HOW US-CHINA TRADE FRICTION AFFECTS MARKET OPENING IN CHINA:
A COMPARATIVE ANALYSIS BETWEEN US-JAPAN AND US-CHINA TRADE
FRICTION
PEI HSIN KAN


Thesis presented to Escola de Administração de Empresas de São Paulo of Fundação Getulio Vargas, as a requirement to obtain the title of Master in International Management (MPGI).

Knowledge Field: Internationalization of Companies

Adviser: Prof. Dr. Ligia Maura Costa

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ABSTRACT

Since President Trump’s inauguration in 2017, rigorous US-China trade friction has rippled through global economy. Indeed, under President Trump’s America First doctrine, owing to China’s unfair trade practice, China has been the main target of US protectionist trade policy. Nevertheless, US-China trade friction is not the first case happening between the world’s two largest economies. In fact, the latest case of US-Japan trade friction of 1980s was not even far from us.

Since the end of World War II, US has facilitated the global free trade system by opening domestic market to the world. However, the economic hegemony of US has therefore been seriously challenged afterward. Japan and China had been the representative challengers respectively in late 20th century and nowadays. By adopting export-oriented strategy and state-led industrial plan, both countries exploited the open market of US while closing domestic market from foreign competition, end up greatly undermining the trade profit of US. US thus inevitably adopted aggressive trade policy to rectify such unfair trade practice.

This dissertation attempts to answer how US-China trade friction can affect market opening in China. By drawing lesson from historical US-Japan trade friction, this research identifies three favorable factors for US to virtually open Japan’s market in 1980s. However, through the comparative analysis with US-China trade friction, the favorable scenario is no longer found in current trade friction. Consequently, the conclusion is reached that by adopting similar aggressive trade policy, Trump administration can hardly open Chinese market to the comparable level that US once achieved in Japan, especially regarding to elimination of structural trade barriers.

KEY WORDS: Trade friction, Unfair trade practice, Bilateral trade imbalance, Aggressive trade policy, Market opening
RESUMO

Desde a posse do presidente Trump em 2017, o rigoroso atrito comercial EUA (Estados Unidos da América)-China tem atingido a economia global. De fato, sob a doutrina America First do presidente Trump, devido à sua notória prática comercial desleal, a China tem sido o principal alvo da política comercial protecionista dos EUA. Mesmo assim, o atrito comercial EUA-China não é o primeiro caso a acontecer entre as duas maiores economias do mundo. Na verdade, o último caso de atrito comercial aconteceu entre EUA e Japão na década de 1980 e não está distante desse atual.

Desde o final da Segunda Guerra Mundial, os EUA têm facilitado o sistema de livre comércio global abrindo o mercado doméstico para o mundo. No entanto, a hegemonia econômica dos EUA foi seriamente desafiada posteriormente. O Japão e a China foram representativos desafiadores, respectivamente, no final do século XX e nos dias de hoje. Ao adotar uma estratégia orientada para a exportação e um plano industrial estatal, ambos países exploravam o mercado aberto dos EUA enquanto fechavam o mercado interno da concorrência estrangeira, acabando por minar significativamente o lucro comercial dos EUA. Os EUA, portanto, adotaram inevitavelmente uma política comercial agressiva para retificar tais práticas comerciais desleais.

Esta dissertação tenta responder como os atritos comerciais EUA-China podem afetar a abertura do mercado na China. Aproveitando as lições tiradas dos atritos comerciais históricos EUA-Japão, esta pesquisa identifica três fatores favoráveis para que os EUA tenham aberto virtualmente o mercado japonês na década de 1980. No entanto, através da análise comparativa com o atrito comercial EUA-China, o cenário favorável não é mais encontrado neste atrito atual. Consequentemente, chega-se à conclusão de que, ao adotar uma política comercial agressiva semelhante, a administração de Trump dificilmente poderá abrir o mercado chinês em nível comparável ao que os EUA alcançaram no Japão, especialmente quanto à eliminação de barreiras comerciais estruturais.

PALAVRAS CHAVE: Atrito comerciais, Prática desleal de comércio, Desequilíbrio comercial bilateral, Política comercial agressiva, Abertura de mercado
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<thead>
<tr>
<th>Acronym</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
</tr>
<tr>
<td>AD</td>
<td>Antidumping</td>
</tr>
<tr>
<td>AIIB</td>
<td>Asian Infrastructure Investment Bank</td>
</tr>
<tr>
<td>BRI</td>
<td>Belt and Road Initiative</td>
</tr>
<tr>
<td>BRICS</td>
<td>Brazil, Russia, India, China and South Africa</td>
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<tr>
<td>CCP</td>
<td>Chinese Communist Party</td>
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<tr>
<td>CRA</td>
<td>Contingency Reserve Agreement</td>
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<tr>
<td>CVD</td>
<td>Countervailing Duties</td>
</tr>
<tr>
<td>EOP</td>
<td>Executive Office of the President of the United States</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
</tr>
<tr>
<td>G5</td>
<td>Group 5 Countries (United States, Japan, Germany, France and United Kingdom)</td>
</tr>
<tr>
<td>GAAT</td>
<td>General Agreement on Tariff and Trade</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>JPY</td>
<td>Japanese Yen</td>
</tr>
<tr>
<td>LDP</td>
<td>Liberal Democratic Party of Japan</td>
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<tr>
<td>MFN</td>
<td>Most Favored Nation</td>
</tr>
<tr>
<td>MIC 2025</td>
<td>Made in China 2025 Initiative</td>
</tr>
<tr>
<td>MOFA</td>
<td>Ministry of Foreign Affairs</td>
</tr>
<tr>
<td>MOSS</td>
<td>Market-oriented Sector Selective talks</td>
</tr>
<tr>
<td>MOU</td>
<td>Memorandum of Understanding</td>
</tr>
<tr>
<td>NAFTA</td>
<td>North American Free Trade Agreement</td>
</tr>
<tr>
<td>NDB</td>
<td>New Development Bank</td>
</tr>
<tr>
<td>NIE</td>
<td>Newly Industrialized Economies</td>
</tr>
<tr>
<td>NTER</td>
<td>National Trade Estimate Report</td>
</tr>
<tr>
<td>OTCA</td>
<td>Omnibus Trade and Competitiveness Act of 1988</td>
</tr>
<tr>
<td>PRC</td>
<td>The People’s Republic of China</td>
</tr>
<tr>
<td>PFC</td>
<td>Priority Foreign Country</td>
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<tr>
<td>RMB</td>
<td>Renminbi</td>
</tr>
<tr>
<td>SII</td>
<td>Structural Impediments Initiative</td>
</tr>
<tr>
<td>TPP</td>
<td>Trans-Pacific Partnership</td>
</tr>
<tr>
<td>US</td>
<td>The United States of America</td>
</tr>
<tr>
<td>USD</td>
<td>US Dollar</td>
</tr>
<tr>
<td>USDOC</td>
<td>U.S. Department of Commerce</td>
</tr>
<tr>
<td>USDT</td>
<td>U.S. Department of the Treasury</td>
</tr>
<tr>
<td>USITC</td>
<td>U.S. International Trade Commission</td>
</tr>
<tr>
<td>USSR</td>
<td>Union of Soviet Socialist Republics</td>
</tr>
<tr>
<td>USTR</td>
<td>United States Trade Representative</td>
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<tr>
<td>VER</td>
<td>Voluntary Export Restraints</td>
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<tr>
<td>WTO</td>
<td>World Trade Organization</td>
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<td>WWII</td>
<td>Second World War</td>
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1. Introduction

1.1. Research Background

Since the United States (US) President Donald Trump raised the curtain of US-China trade friction in early 2017, the trade dispute between the first two economies of the world has astonished the global economy, dominating the headlines of the world-wide mainstream medias. US-China trade friction is generally viewed as a new crisis threatening the global economy, and so far, millions of investors are anxiously awaiting knowing not only how the global economy will be affected but also to which extent US will manage to open the Chinese market—the world largest but relatively closed market.

The background of US-China trade friction can be traced back to the post Second World War (WWII) period. At the end of WWII, with its strengthened postwar economy, technological capacity and political power, US led the way in building the new economic order in Bretton Woods conference of 1944 (Dicken, 2010). In Bretton Woods conference, the two major institutions, International Monetary Fund (IMF) and World Bank, were formed. In addition, to address the two major goals of Bretton Woods system: stabilization of international financial transactions and facilitation of free trade, US dollar (USD) was set as the anchor for fixing currency exchange rates, and later, GATT (the General Agreement on Tariff and Trade) was established in 1947 for the purpose of reducing global trade barriers. Indeed, the post war new economic order was rebuilt within the international institutions and regulatory framework formed by the three international bodies (IMF, World Bank and GATT) from Bretton Woods System (Douglas, Huggett & Robinson, 1996).

However, the economic dominance of the US-led western industrialized countries had last until the end of the Cold War. After Deng’s economic reform in 1978, colossal foreign direct investment (FDI) flowed into the four Special Economic Zones in China - Xiamen, Shantou, Shenzhen and Zhuhai, and subsequently expanded to other coastal cities (Dicken, 2010). The mammoth FDI enabled China to sustain constant high economic growth under a series of state-led industrial plan in past few decades and to substantially advance its technological capacity. China hitherto has become increasingly influential in global economy due to its huge cheap labor force, domestic market, current account surpluses and foreign currency reserves from the international trade surpluses.
Under continuous shift of world economic and political gravity, the US-lead post WWII economic order is currently challenged by the emerging powers, especially China. As aforementioned, with government aids, cheap labor cost and technologies advancement in recent years, the Chinese enterprises started to prevail in markets and industries previously dominated by American companies, seriously undermining US national interest and eventually resulting in aggravated bilateral trade friction in Trump age.

Donald Trump, as the candidate of US president election of 2016, was supported by his well-known “America First” doctrine which stressed the US sovereign responsibilities should be prioritized before the commitments to the international institutions and thus post strong hostility toward those countries undermining US national interest, with an emphasis on China (Magcamit, 2017). At his campaign rally in Fort Wayne in May 2016, Trump assaulted harshly against China and its trade relation with US, stating that “we can’t continue to allow China to rape our country and that’s what they’re doing. It’s the greatest theft in the history of the world” (Gass, 2016).

