의 미군 의존도를 활용해 무역협정을 통해 일본의 양보를 이
끌어내는 데 성공했다.

1980년대 미일 무역전쟁의 중심에 있었던 주요 산업 중 하
나는 반도체 산업이었다. 1986년 STA이 체결되었을 때, 협정의 조
항들이 미국 반도체 회사들에게 일본 회사들보다 불균형적으로 이
익을 주었기 때문에 많은 사람들이 그것을 미국의 승리로 여겼다.
많은 다양한 요인과 상황이 STA의 협상에 영향을 미쳤지만 논란
이 된 무역 협정이 어떻게 정치적으로 실현 가능한지에 대한 질문

은 탐구되지 않았다. 이 논문은 이 질문에 답하기 위해 1986년 STA에 대한 사례 연구를 수행하기 위해 역사 분석(historical analysis)과 양면게임 분석 (two-level game analysis)의 조합을 사용한다. 국제 협상은 국내 [레벨 (Level) II] 및 국제 [레벨 (Level) I] 단계의 협상을 모두 포함하는 과정이며, 이 양면게임 분석은 무역 협상 중 Level II 윈 세트(win-set)에 영향을 준 세 가지 요인에 초점을 맞추고 있다. (1) Level II 선호 및 연합, (2) Level II 제도들, (3) Level I 협상가의 전략.

레이건 정권 (Reagan)과 나카소네 (Nakasone) 정권은 전반적인 외교 정책 목표를 달성하는 데 있어 미일 동맹의 중요성을 인식하고 있다. Reagan 대통령의 집단 안보 전략과 냉전 종식에 대한 열망, 그리고 1970년대 후반 태평양에서 소련의 군사력 증강과 함께 악화된 일본의 안보 환경은 양국 모두에게 안보를 높은 우선순위로 만들었다. Reagan 대통령은 보호주의적 조치보다는 외국 시장을 개방하는 데 초점을 맞춘 경제 정책을 채택했다. 일본의 경우, 평화적 안보 정책으로 인해 미일 안보 동맹에 의존하게 되었다. 그리고 일본의 전후 경제 성장에도 불구하고, 일본의 경제는 여전히 미국에 크게 의존하고 있었다. 결과적으로, 일본 정부는 미국을 적대시하는 것을 경계했다. 따라서 무역분쟁 당시 미국과 일본 사이의 긴장감에도 불구하고 Reagan 대통령과 Nakasone 총리는 강력한 협력 기반을 구축하기 위해 노력했고, 반도체 문제를 외교적으로 해결하기 위해 정치적 자세를 취했다.

양면게임 분석은 1974년 무역법의 패스트트랙 권한과 (fast-track authority) 1974년 오히라 (Ohira) 원칙을 포함한 국내 정치 기관과 그들의 법이 양국의 Level II win-set크기를 증가시켜 최종 합

의 가능성을 높였음을 나타냈다. 이분석은 또한 미국 협상가들이 협상 과정에서 그들의 결과를 극대화할 수 있었다는 것을 보여준다. 미국의 반도체 회사들과 의회의 압력, 미국이 일본 반도체 회사들을 상대로 시작한 섹션 (Section) 301덤핑 소송, 양국 관계의 선천적인 비대칭성, 그리고 일본의 미군 의존성을 포함한 몇 가지 요인들이 협상자들의 전략을 형성했다. 협상 중 최대 결과는 미국에 유리하게 왜곡됐지만, 협정은 각각의 국가들의 Level II win-set안에 들어갔다. 협정은 시장 접근과 덤핑 (dumping) 문제에 대한 미국 반도체 회사들의 우려를 해결했고, 그 대가로 미국이 일본 반도체 회사들을 상대로 시작한 반덤핑 (anti-dumping) 소송이 중단되었다. 하지만, 감시와 집행의 책임은 결국 일본 정부에게 넘어갔고, 사실상 일본에게 협정을 부적절하게 이행할 수 있는 권한을 주었다. 따라서, 이 논문은 미국이 일본이 원하는 경제적 양보를 하도록 압력을 가하기 위해 힘의 위치를 활용할 수 있었는 것을 보여주었지만, STA의 조건은 시행 조치에 제한이 있다.

전반적으로 이 논문은 미국의 무역정책에 대한 향후 연구에 귀중한 틀을 제공한다. 특히 향후 연구에 있어 가장 설득력 있는 방향은 1980년대 이후 미국의 반도체 산업 통상정책과 그 전략이 어떻게 진화해 왔는지를 파헤치는 것이다. 미국 반도체 기업의 제조 능력과 경쟁력은 오늘날 미국 경제와 국가 안보에 필수적인 요소로 남아 있다. 1980년대 내내, 미국은 일본 반도체 제품의 수출을 제한하고 일본 시장에서 미국 반도체 회사의 존재를 확대하려고 노력했다. 현재, 미국은 전략적 동맹이라는 새로운 정책을 채택하고 있다. 삼성전자 (Samsung Electronics) 와 SK하이닉스 (Hynix) 와 같은 한국의 반도체 회사들을 겨냥하고 있고, 이 선도적인 회사들이 미국에 진출하고 투자하도록 장려하려고 노력하고 있다.

이 논문은 향후 연구의 방향과 관계없이 미국의 정책 입안자와 협상가들이 특히 반도체 산업 분야에서 이상적인 무역 정책과 향후 협상 전략을 수립하는 데 도움이 될 수 있다.

주제어: 미일 무역 전쟁, 반도체 산업, 양면게임 분석, 무역 협정사례연구,
집단안보

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