Lau (2019) pointed out that US-China trade friction at Trump age indeed has reflected US grievances against the skyrocketing bilateral trade imbalance resulting from China’s unfair trade practice, including undervaluation of renminbi (RMB), comparably closed domestic market, discriminatory playing field in favor of Chinese state-owned enterprises, improper intellect property rights protection, forced technology transfer, and infringement of US commercial and industrial information.

1.2. Objective of Research

In globalization era, the trade friction between the two biggest economies has rippled through the global economy, reconstructed the international trading map and affected strategies of international trade participants. Indubitably, more researches from various dimensions are indispensable for better understanding and forecasting the impact and possible outcome of proceeding US-China trade friction, .

Nevertheless, US-China trade friction is not the first case happening between the two largest economies in the history. Indeed, the serious trade friction between US and Japan in 1980s was not even far from us. Back to 1980s, US and Japan were also the world’s first and
second economy respectively. US-Japan trade friction can be traced back to the competition in textile sector in 1950s. Thereafter, supported by export-oriented economic strategy and state-led industrial plan, the economy success of Japan had increasingly threatened US dominance in global economy and brought unprecedented trade deficit to US. The economic rivalry eventually erupted into intensive trade friction in 1980s. A series of bilateral negotiations thus were initiated by US to reduce the bilateral trade imbalance, protect and promote the American industries (Urata, 2019). Because of the comparable similarities of background between US-Japan and US-China trade friction, this research aims at deriving lessons from historical events for better understanding the current event. Namely, through the comparative analysis between the current US-China and the historical US-Japan trade friction, this dissertation is designated to provide international trade participants new perspectives in how US-China trade friction will affect market opening in China as well as to yield new directions for future research.

1.3. Research Questions

In the book *Comparative Historical Analysis in the Social Sciences*, Mahoney and Rueschemeyer (2009) referred the “big questions” to those “about large-scale outcomes that are regarded as substantively and normatively important by both specialists and non-specialists” (p. 7). As a matter of fact, trade frictions between the world’s two largest economies certainly have a profound impact on global economy and international trade participants’ decision-making. As a result, China’s response to the aggressive trade policy from Trump administration can be regarded as substantively and normatively important by both specialists and non-specialists.

Among all the issues, market opening indeed has been one of the most significant appeals of US under its pursuit of free trade while facing the rise of new economic powers –Japan in 1980s and China nowadays. Consequently, this dissertation attempts to answer how US-China trade friction can affect market opening in China because the outcome of the ongoing US-China trade friction will be highly dependent upon China’s response to US appeal for market opening.
2. Literature Review

The intricate relationship between international trade and national interest have been widely discussed since late 18\textsuperscript{th} century. In his magnum opus \textit{The Wealth of Nations}, Adam Smith (1910) laid down the ground of classical liberal economic system that public good is promoted under every individual’s pursuit of self-interests: free trade and foreign trade were propelled by merchants’ ambition to maximize individual wealth but end up enriching the country aggregately. Later, David Ricardo advocated industry specialization and free trade based on the comparative advantage theory, arguing that both sides would be better off in bilateral trade even if one side possessed absolute advantage in every aspect. Thereafter, under the concept that state actions are driven by the goal of maximizing social welfare, liberals identified trade as the principal measure to achieve this goal owing to the universal benefits brought by trade for both individuals and states (Barbieri, 2005). If trade benefits everyone, where are the trade frictions or even trade war originated from?

On one hand, from economic and social welfare perspective, given the valuable benefits from trade, bilateral trade would not reach balance in most of cases, and none of the states could sustain indefinite trade imbalance. Consequently, relevant policies must be taken by the debtor country to remedy its trade deficit. However, the policy could hardly be satisfactory for both sides: the debtor country’s tariff and protectionism action designated to contain the imports would infringe surplus country’s export interest while any countermeasure from surplus country would leave the problem unsolved. In retrospect, trade war indeed usually coincided with the ratcheting up of tariff (Rosecrance, 1990). For example, the trade war in 1930s which led to Great depression dramatically illustrated the example of large-scale trade conflicts rising from tariff barrier. The trade war was initiated by US Hawley-Smoot Tariff of June 1930 and exacerbated by a series of following actions from other major trade nations. Saint-Etienne (1984) noted that even though countries could only acquire the short-term benefits at the beginning of the imposition of trade restrictions and had to bear the bitter result thereafter, the major trade nations still built the trade barriers one after another, eventually harming all concerned and causing serious world economy recession.

In addition, Krugman (1987) pointed out that strategic trade policy argument supported by the new international trade view, which regards economies of scale instead of comparative
advantages as driving force of international trade, could provoke retaliation and spark off mutual-harmful trade war. Indeed, strategic trade policy argument suggests the government adopt policy to transfer excessive return to domestic firms from foreign ones and to support industries bringing national benefits that may be at others’ expense. Such beggar-thy-neighbor government intervention is just as the “prisoners’ dilemma where each country is better off intervening than being the only country not to intervene, but everyone would be better off if nobody intervened” (Krugman, 1987, p.142). In the prisoners’ dilemma, the trade partners inevitably enter the action-reaction cycle of punitive trade policies, in due course aggravating the tension between each other. Hence, Krugman (1987) pointed out that free trade should be the cornerstone of international trade agreements to prevent trade war resulting from government intervention.

Furthermore, Gomory, Baumol and Wolff (2001) contended that even in the case of free trade, there are still considerable interest conflicts between trade partners in other forms than tariff war and protectionist trade policy. Under scale economies, state’s advantage over certain industry is developed with large-scale and long-term accumulation of experience, capital and knowledge, building the barrier for small-scale entry and retaining the advantages in the industry. Owing to the retainability of industry, many possible equilibria displace the single and predictable equilibrium from Adam Smith and David Ricardo age in which every country is better off because of international trade. In this case, the wealth distribution from trade rests on the equilibria, and which equilibria will occur depend on the country’s advantageous industry. Therefore, the industry competition underlies the inherent conflicts in international trade: “an improvement in the productive capability of a trading partner that allows it to compete effectively with a home-country industry, instead of benefiting the public as a whole, may come at the expense of that home country overall ” (Gomory, Baumol & Wolff, 2001, p.4). The technology progress of less-advanced country is the prime example: when the technological gap between the leader and its competitors has been narrowed, the leader’s trade profits will be eroded and thus remedies must be taken to refrain the competitors’ catch up in order to preserve the interests from trade (Krugman, 1985).

On the other hand, from politic perspective, Kitson (1917) underlined the close alliance of political and economic power: “they act and react on each other, each rendering assistance and support to the other when required” (p. 246). Kitson (1917) conceived that economic
power formed the basis of political power, but meanwhile, all the wealth claims were backed by state power upon labor, present and future. Thus, in the civilized world, instead of military hostilities, the state and its alliance would adopt any possible trade barriers against the common enemy – namely, the trade warfare – to expand the control over all the factors of wealth production.

Lastly, Luttwak (1990) also perceived that the importance of military power had decreased dramatically since the end of Cold War. Instead of armed strength, the commerce strength had gradually emerged as main measure to address international matters. Consequently, while military confrontation was unavoidable to address political crash rising from commercial quarrels in the past, nowadays, the weapons of commerce, such as import restrictions, export subsidies, governmental financial aids, state-led industrial plan, are far more likely to be used to deal with such conflicts. Likewise, Huntington (1993) also viewed economic activity as the most significant source of power, especially in the age when military conflicts become too costly to occur. Therefore, to maximize the state power and determine the primacy or subordination status in international order, the states will compete in economic realm, rather than armed force, through the instrument of economic power, such as productivity, market access, trade, currency power and foreign currency reserve.

3. Research Methodology

To answer the research question of how US-China trade friction will affect market opening in China, firstly, the US-Japan trade friction is selected for single case study. As George and Bennett (2005) defined the case study approach as “the detailed examination of an aspect of a historical episode to develop or test historical explanations that may be generalizable to other events” (p. 374), the case study of US-Japan trade friction is designated to identify the economic and political factors affecting Japan’s willingness to open its market that may be generalizable to US-China trade friction.

In fact, retrospective to US-Japan trade friction, the agreements reached under Market-Oriented Sector Selective Talks (MOSS), Section 301 investigations and Structural Impediments Initiative (SII) are viewed as an enhancement of market opening in Japan. Thus, to acquire deeper understanding of Japan’s response in the trade friction, the case
study incorporates independent variables causing variation in dependent variables and analyzes the events to explain dynamic phenomena (Sabherwal & Robey, 1995). In this research, various data types, including observations, archival resource and quantitative evidence, are collected and analyzed in order to develop conceptual model about what are the major factors and how they impacted the market opening in Japan under the pressure from US (Eisenhardt, 1989).

Afterward, the overall background of US-China trade friction is reviewed, and the case study with special focus on US-China trade friction in Trump age is conducted for comparative historical analysis with US-Japan trade friction of 1980s.

Comparative historical analysis is best considered a long-standing intellectual project oriented toward the explanation of substantively important outcomes. It is defined by a concern with causal analysis, an emphasis on process over time, and the use of systematic and contextualized comparison (Mahoney & Rueschemeyer, 2009, p. 6).

The research thus adopts systematic and contextualized comparison between US-Japan and US-China trade friction in order to critically analyze how the economic and political differences between Japan and China can affect their willingness in market opening while facing the pressure from US.

In fact, even though the negotiation between the US and China is still ongoing, through the process of analyzing the past by incorporating independent variables and events to explain dynamic phenomena, the research will be able to identify discrepancy between what we know and what we need to know, and thus contribute insights for decision-making and directions for future research (Webster & Watson, 2002).
4. Case Study of US-Japan Trade Friction

The US-Japan trade friction is selected for single and holistic case study based on the following two reasons. First, US-Japan trade friction is selected for its similar background with current US-China trade friction. From the figure 4-1 we can see Japanese economy rapidly catch up US since the immediate post-war period until 1990. By substantially exporting to free foreign markets while restricting access to its domestic market, Japan thrived as the world second-largest economy in 1968 and later the major menace to US dominance in advanced industries. China has adopted alike development strategy since Deng’s reform and opening-up in 1978. The astonishing Chinese economic growth trend has can also be observed from 1990 to 2018, and the trend is still lasting (Figure 4-2). Resembling the success of Japan, China’s development to world economic superpower has also been criticized for building its economic prosperity at the expense of the comparatively open market of US.

Figure 4-1: GPD of Japan and the US from 1960 to 1990

Second, as US-Japan trade friction began from the mid-1950s and had last for almost half century until late 1990s, different stages of economy development and corresponding changes in the bilateral trade conflict and negotiation focus can be readily observed. In fact, the industrial structure transformation from labor-intensive to capital- and technology-intensive industry has nonnegligible influence in both US-Japan and US-China trade frictions.

The US-Japan trade friction can be approximately divided in two different stages based on the intention of US: before 1980s, mainly to limit import from Japan and thereafter mainly to expand export to Japan, or in other words, to open the market of Japan. The case study mainly focuses on the negotiations and agreements for market opening between US and Japan in 1980s, not only because the bilateral tension had climaxed but also because US had transformed to more aggressive posture against Japan in this period, particularly the adoption of Section 301. This scenario highly resembles the situation of 2018 when President Trump resorted to Section 301 to sanction against imported Chinese products. Accordingly, the emphasis on the study of the US-Japan bilateral negotiations of 1980s can help answer the research question: how trade friction between the US and China will affect the market opening in China. However, the negotiations for limit imports from Japan are still reviewed and summarized for better contextualizing the negotiations in 1980s.
4.1. Limit Import from Japan

In view of the renounce of war in Japanese Constitution after WWII, Japanese government had set economy recovery and development as its top priority. As a resource-poor island country, Japan had been heavily dependent on the imported natural resources for industrial development and therefore established an export-oriented economic structure by imposing import barriers and export incentives to counterbalance the import value from the purchase of natural resources.

On the other hand, in order to prevent the reoccurrence of the Great Depression resulting from the global prevalence of protectionist trade policies in 1930s, US had promoted trade liberalization and global free trade system by opening its domestic market to the world since the post WWII period. Meanwhile, to block the quick expansion of communism in Asia, US had intentionally stimulated the economic prosperity of Japan by enhancing the bilateral trade and investment ties. US had hence been the all-time main export destination for Japanese products from early 1960s to 1990 (Table 4.1).

Table 4.1: Main export destination of Japan (in USD millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>1st Largest Export Destination</th>
<th>2nd Largest Export Destination</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Country</td>
<td>Amount</td>
</tr>
<tr>
<td>1962</td>
<td>US</td>
<td>1,360</td>
</tr>
<tr>
<td>1965</td>
<td>US</td>
<td>2,420</td>
</tr>
<tr>
<td>1970</td>
<td>US</td>
<td>5,900</td>
</tr>
<tr>
<td>1975</td>
<td>US</td>
<td>12,300</td>
</tr>
<tr>
<td>1980</td>
<td>US</td>
<td>32,800</td>
</tr>
<tr>
<td>1985</td>
<td>US</td>
<td>68,300</td>
</tr>
<tr>
<td>1990</td>
<td>US</td>
<td>85,500</td>
</tr>
</tbody>
</table>


However, because of the low labor and production cost in Japan, the labor-intensive industries in US had been seriously challenged by the Japanese firms. The policy conflicts between trade liberalization and domestic industry protection had therefore emerged in US. To reconcile such conflicts, US had adopted Voluntary Export Restraints (VER) as major remedy to refrain import from Japan. Tatsuta (1985) defined VER as “the voluntary limits placed by an exporting country or industry on the quantity of a product to be exported to certain countries without the imposition of complementary import quotas” (p. 328). Indeed,
due to the “voluntary” characteristic of VER, the adoption of VER enabled US to maintain its position for liberal trade policy in GATT while protecting domestic industries with decreasing comparative advantages (McClenahan, 1991). In fact, the early US-Japan trade conflicts were mainly addressed by VER or its equivalents aiming at reducing imports from Japan (Table 4.2).

Table 4.2 : Timetable of US-Japan trade frictions and agreements before mid-1980s

<table>
<thead>
<tr>
<th>Year</th>
<th>Industry</th>
<th>Agreements</th>
</tr>
</thead>
<tbody>
<tr>
<td>1957-1962</td>
<td>Textile Industry</td>
<td>VER for cotton textile products</td>
</tr>
<tr>
<td>1962-1963</td>
<td>Textile Industry</td>
<td>Short term agreement on cotton textiles</td>
</tr>
<tr>
<td>1963-1973</td>
<td>Textile Industry</td>
<td>Long term agreement on cotton textiles</td>
</tr>
<tr>
<td>1969-1972</td>
<td>Steel Industry</td>
<td>VER for steel</td>
</tr>
<tr>
<td>1972-1974</td>
<td>Steel Industry</td>
<td>Extension of VER for steel</td>
</tr>
<tr>
<td>1977-1980</td>
<td>Steel Industry</td>
<td>Impose minimum price for steel imports</td>
</tr>
<tr>
<td>1978-1982</td>
<td>Domestic Appliance</td>
<td>Orderly marketing arrangement</td>
</tr>
<tr>
<td>1981-1984</td>
<td>Automobile Industry</td>
<td>VER on automobiles</td>
</tr>
<tr>
<td>1984-1992</td>
<td>Steel Industry</td>
<td>Reinstatement of VER on steel</td>
</tr>
<tr>
<td>1984-1994</td>
<td>Automobile Industry</td>
<td>Extension of VER for automobiles</td>
</tr>
</tbody>
</table>

Note. Both short term agreement and long term on cotton textiles are quantity restriction agreements. Sources: Urata, 2019.

Notably, the VER-targeted industries of US had shifted from labor-intensive sector to capital- and technology-intensive industry during 1960s to 1980s, exactly reflecting the industrial transformation in Japan (Table 4.2). Since 1960s, inspired by the success of Japan, the Four Asian Tigers (Hong Kong, Singapore, South Korea and Taiwan) had followed the similar strategy of export-oriented industrialization and state-lead industrial plan and became formidable competitors of Japan in labor-intensive industry. Propelled by the rise of Four Asian Tigers and the increasing domestic labor cost, Japan had gradually transferred its industrial structure to capital-intensive sectors, such as steel and shipbuilding and meanwhile continuously upgraded to high value-added and technology-intensive industries: automobile sector since 1970s and electronics, telecommunications, semiconductors and other high technology products since late 1970s (Yoffie, 1983; Higashi & Lauter, 1987).

Coinciding with the industrial structure upgrade in Japan, the main exported products from Japan to US also transferred from light-industry to higher value-added product categories (Figure 4-3). On the contrary, the export products from US to Japan yet remained unchanged. Agricultural products and raw materials still accounted for the majority of Japanese import
categories from US. Consequently, the bilateral trade imbalance between US and Japan had widened rapidly since mid-1970s (Figure 4-4).

**Figure 4-3: Main Japanese exported products to the US (1965-1990)**

![Graph showing percentage of total export value to USA for Electronics, Machinery, and Metal from 1965 to 1990.](https://oec.world/en/


**Figure 4-4: Japan’s export to & import from the US and Trade balance with the US**

![Graph showing export, import, and trade balance from 1962 to 1990.](https://oec.world/en/


Since export had been the main stimulus of Japanese economic growth, Japan’s over reliance on US market undermined its maneuverability in the bilateral trade conflicts. In
order to preserve long-term trade profits, Japanese government had no choice but minimize the political tension by accepting VER and fastened the pace in upgrading the industrial structure. As a matter of fact, just as the fast catching-up of the Four Asian Tigers, the pressure brought by VER also propelled the industrial structure transformation in Japan, and thus VER had little use in limiting US imports from Japan. It is conspicuous that VER had always be one step later than industrial transformation in Japan: when VER targeted at Japanese textile products in early 1960s, the gravity of Japanese exports had shifted to steel and domestic appliance; when VER targeted at steel in 1970s, the energy-efficient Japanese cars became increasingly popular in US during the first oil crisis.

4.2. Economic and Foreign Policy of Reagan Administration (1981-1989)

Since late 1960s, US went through a prolonged economy recession, both inflation rate and unemployment rate had been ratcheting up in 1970s owing to a series of energy crisis and burgeoning foreign competition. Later, the outbreak of the second oil crisis in 1979 further deteriorated the stagflation in US. Going from bad to worse, on December 24, 1979, the Soviet invasion of Afghanistan broke the policy of Détente since Nixon age. A string of setbacks in economic and politic realm in late 1970s aroused strong dissatisfaction against Carter administration and paved the way for Ronald Reagan’s victory in the 1980 president election.

4.2.1. The First Half of 1980s

Stepping into office in January 1981, President Reagan had reversed the major policy trends of 1960s and 1970s, with the exception in fiscal deficits. In terms of domestic economy policy, the expansionary fiscal policy was adopted to propel the economy out of recession, including deregulation of the domestic market, implementation of tax-reduction policies, increase of defense spending, etc. In contrast to the loose fiscal policy, tight monetary policy was employed to contract the high inflation rate inherited from Carter age and to stabilize the money supply.

On the other hand, regarding to the foreign policy, in March 1981, President Reagan had introduced the largest peacetime military budget in American history. Reagan’s military
build-up policy was built on the ground of his anti-communism and pro-US primacy view. “Reagan had a few big issues he cared deeply about and combating Communism was clearly one of them” (Brown, 2020, p. 71), and he also believed that “peace is made by the fact of strength – economic, military, and strategic. Peace is lost when such strength disappears or – just as bad – is seen by an adversary as disappearing” (“Televised Address by Governor Ronald Reagan: A Strategy for Peace in the '80s”, 1980).

As President Reagan conceived that US military power had lagged behind Union of Soviet Socialist Republics (USSR) during the détente period, he sought to fortify the strength of US through military build-up to catch up with USSR and force Moscow to enter an arm race beyond its economic affordability. Reagan had long believed that the economy was the Achilles heel of USSR system and expected that the economic constraint would eventually hamper USSR from keeping pace with US in military expansion so that a door could be opened for arms reduction talks (Fischer, 2020).

Nevertheless, the macroeconomic policy mix of loose fiscal policy and tight monetary policy directly resulted in soaring government budget deficit and interest rate in the first half of the 1980s. The skyrocketing interest rate subsequently imposed upward pressure on the value of USD, eclipsed the competitiveness of US traded goods and widened the trade imbalance. Given the rising import competition and declining export, even though the overvaluation of USD was generally viewed as the leading indicator of trade policy in US, Reagan administration seemed to disregard the effect of superdollar and hold itself back from aggressively pressing Japan for specific market access during Reagan’s first term as president (Stern, 199; Kunkel, 2003).

4.2.2. The Second Half of 1980s

When President Reagan was still calling Soviet Union “evil empire” in his public speech in 1983, Reagan administration’s hard-line policy and hawkish posture against USSR made a major turn in January of 1984 out of the fear that the deteriorated superpower relation would end up evolving into war. Since then, Regan administration started to call USSR for bilateral dialogue, cooperation and disarmament (Fischer, 2020).
Indeed, President Reagan was proved to be more as a pragmatist while dealing with Moscow (Trubowitz, 2015). He had always longed for a chance to eradicate international communism through the bargain with its leader in Kremlin, but the chance did not emerge until Mikhail Gorbachev came into power in 1985 (Wilson, 2015). The Geneva summit between President Reagan and Gorbachev took place in 1985, somehow starting to build the rapport and the initial bilateral consensus in nuclear disarmament. Afterward, in 1987, the Intermediate Range Nuclear Forces Treaty signed between Reagan and Gorbachev in Washington made a huge progress in elimination the middle-range nuclear weapons, marking as a stunning accomplishment during Cold War (Fischer, 2020). Later in 1988 Moscow Summit, President Reagan even clarified that the calling of USSR as “evil empire” in 1983 was “about another time, another era” (Greenstein, 1998, p.7).

However, while the US-Soviet tension had been alleviated in mid-1980s, more aggressive bilateral market opening policy was employed against Japan. As aforementioned, while Reagan administration had sought peace with USSR through strength based on his belief that the weak Soviet economy could not sustain the colossal military spending in USSR, US economy indeed had also suffered from the rigorous situation of record-breaking budget and trade deficit. By visualizing the close relation between political and economic power discussed in Chapter 2 (Figure 4-5), it is tenable to contend that neither could have US sustained its formidable state power nor primacy status in international order in the lack of its economic supremacy.

**Figure 4-5: Close Alliance of Economic & Political Power**

- Control over the factors of wealth production
- Maximize state power
- Determine primacy/leadership status

- Instruments of economic power e.g. market access, international trade, currency power, and foreign currency
President Reagan’s speech in September 1985 reflected his perception of close alliance in economic and political power: the free and open markets “produce more jobs, a more productive use of our nation’s resources, more rapid innovation, and a higher standard of living. They strengthen our national security because our economy, the bedrock of our defense, is stronger” (“Remarks at a White House Meeting with Business and Trade Leaders”, 1985). In 1980s, Japan had certainly posed the greatest challenge to American economic supremacy. US Trade Representative Clayton Yeutter once mentioned that Japan was identified by American trade policy community as the most difficult challenge mainly because Japan had accounted for the biggest chunk of US’s overall trade deficit. Moreover, owing to its recurring current account surplus and high saving rate, Japan became the world’s largest creditor while US had advanced towards the world’s largest net debtor (Kunkel, 2003).

In addition, Japan, as the vital ally of US, was supposed to cooperate with US to combat international communism (Figure 4-5), additionally justifying the US’s adoption of aggressive trade policy against Japan for reciprocal market opening. Under this circumstance, Japan was unmistakably the primary target when the critiques surged around US in 1980s to assault against the facts that “the process of reciprocal liberalization under the GATT was increasingly biased against the United States” (1994, p. 10) and that many trading partners “were free riding on the international system” while building trade barriers to protect their own domestic markets from competition (Bayard, Elliot, Porges, & Iceland, 1994, pp. 10-12).

As a result, in 1985, Reagan administration declared its intention to frequently adopt Section 301 as market-opening tool and simultaneously rectified the overvaluation of USD through Plaza Accord – the agreement jointly signed by France, West Germany, Japan, US and the United Kingdom to substantially depreciate USD against JPY and German Deutsche mark – for the purpose of restoring the competitiveness of US exporters in international market. On the other hand, the Congress initiated the legislation of Omnibus Trade and Competitiveness Act (OTCA), and meanwhile, restricted the executive’s freedom not to retaliate in the case that negotiation with trading partners failed and mandated a more mandatory approach to target foreign trade barriers (Stern, 1991; Kunkel, 2003).
4.3. Expand the US export and Open Japan’s Market

Under the prevalence of aggressive reciprocal market opening policy, a series of bilateral negotiations were initiated between US and Japan in 1980s:

4.3.1. Market-Oriented Sector Selective Talks (MOSS)

In early 1980s, to rebut the critics against Japan’s trade surplus and closed domestic market, Japan initiated a series of market opening policy, such as tariff reduction, simplification of import process and reinforcement of transparency in economic decision-making (Higashi & Lauter, 1987). Nevertheless, such market opening policy was widely criticized for its generality. Under this circumstance, MOSS talks were initiated with the bilateral summit meeting between US President Ronald Reagan and Japan Prime Minister Nakasone in January 1985. MOSS discussions were centered on current market situation of different sectors in Japan. Although the objective of MOSS was for both sides to identify each other’s tariff and non-tariff trade barriers, Japan was unilaterally requested to eliminate the identified barriers impeding US’s entry into Japanese market (Higashi & Lauter, 1987; Porge, 1991). Initially, four industries were involved in MOSS talks, including telecommunications equipment and services, electronics, forest products and pharmaceuticals and medical instrument.

After the bilateral summit, in April 1985, Prime Minister Nakasone declared his determination to open the market of Japan, relax the regulatory and stimulate domestic demand for the purpose of preserving the global free trade system and maintaining appropriate trade balance. Later, led by former Governor of Bank of Japan Maekawa Haruka, the private advisory commission of Prime Minister Nakasone was formed to plan the Japanese economic structure adjustment for international harmony. The commission issued Maekawa report in 1986 and 1987, which had significant influence on Japanese economic policy in the following years. The substantive measures proposed by Maekawa commission included regulatory relaxation on the ground of “freedom in principle, restrictions only as exceptions” to enhance domestic market opening and expansionary fiscal policies to stimulate domestic consumption (Higashi & Lauter, 1987; Flath, 1998). Following the direction of Maekawa report, the agreements of MOSS were achieved with Japan’s rectification of identified trade barriers in each sector mainly in the form of deregulation (Table 4.3).
Table 4.3: Japanese responses for MOSS talks

<table>
<thead>
<tr>
<th>Sector</th>
<th>Response of Japan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telecommunications</td>
<td>- Elimination of restrictive regulations</td>
</tr>
<tr>
<td></td>
<td>- Harmonization of standards with the US</td>
</tr>
<tr>
<td>Pharmaceuticals and medical instrument</td>
<td>- Relaxation of regulatory barriers</td>
</tr>
<tr>
<td></td>
<td>- More transparent regulatory</td>
</tr>
<tr>
<td>Forest products</td>
<td>- Deregulation of product standards and building codes</td>
</tr>
<tr>
<td>Electronics</td>
<td>- Tariff reduction</td>
</tr>
<tr>
<td></td>
<td>- Enforcement of intellectual property rights for certain products</td>
</tr>
</tbody>
</table>

Sources: Bayard et al., 1994; Mikanagi, 1996

Even though US was disappointed with Japan’s small concession in tariff reduction in forest product during MOSS talks, the representatives of from the four sectors believed that the MOSS agreements successfully lowered the barriers entry into Japanese marketplace, and US export amount to Japan in these four sectors also grew 45% from 1985 to 1987 (Higashi & Lauter, 1987). Moreover, Porges (1991) commented that the US firms’ response to MOSS talks was generally positive based on the survey of General Accounting Office in 1988, and Urata (2019) also regarded MOSS talks as an important progress in enhancing access to Japanese market and even “paved the way for further market opening” (p. 150).

4.3.2. Section 301 and Super 301

In 1974, Section 301 of 1974 Trade act replaced Section 252 and became the main statute authorizing US president act against unjustifiable, unreasonable or discriminatory foreign trade practices that infringe the commerce interests of US. In 1984, with the intention to propel the willingness of execution branch to invoke Section 301 against unfair trade practice, US Congress passed the 1984 Trade and Tariff Act, which authorized United States Trade Representative (USTR) to initiate Section 301 investigation without petition. In 1985, pressured by the Congress and surging trade deficit, Reagan administration announced its intention of frequent use of section 301 as retaliatory measure against unfair trade practices and bargaining chip for US negotiators to open foreign markets.

As the primary target of Section 301, Japan faced Section 301 investigations in several industries, including leather products, cigarettes and semi-conductors. Out of the fear of more aggressive sanctions, Japan ended up conceding to the Section 301 investigation.
results. For instance, in the investigation of Japanese import quotas of leather products, despite of its reluctancy of liberalizing the leather market, Japanese government compensated US by lowering tariffs on other imported goods. Meantime, Japan also eliminated the tariff and relaxed market regulations for imported cigarette. Regarding to semi-conductor sector, in addition to setting the minimum selling price of certain chips in US, Japanese government also stated its expectation that foreign chip sales in Japan could grow to above 20% in five years in the side letter of 1986 Semiconductor Agreement. The specific numerical target later caused the US retaliatory sanction of 100% tariffs on Japanese laptops, desktop computers, color televisions and power hand tools in 1987 as US claimed that Japanese government did not make ample numerical progress to reach the goal in 5 years and viewed this case as violation of agreement (Flath, 1998).

On the other hand, despite that Japanese yen (JPY) went through sharp appreciation after the signing of Plaza Accord in 1985, the ascending trend of US trade deficit with Japan continued (Figure 4-6). The skyrocketing trade deficit after the depreciation of USD made Congress members realize that more aggressive means should be adopted to achieve tangible results. Hence, under the growing congressional concern, Super 301 provision became the centerpiece of OTCA. Super 301 required US executives to identify trade liberalization priority and mandated threats of retaliatory sanctions based on the National Trade Estimate Report (NTER), the report designated to identify foreign trade barriers and quantify the corresponding loss brought to US (Bayard et al., 1994).

![Figure 4-6: JPY official exchange rate and Trade balance with the US](https://data.worldbank.org/)
Mastanduno (1992b) conceived that Super 301 as a unilateral aggressive trade policy implying the foreign governments that any Super 301 investigation was under the intensive congressional scrutiny, and tangible negotiation results were mandatory. Bayard et al. (1994) further defined aggressive unilateralism as “unilateral demands for liberalization, referring to any bilateral trade negotiation in which unilateral demands for liberalization are backed by threats of retaliation” (p. 19). Using NTER as reference, Mastanduno (1992b) summarized the essential factors that had affected the Super 301 case selection against Japan. These factors contained US industry preferences, strategic trade concerns, US trade deficit, the resolvability of trade disputes, multilateral objectives and congressional preference. Finally, three Japanese sectors were selected for Super 301 investigations: supercomputer, satellite and wood products. Via Super 301 provision, US government had virtually open Japanese market in the three selected sectors, especially in terms of public procurement (Table 4.4). As a matter of fact, it is widely agreed that both Section 301 and Super 301 had played as an effective tactic in pressing Japan to open its domestic market (Mastanduno, 1992b; Bayard et al., 1994; Noland, 1995; Urata, 2019).

Table 4.4: Super 301 investigation against Japanese Sectors

<table>
<thead>
<tr>
<th>Sector</th>
<th>Identified trade barriers in Japan</th>
<th>Response of Japan</th>
</tr>
</thead>
</table>
| Supercomputer| - Non-transparent and discriminatory government procurement process  
- Discounted price offered by Japanese firms for government procurement  
- Government assistance in the sector (subsidies, cheap capital, regulatory protection) | - Raise the budget of public procurement  
- Issue the specification for government procurement based on acceptable benchmark  
- Establish the Japanese Procurement Review Board to address complaints from potential suppliers |
| Satellite    | - Non-transparent and discriminatory government procurement  
- Government assistance in the sector (subsidies, cheap capital, regulatory protection) | - Establish transparent and fair procurement based on GATT Government Procurement Code |
| Wood Product | - Technical barriers (e.g. product standards, building codes, and testing and certification procedures)  
- High tariffs on manufactured and finished products  
- Government subsidies in the sector (e.g. low-cost loans and tax incentives) | - Expand bilateral forest products  
- Increase imports of processed products |

Source: Bayard et al., 1994
4.3.3. Structure Impediments Initiative (SII)

The ineffectiveness of macroeconomic adjustment in exchange rate along with the rising protectionism in Congress urged Bush administration to look for the possibility of reducing trade deficit with Japan by eliminating trade barriers rooted at microeconomic level. As a result, SII was initiated in 1989 by President Bush and Prime Minister Uno with the purpose of comprehensively identifying and rectifying each side’s structure problems impeding the achievement of bilateral trade balance at microeconomic level. Please refer to Table 4.5 for detailed information for the structure issues proposed for each side in SII talks:

Table 4.5 : Main Structure Issues Proposed by the US and Japan in SII

<table>
<thead>
<tr>
<th>Japan Structure Impediments (Proposed by the US)</th>
<th>The US Structure Impediments (Proposed by Japan)</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Land policy</td>
<td>- Lack of patience and plans in the American firms</td>
</tr>
<tr>
<td>- Saving and investment patterns</td>
<td>- Inadequate education and labor training</td>
</tr>
<tr>
<td>- Work &amp; leisure habits of Japanese citizens</td>
<td>- Excessive reliance on instruments of debt</td>
</tr>
<tr>
<td>- Exclusionary purchasing habits</td>
<td></td>
</tr>
<tr>
<td>- Long-term relationships among Japanese firms (Keiretsu relationship)</td>
<td></td>
</tr>
<tr>
<td>- System of production distribution</td>
<td></td>
</tr>
<tr>
<td>- Pricing mechanisms</td>
<td></td>
</tr>
</tbody>
</table>

Note. Keiretsu can be referred to long-term closed relationship among a large cluster of companies. Keiretsu can be viewed as a form of business group involved suppliers, manufacturers, distributors and banks, and the intra-keiretsu relationship is maintained in variety forms: cross-shareholding, long-term transactional relationship, fund procurement, etc.

Source: Mastanduno, 1992a

Yamamoto (1994) viewed SII as irresistible external pressure forcing Japanese economic society to improve the closed and non-transparent nature. Similarly, Donnelly (1998) regarded SII as the most explicit attempt of US to make Japanese economy more open, transparent and fair. Even though the negotiated areas under SII were criticized for its broadness, intrusiveness and involvements in domestic politics, after a series of negotiations, once again, with the concession of Japan, the final agreement was achieved between President Bush and Prime Minister Kaifu. The final report of SII was issued on June 28th in 1990. Japan agreed to modify the identified structural barriers by increasing public investment, amending and strengthening anti-monopoly law, reducing patent examination period and deregulating distribution system. In contrast to Japan’s conformity, US had paid relatively little effort on substantively addressing its structure impediments identified by Japan. Indeed, from the view of US, SII was designated to deal with the “Japan problem”,
and therefore, the result should mainly focus on how Japan, rather than US, would alleviate the structural barriers in its economy (Matsushita, 1991; Mastanduno, 1992a).

In fact, the concession of Japan can also be regarded as a strategy to blunt US Congressional resentment against Japan, and simultaneously, to lower the possibility of being listed in forthcoming Super 301 investigation of 1990. In other words, even if Japan had decided not to proactively reform its market structure in conformity with the request of US in SII, it would have yielded to US eventually under the great pressure of Super 301. After all, even Prime Minister Kaifu commented that Japan’s concessions in SII was painful but indispensable to harmonize the country with the world economy (Smith, 1990).

4.4. Analysis of Response of Japan

From the bilateral talks and initiatives during 1980s, it is commonly conceived that Japan had succumbed to the pressure from US and made substantive concession by reducing tariffs, relaxing regulation, eliminating unfair practice in public procurement and even reforming its own market structure. In this section, the factors impacting Japan’s willingness to open its market during the bilateral negotiations are analyzed to build a reasonable ground for comparative analysis with ongoing US-China trade friction.

4.4.1. Credibility of Threats from US

From negotiation aspect, Odell (1993) once described interstate distributive negotiation as a process that “one state seeks actions by another without giving up anything in return, the other either maneuvers to minimize its concessions or counterattack” (p. 233). Distributive negotiation is a competitive bargaining process to distribute fixed resources, and one side benefits from the loss of the other. The bilateral negotiations between US and Japan for market opening also belonged to distributive negotiation: the more US managed to open the Japanese market, the more intensive competition Japanese firms would face. Japan undoubtedly had maneuvered to minimize its concession in the negotiations while the counterattack mentioned by Odell (1933) seemed never be the option of Japan.

In fact, during the negotiations, instead of incentivizing Japan to open its market, US relied on the threats of trade sanctions. Odell (1993) and Bayard et al. (1994) pointed out that
whether US could achieve favorable agreements via such coercive attempts rested on the credibility of its threats. Strong credibility of threats would be more likely to make the target country concede in the negotiations.

How does the target country evaluate the credibility of the threats sent by the threatening country? Odell (1993) emphasized that the strong credibility is built on the threatening country’s firm domestic consensus in view of implementing the threats. In early 1980s, resentment against Japan was growing around US. The industry Middle West suffered from the intensive competition from imported Japanese steels and automobiles which end up leading to high unemployment rate in this region. The Farm Belt complained that the protectionism of Japanese agricultural industry hindered the export of American agricultural products. The executives in California accused Japanese infringement of intellectual property rights (Lindsey, 1982). Later, in the poll of Business Week launched in April 1985, nearly 90% of Americans conceived that the trade problem with Japan as either “very serious” or “somewhat serious”, further explaining the rising anti-Japanese sentiment and transition toward the legislation of more aggressive trade bill in US Congress. Furthermore, since mid-1985, viewing the economic power as the bedrock of the US defense. Reagan administration thus decided to confront the challenges posed to US economy primacy. Only if American economic supremacy had been upheld, it could have constantly supported both the defense spending and the strength of US. The firm consensus among American constituency, executive and Congress surely strengthened the credibility of threats from US.

Higashi and Lauter (1987) commented that Prime Minister Nakasone’s statement in MOSS talks of 1985, which explicitly indicated Japan’s determination in addressing the request from US, as a demonstration to US Congress that Japanese government was aware of the dangerous state of trade relations with US. Mikanagi (1996) also contended that the Japanese negotiators were generally wary of the surging protectionism in US Congress. In late 1980s, the credibility of threats from US was further fortified by the initiation of Section 301 and Super 301 investigations and the corresponding retaliatory actions.

4.4.2. Internal Political Cost

Odell (1933) also argued that it is impossible for the Japanese negotiators to accept any agreement that results in greater internal political penalties than no-agreement does. Indeed,
negotiation is a process of searching for options better off than the results without negotiation (Fisher, Ury, & Patton, 2011). The negotiators were not only the representative of Japanese government but also for their own political party, and to avoid internal political penalties, the negotiators need to reach agreements that can be ratified by the domestic constituency. Therefore, in addition to the credibility of the US’s threats, the weak internal opposition against the aggressive trade policy from US, namely the low internal political costs, could also motivate Japan to take the concessive position in the bilateral negotiations.

Among all bilateral talks and initiatives in 1980s, retaliation had never been the option for Japanese government. Such circumstance was correlated to the pacifism in post WWII Japanese Constitution Article 9, which renounced war and the threat or use of force as for international disputes settlement. In 1980s, despite that the traumatic memory of WWII had faded in new generation, the pacifism had still deeply rooted in Japanese society. Almost half Japanese had chosen “having a peace home life” as their life goal (Ishida, 1983). The peaceful Japanese home life was grounded on the economic prosperity of Japan which was mainly supported by international trade and regional peace. Since the stable relation with US was indispensable in sustaining these two bases, the tit-for-tat policy that could endanger US-Japan relation would be less favorable among general public.

Moreover, the deteriorated US-Japan relation would surely jeopardize the national security of Japan, particularly in the case that Japan had denounced the maintenance of its military forces after WWII. In 1951, US and Japan signed the Treaty of Mutual Cooperation and Security between the United States and Japan to block the expansion of communism in East Asia. In 1960, the treaty was amended for US-Japan mutual defense obligations toward the common danger and the continuous presence of US military base in the territory of Japan. Heretofore, US has been Japan’s most significant military ally. Thus, it is conceivable that why Prime Minister Nakasone once stated that US-Japan alliance is “basic to Japanese foreign policy, and its further development is an important cornerstone for peace and stability in the Asia-Pacific region and all the world” (Ministry of Foreign Affairs [MOFA], 1986). Meanwhile, Nakasone also promised that his government would dedicate to solving trade friction with US on the basis of mutual friendship and trust. Nakasone’s statements had reflected the Japanese political preference to maintain tight and harmony relation with US, and the retaliatory actions against US thus could only be the very last resort, if it had ever been the option of Japan.
On the other hand, the business groups in Japan are the other essential interest group in policy making since the Japanese governing party Liberal Democratic Party (LDP) had heavily rested on their donated campaign funds to maintain itself in power (Ishida, 1974). Mikanagi (1996) pointed out that the capacity of a ministry in opening the market would be affected by the relationship with the private sector, and the relationship is determined by the industry growth rate, technology progress and the nature of product or service provided by the industry. Base on this concept, the mature industries reaching stable growth rate and higher technology capacity would become less dependent on government aids and more in favor of a liberalized and deregulated market in which business strategies could be freely adopted based on competitive principles. Therefore, when many Japanese firms had advanced to the world-class players in 1980s, they would be more willing to prompt the policy makers to open the domestic market.

4.4.3. The Responsibility of Economic Power

By reviewing Diplomatic Bluebooks, which were issued annually by Ministry of Foreign Affairs (MOFA) for the disclosure of Japanese foreign policy and activities, it is apparent that Japanese foreign economic policy in 1980s was centered on the international responsibility of economic power. After WWII, Japanese economy not only rapidly recovered from the war but also caught up the other Group 5 (G5) countries (US, United Kingdom, France, and Germany) and eventually became the world second largest economy (Figure 4-7). The Gross Domestic Product (GDP) per capita of Japan even surpassed US in 1987 (Figure 4-8). Consequently, Japan was publicly acknowledged as an emerging economic superpower since late 1970s.
However, the perception of Japan’s unprecedented economic success motivated western industrialized countries to continuously pressure Japan into assuming more international responsibilities, in particular after the outbreak of second oil shock in 1979. As aforementioned, the second oil crisis had dragged the west industrialized countries into serious economic recession accompanied with high inflation and unemployment rate. Protectionism was therefore mounting as a strategy to protect sluggish domestic industries.
from foreign competition, especially from Japan — a country maintained positive external balance on goods and services while the others were distressed by the negative balance (Figure 4-9).

**Figure 4-9: External balance on goods and services of G5 (1970-1990)**

Moreover, comparing with other G5 countries, Japan had suffered moderately from the second oil crisis. The unemployment rate had constantly remained at relatively low level during and after the crisis (Figure 4-10).

**Figure 4-10: Unemployment of G5 (1979-1990)**

Note. The data of Germany is only available since 1983.

Likewise, in spite of a sharp increase in 1980, the inflation rate of Japan descended to the level before oil crisis in one year and remained at a low level thereafter (Figure 4-11). In short, with strong economic power, immense trade surplus and impressive performance during the second oil crisis, it is not hard to imagine that Japan would be pressed by its old allies for taking more responsibilities compatible with its position as an economic superpower.

**Figure 4-11: Inflation rate of G5 (1979-1990)**

![Graph showing inflation rates of G5 countries from 1979 to 1990](https://data.worldbank.org/)


In reality, to curb protectionism and critiques from other counties, Japan conceived preservation of global free trade system on which its economic prosperity had been built as one of its principal responsibilities. MOFA had thus frequently mentioned the enforcement of market opening as primary measure to fulfill this responsibility. Japan underlined continuance of US dominant position in the world economy, but as a fast-growing economic power, Japan would cooperate with countries sharing identical value of freedom and democracy, bear greater responsibility and even sacrifice its own interests to maintain stable world economic development (MOFA, 1980). From Japan’s recognition of US dominance as well as the core value of western industrialized countries, Japan could be viewed more as a defender, rather than a challenger, of the post WWII economy system built under the lead of US.
In Diplomatic Bluebook of 1983, Japan explicitly stated its natural responsibility to preserve the free trade system and response to the requests from its trade partners to further open markets by eliminating both tariff and non-tariff trade barriers (MOFA, 1984). Afterward, Japan also noticed that the persistent external imbalances would provoke the prevalence of unilateralism, bilateralism and protectionism and that the evocation of Section 301 would jeopardize US-Japan relation and the multilateral trade system under GATT. Thus, in the late 1980s, to preserve the world economy stability, Japan had urged the necessity of positively addressing the problems regarding to its external imbalances, market opening and intellectual property protection (MOFA, 1987, 1988, 1989, 1990).

In brief, US did virtually eliminate the trade barriers in Japan and make a notable progress in opening the Japanese market in 1980s. In fact, Japanese government was propelled to reforming its structural barriers from various aspects: deregulation, improvement for public procurement process, enforcement of intellectual property protection, and so on. Although some barriers at microeconomic level, such as the practice of Keiretsu, remained unsolved, it is undeniable that foreign competitors acquired better access to Japan’s market the bilateral negotiations between US and Japan in 1980s.

Strong credibility of threats from US, low internal political cost and assumption of responsibilities of economic power underlaid Japan’s concessive position in negotiations for market opening. Strong credibility of threats from US was owing to the ascending hostility against Japan among US constituency and Congress. On the other hand, the internal political cost born by Japanese policy makers to open the domestic market was comparatively low since the prevailing pacifism refrained the government from strongly reacting against US – Japan’s most significant military and economy ally since post WWII period. Meanwhile, as significant interest group, the giant Japanese corporations, which had already acquired dominant positions in global market in 1980s, were also lean toward deregulated and liberalized market. Lastly, while its western allies were suffering from the economic distress in early 1980s, Japan had been pressed to assume the international responsibility compatible with its economy power and thus adopted market opening as a principal measure to pacify surging international critiques and preserve the global free trade system.
5. **Case Study of US-China Trade Friction**

US and China have complicated competitive economic and trade relations, and inarguably, the intricate bilateral relation will affect the negotiation result of the ongoing trade friction. Thus, to better analyze China’s response to the aggressive trade policy in Trump Age, this chapter starts with the overview of US-China rivalry in post WWII international order to well contextualize the background of US-China trade friction. Subsequently, the historical US-China trade friction is reviewed to acquired general understanding of essential issues laying in the bilateral trade relation. Lastly, the political inclination and trade policy of Trump administration is examined in detail in order to realize the cause of aggravated US-China trade friction in Trump Age.

5.1. **US-China Rivalry in Post WWII International Order**

After the end of WWII, the world economy order was rebuilt on four pillars: burgeoning post war economy, US-dominated trade network, USD’s status as a global reserve currency and US influence over multilateral institutions. Henceforward, these four pillars have been bolstering not only the new international order but also the economy primacy of US (Chesley, Everson & Garvey, 2016).

Albeit the absolute economic dominance of US, its competitors have never remained still. The significant shift in the center of world economy gravity from the west to Asia could be observed in the past fifty years. The resurgence of Asia was initiated with the rise of Japan since 1960s, then followed by the Four Asian Tigers in the second half of 20th century and reached the peak with the awakening Chinese dragon (Dicken, 2010). As aforementioned, the economic power formed the basis of political power, and thus the emergence of China as global economic superpower to an unparalleled level has exacerbated the rivalry between US and China. Lee (2019) even drew an analogy between current US-China rivalry and the well-known Thucydides Trap, the term originated from the historic Peloponnesian War between existing hegemonic power (Athens) and rising power (Sparta). US-China rivalry has been reflected in China’s more intensive challenges to the four pillars bolstering the US-led post WWII international order in recent years.
Belt and Road Initiative (BRI) was born to fulfil China’s ambition to establish a new global trade network under its own lead. BRI is reckoned as one of the most significant international programs in the twenty-first century. The concept of “One Belt, One Road” referring to the Silk Road Economic Belt (the Belt) and the twenty-first Century Maritime Silk Road (the Road) was firstly unveiled by Chinese President Xi Jinping in 2013. The action plan of BRI (Vision and Actions on Jointly Building the Silk Road Economic Belt and the 21st Century Maritime Silk Road) was later released by China’s National Development and Reform Commission in 2015. The action plan has positioned BRI as a win-win cooperation for participants’ common development and prosperity and set regional policy coordination, connectivity, unimpeded trade, financial integration and people-to-people bond as the cooperation priorities (Liu, Wang, Sonn & Chen, 2018).

With the emphasis on the regional development, China has immensely invested in the poor countries participating in BRI and meanwhile initiated the large-scale infrastructure construction programs to physically connect the BRI participants and reinforce the regional connectivity. Furthermore, China also adopted the “Silk Road Spirit” as a symbol of peace and cooperation, openness and inclusiveness, and mutual learning and benefit to build BRI as a network for cooperative economic, political and cultural exchange (Liu, 2017; Liu et. Al, 2018). In spite of China’s glorious vision, the hawks in US usually describe BRI as “an aggressive anti-American Chinese initiative that ominously pulls numerous weaker countries into China’s geopolitical orbit” (Glaser, Preble & Thrall, 2019, pp. 117-118). Buckley (2019) also pointed out that BRI was designated to counterbalance against the western influence, especially US influence, in those poor countries.

On the other hand, owing to the difficulties encountered by China in reforming the western power-led international institutions, such as World Bank, Asian Development Bank (ADB) and IMF, China initiated the formation of new international institutions in support of the interest of developing countries. In 2013, Xi Jinping declared the intention to establish Asian Infrastructure Investment Bank (AIIB). AIIB has played a significant role in global politics: it is not only the very first international institution formed by China but also the major financing source for the BRI projects. AIIB has exploited the excessive capacity of Chinese domestic economy to build China as the new economic center of Asia. Once again, the
establishment of AIIB can also be seen as the challenge post by China to the US-led global economic governance and post WWII international order (Katada, 2016; He & Feng, 2019).

In addition, China also cooperated with other emerging economies to form international institutions in favor of developing countries whose interests were generally not fairly represented in the Bretton Woods institutions (World Bank and IMF). In the 6th BRICS (Brazil, Russia, India, China and South Africa) summit of 2014, New Development Bank (NDB) and Contingency Reserve Agreement (CRA) were formed as the first joint initiatives. NDB, with similar functions of World Bank, is designated to provide long-term funds to infrastructure construction projects in developing countries, while CRA, with similar functions of IMF, to offer the financial buffer to balance the payment shocks frequently faced by developing countries. Truly, both NDB and CRA can be viewed as the dissatisfaction from emerging economies to the post WWII international order and the Bretton Woods institutions in which US and few European nations have favorable voting power while emerging economies have relative low weight of voice (Suchodolski & Demeulemeester, 2018).

5.2. Overview of Historical US-China Trade Friction

In 1971, President Nixon terminated the trade embargo on China since 1950s. After US’s diplomatic recognition of People’s Republic of China (PRC) in 1979, some trade barriers between US and China were removed from legal and administrative aspects. In 1980, US Congress conferred the contingent Most Favored Nation (MFN) status on China, further fortifying the economic interaction with China. Afterward, in spite of the political rivalries between US and China in 1989 Tiananmen Square Incident and 1995 Third Taiwan Strait Crisis, Clinton administration, instead of confronting or punishing China, still decided to build deeper economic tie with China and meanwhile integrate China’s rising economic and military power into global community (Chollet & Goldgeier, 2009). However, following the similar path of US-Japan trade friction, China’s exceptional economic growth and fast catch-up in manufacturing industry have coincided with the surge of trade imbalance and conflicts with US.
5.2.1. Antidumping and Countervailing Duties

Under the permission of World Trade Organization (WTO), antidumping (AD), countervailing duties (CVD) and safeguard are the three main trade remedies for importing countries to counterbalance unfair trade practices from the exporting countries. Among the three remedies, US has primarily adopted AD and CVD to protect its domestic market from unfair trade practice. AD is designated for containing unfair pricing competition from foreign companies whilst CVD is for unfair subsidies to foreign companies from foreign governments or public entities. In order to curb the imports from targeted exporting countries, additional import tax will be imposed on identified AD and CVD cases as relief of the adverse impact resulting from dumping price or subsidies.

As Morrison (2018) once pointed out that the Chinese state capitalism enables Chinese government to direct economic decisions at both macroeconomic and microeconomic level and establish favorable conditions for state-selected industries and entities with various unfair practices, including governmental subsidies, favorable loans, discriminatory regulations, tax breaks, trade barriers, etc., it is conceivable that China has been the all-time target of AD and CVD investigations from US during 1978 and 2015 (Table 5.1). Moreover, Bown and McCulloch (2005) observed that China has not only encountered higher likelihood of affirmative investigation results but been imposed higher antidumping duties, thereby labelling China as “public enemy number one in the US antidumping process” (p. 9). It is noteworthy that Japan was also listed as the second primary target of the AD investigations from US, accounting for 9% of total cases (Table 5.1). Nevertheless, CVD was rarely adopted in Japanese imports: only once in imported nuts bolts and screws in 1982, but soon this case was revoked before any virtual investigation started.

<table>
<thead>
<tr>
<th>Rank</th>
<th>Anti-Dumping Country</th>
<th>Cases</th>
<th>%</th>
<th>Countervailing Duty Country</th>
<th>Cases</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>China</td>
<td>190</td>
<td>14</td>
<td>China</td>
<td>54</td>
<td>9</td>
</tr>
<tr>
<td>2</td>
<td>Japan</td>
<td>128</td>
<td>9</td>
<td>Brazil</td>
<td>48</td>
<td>8</td>
</tr>
<tr>
<td>3</td>
<td>South Korea</td>
<td>85</td>
<td>6</td>
<td>South Korea</td>
<td>36</td>
<td>6</td>
</tr>
<tr>
<td>4</td>
<td>Taiwan</td>
<td>72</td>
<td>5</td>
<td>Mexico</td>
<td>33</td>
<td>5</td>
</tr>
<tr>
<td>5</td>
<td>Brazil</td>
<td>55</td>
<td>4</td>
<td>Canada</td>
<td>32</td>
<td>5</td>
</tr>
<tr>
<td>6</td>
<td>Others</td>
<td>830</td>
<td>61</td>
<td>Others</td>
<td>417</td>
<td>67</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>1360</td>
<td>100</td>
<td>Total</td>
<td>620</td>
<td>100</td>
</tr>
</tbody>
</table>

On the other hand, regarding to the trend of AD and CVD investigations initiated by US, Japan was the main target in 1980s, but the statistic dropped significantly after 1989 (Figure 5-1). The decrease of AD investigations against Japan probably reflected the substantial drop of US trade deficit with Japan since 1988 (Figure 4-6) and transition toward more aggressive trade policy in late 1980s.

**Figure 5-1: US’s AD investigations against Japan and China (1978-2015)**

![Graph showing AD investigations against Japan and China](https://datacatalog.worldbank.org/dataset/temporary-trade-barriers-database-including-global-antidumping-database)

The primary target of AD investigations from US began to shift from Japan to China since 1989 (Figure 5-1). The shift was indeed correlated to the changes in US trade imbalance with Japan and China. Since mid-1990s, Japan and China accounted for almost the same proportion of total US trade deficits, but the trade deficit from China eventually exceeded Japan in 2001 (Figure 5-2). Accordingly, China had completely replaced Japan as the major target of US in AD investigations since early 2000s (Figure 5-1).
Besides, notwithstanding China has also been the major target subject to CVD investigation, CVD has only been adopted against China after 2006 as US had long-standing policy of not applying CVD to non-market economies (NMEs) which is the case of China whose economic model was viewed as in a transition toward socialist market economy since 1981 (Figure 5-3). Nonetheless, in 2007, U.S. Department of Commerce (USDOC) made an unprecedented decision to apply CVD law to imported coated free sheet paper from China. This decision was welcomed by US Congress members and several interest groups (Zhao & Wang, 2008). Even though no countervailing duties was imposed in this case owing to the lack of material threat and harm caused by the subsidies, Zhao and Wang (2008) still argued that this case conferred US on a new measure to fight against unfair trade practice from NMEs, primarily China. Bown and McCulloch (2009) even connected the decision of applying CVD against China with US’s desire “to speed the elimination of China’s domestic subsidy programs, which increase China’s ability to export while reducing foreign access to China’s domestic market” (p.18).
5.2.2. Intellectual Property Rights Protection

Facing the fierce competition from emerging economies rising with cheap labor forces, such as Japan in 1950s, Four Asian Tigers in 1960s and China in 1990s, US dedicated itself to supervising global intellectual property rights (IPR) protection and enforcement to safeguard its comparative advantage in intellectual-property-intensive products and high technology, research-based and art-and-culture industries. Therefore, since 1989, USTR was required to prepare and issue Special 301 annually to disclose the evaluation for the US main trading partners’ state of IPR protection and enforcement.

IPR protection has been an intricate issue between US and China in the past few decades. Yet, comparing with Japan, China has faced much more rigorous challenges from US due to its relatively weak enforcement and protection in IPR. China had been listed as priority foreign country (PFC) in Special 301 Report in 1991, 1994 and 1996 respectively, whereas Japan had never been placed as PFC. The placement of PFC is for those countries with the most severe lack of adequate and effective IPR protection. Besides, while Japan was moved out from the watch list of Special 301 Report after 1999, heretofore China is still listed on
the priority watch list, indicating USTR’s constant concern in China’s improper IPR protection.

In addition, under Special 301 provision, it is mandatory for USTR to initiate Section 301 investigation on identified priority foreign countries’ IPR policies and practices which form the base of the PFC state (Table 5.2). After the Section 301 investigation, USTR will determine the appropriate response to the PFCs, including retaliation (USTR, 1991).

Table 5.2 : Section 301 investigation against China (1991-2017)

<table>
<thead>
<tr>
<th>Year</th>
<th>Background</th>
<th>Aftermath</th>
</tr>
</thead>
<tbody>
<tr>
<td>April, 1991</td>
<td>Investigation for PFC sate in Special 301 Report</td>
<td>In January 1992, the memorandum of understanding (MOU) was reached. China committed to strengthen its IPR enforcement.</td>
</tr>
<tr>
<td></td>
<td>China’s inadequate IPR protection, such as lack of patent protection for certain products, copyright and trademarks and limited market access for certain IPR-intensive industries</td>
<td></td>
</tr>
<tr>
<td>October, 1991</td>
<td>Certain import barriers imposed by China on US products</td>
<td>In October 1992, China agreed to have a wide range of market-opening measures.</td>
</tr>
<tr>
<td>June, 1994</td>
<td>Investigation for PFC sate in Special 301 Report</td>
<td>In February 1995, China signed a bilateral IPR Enforcement Agreement with US.</td>
</tr>
<tr>
<td></td>
<td>China’s ineffective enforcement of MOU, acute copyright piracy, trademark infringement</td>
<td></td>
</tr>
<tr>
<td>October, 2010</td>
<td>Chinese policies affecting trade and investment in green technologies</td>
<td>In December 2010, US brought the wind power subsidies issues for WTO dispute settlement.</td>
</tr>
<tr>
<td>August, 2017</td>
<td>Under President Trump’s mandate, USTR announced to proceed with Section 301 case against China’s IPR policies</td>
<td>A series of tariff actions were implemented against Chinese imports</td>
</tr>
</tbody>
</table>

Note. although China was listed in PFC in 1996, USTR decided not to initiate a new Section 301 investigation. However, the supervision on China’s compliance of 1995 bilateral IPR Enforcement Agreement continued, and trade sanction would be imposed at any time if the agreement is not satisfactorily complied by China (USTR, 1996).
In addition, Section 306 of the Trade Act of 1974 is designated for supervision of implementation of IPR protection agreements under Section 301, authorizing USTR to take appropriate action without initiating new investigations when the agreement is not satisfactorily complied. China had been subject to Section 306 monitoring from 1997 to mid-2000s. The monitoring firstly centered on China’s compliance of the 1995 and 1996 bilateral IPR agreement under Section 301 investigations (Table 5.2) and later China’s commitment to IPR protection for its access to WTO. During this period, the weak enforcement of IPR regime was identified by USTR as main issue. For example, USTR had listed the lack of deterrent sanctions, protectionism and corruption at local government level, poor coordination among responsible government agencies, high thresholds for criminal, weak punishment, and non-transparent process as the factors impeding the effective IPR protection and enforcement in China (USTR, 1998, 1999, 2000, 2001, 2002, 2003, 2006). Besides, the discriminatory regulatory in IPR transfer for market access to China and the theft of trade secrets by both Chinese state-owned and private companies inside and outside China become the new concerns of US in recent years.

Lastly, Section 337 is another common measure adopted by U.S. International Trade Commission (USITC) to refrain unfair imports involving in claims regarding to IPR infringement, particularly patent or trademark. Under Section 337, the custom is authorized to stop infringing imported goods entering US, and USITC is also entitled to issue cease and desist orders against importers involving in violation of Section 337. Identified by USTR (2004) as the world’s “leading exporter of counterfeit and pirated goods”, China has also become the primary target of Section 337 investigations. Since early 2000s, Chinese companies had involved in a major portion of Section 337 investigations every year (Figure 5-4).
Figure 5-4: Overview of Section 337 investigations (2001-2017)

Source: China Trade Remedies Information. Retrieved from: https://cacs.mofcom.gov.cn/

5.2.3. Currency Manipulation

Under Section 3004 of OTCA in 1998, Secretary of Treasury is requested to issue semi-annual reports on international economic and exchange rate policy by considering whether any country manipulates the exchange rate between its currency and USD to acquire unfair competitive advantage in international trade. This policy was mainly aiming at the Asian newly industrialized economies (NIE), which followed the similar path of Japan to deliberately undervalue currency value for the export-oriented economy strategy. However, after JPY was dramatically appreciated against USD in Plaza Accord of 1985, Japan has actually never been recognized as a currency manipulator by US.

In contrast, following the NIEs, such as South Korea and Taiwan, China has soon become the next target of US and was labelled as currency manipulator during 1992 to 1994. U.S. Department of the Treasury (USDT) (1992) stated in its report that China’s growing account and trade surpluses were mainly resulted from administrative inhibition of external trade, and meantime, pointed out currency manipulation as China’s principal measure to interfere external trade. In response to the accusation of USDT, in January 1994, China unified its dual exchange rates system, pegged RMB at central target rate at around 8.28 RMB per USD and liberalized domestic firms’ access to foreign exchange. Although China was no longer label as currency manipulator in the second Treasury report in 1994, USDT (1994)
still criticized that the new policy under China’s reform of 1994, which required foreign-funded enterprises acquire Chinese government approval for their foreign exchange purchases, was a retention of Chinese government’s capacity for future currency manipulation.

After China’s accession to WTO in 2001, made-in-China products started to flood over around the world, rapidly accumulating China’s foreign exchange reserve and trade surplus (Figure 5-5). Eichengreen (2005) pointed out that China was pursuing export-led growth strategy on the base of competitively valued exchanged rate. Truly, the undervalued currency is commonly considered as a key stimulus of export-led growth strategy. If trade flows are the reflection of comparative advantages, there is no exception in monetary costs. Therefore, currency undervaluation substantively functions as export subsidy and import tax (Bown, 2005; Rodrik, 2008).

**Figure 5-5: Imports, exports and foreign currency reserve of China (1996-2019)**

![Figure 5-5: Imports, exports and foreign currency reserve of China (1996-2019)](https://data.worldbank.org/)

The critique of China’s exchange rate regime exacerbated in presidential election year of 2004 as it was extensively conceived that the inexpensive imported goods from China harmed the profitability of US firms and led to higher unemployment rate in US (Schwartz, 2005). In response to the pressure from US for RMB upward revaluation, Chinese government transited the pegged RMB exchange rate toward a managed float rate based on a basket of major currencies in July 2005. Since then, RMB had gradually appreciated.
against USD until around 6.9RMB per USD and slowed down in 2008 due to the outbreak of financial crisis (Figure 5-6). Notably, unlike the dramatic appreciation of JPY after Plaza Accord, which is commonly viewed as the root cause of Japanese asset price bubble in 1990s by Chinese scholars and policy makers, the appreciation of RMB was stabilized by Chinese government through the purchase of foreign currencies, in particular USD.

**Figure 5-6: RMB official exchange**

![RMB official exchange graph](https://data.worldbank.org/)


### 5.3. US-China Trade Frictions in Trump Age

Donald Trump’s victory in 45th US President election undoubtedly becomes a disruption of long-established internationalist tradition in US foreign policy. In this Section, President Trump’s well-known “America Frist” principle is elaborated firstly for better contextualizing the background of aggravated US-China trade friction in Trump age. Afterward, the details of the proceeding US-China trade friction are reviewed and analyzed.

**5.3.1. America First**

Huntington (1993) defined that international primacy as the superior ability of a government to considerably exercise its influence on the behavior of others regarding to more issues than its peers, and the international primacy is pursued for defend the state’s own security, interest and values. The statement of Huntington illustrates the centerpiece of US foreign
policy after WWII and his viewpoints on US primacy also reflects the broad consensus among US constituency and policymakers.

A world without U.S. primacy will be a world with more violence and disorder and less democracy and economic growth than a world where the United States continues to have more influence than any other country in shaping global affairs. (Huntington, 1993, p. 83)

Murnane (2017) also regarded US’s proactive involvement in world affairs as the cornerstone of American thinking in the recent century. Indeed, learning from the bitter experience of Great Depression and WWII, the policymakers in US perceived that a dominant power is indispensable to enforce global norms to avoid aggression and to facilitate free global trade system. Embracing unprecedented activism and internationalism, bipartisan political consensus was reached in US’s active engagement in maintaining global stability, and the idea that US was indispensable to solve world problems had popularized in 1990s (Brands, 2018; Glaser et. al, 2019). Nonetheless, in spite of the bipartisan consensus, the critics has never ceased due to the myriad costs and countless frustrations encountered by US to maintain its primacy, such as the oversea military deployment and terror attacks against US.

Smith (2017) pointed out that the 2016 president election revealed the paramount of the tension in different public perception of economic future and ideas supporting globalization. It is undeniable that free trade and globalization had indeed brought huge wealth to US in aggregated term but at the price of people lacking competence to adapt themselves into globalization era, those having lower education level or working in industries with decreasing comparative advantages. Rising critiques urged policymakers to prioritize concrete benefits of US instead of any commitment to its allies. Thus, Donald Trump’s trade, foreign, and national security policies built on the ground of “America First” led him to the victory of 2016 president election.

In President Trump’s inauguration of 2017, he proclaimed that “America First” would be the core of every aspect of his policy:
From this moment on, it’s going to be America First. Every decision on trade, on taxes, on immigration, on foreign affairs, will be made to benefit American workers and American families. We must protect our borders from the ravages of other countries making our products, stealing our companies, and destroying our jobs. Protection will lead to great prosperity and strength. ("The Inaugural Address", 2017)

Taking a step further, President Trump has also been viewed as protectionist in trade policies: he viewed the multilateral free trade agreements such NAFTA (North American Free Trade Agreement) and TPP (Trans-Pacific Partnership) as horrible deals; denounced companies engaging in free trade for moving their supply chains abroad for cheap labor force or hiring illegal immigrants; criticized trade partners for taking advantages of US with unfair trade practice. In actual fact, President Trump conceived both international relations and trade as a zero-sum game – the others’ gain must represent the loss of US (Brands, 2018; Glaser et. al, 2019). For example, the surplus of trade partners represents the deficit of US, and economic prosperity of other economies indicates the job loss in US. President Trump’s zero-sum concept ended up leading to his protectionist posture in trade policies.

5.3.2. Tariff Actions against China

China has undoubtedly been the major target of President Trump’s trade protectionism. Williams et al. (2019) contended that the China’s huge bilateral trade deficit with US, longstanding inappropriate IPR protection, IP theft and forced technology transfer practices made China the main target of tariff action in Trump age. In fact, in addition to the typical trade remedies as AD and CVD, Trump administration has also rigorously enforced US trade law, such as the tariff actions under Section 232, 201 and 301, against unfair trade practice from the trade partners, especially China.

In March 2017, President Trump issued the executive order to fortify the enforcement of AD/CVD to ensure the collection of duties imposed on the identified dumping and subsided imported goods. Moreover, USDOC initiated the AD/CVD investigation on alloy aluminium sheet imported from China in November 2017, the first self-initiated investigation in the past 25 years, indicating the transition to more aggressive posture toward China. Meanwhile, the total number of new AD/CVD investigations soared about 20% within one year since President Trump’s inauguration in January 2017. The growth rate of
investigations against China is even higher. Comparing with the period of 2014 to 2016, in the first 3 years of Trump administration, AD and CVD investigation increased 29% and 38% respectively (Table 5.3).

<table>
<thead>
<tr>
<th>Trade Remedies</th>
<th>Number of Investigations</th>
<th>Difference (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>AD</td>
<td>31</td>
<td>24</td>
</tr>
<tr>
<td>CVD</td>
<td>29</td>
<td>21</td>
</tr>
</tbody>
</table>


In April 2017, instructed by two presidential memoranda, USDOC initiated Section 232 investigation for imported steel and aluminium, the first one after nearly two decades since the last Section 232 investigation into iron ore and finished steel in 2001. Section 232 of Trade Expansion Act of 1962 authorized US President to adjust import if certain imported products in such quantities or circumstances may impair the national security. In the congressional research report, Fefer et al. (2020) identified China’s unfair trade practice in steel and aluminium as the main reason resulting in the global overcapacity. Indeed, with Chinese governmental subsidies and industrial policy, Chinese aluminium and steel industry manage to reach the capacity equal to the sum of the rest of the world and sell the products at relatively competitive price. USDOC regarded that the overreliance on imported steel and aluminium would significantly impair national security as both materials are essential for infrastructure and military use (U.S. Department of Commerce [USDOC], 2018a, 2018b). Based on USDOC’s affirmative determination in Section 232 investigation, President Trump imposed 25% and 10% tariff on imported steel and aluminium respectively, which took into effect on 23 March 2018.

In mid-2017, receiving the petition from Suniva and Solar World against imported solar cells and modules in May and Whirlpool against imported large residential washing machines in June, USITC initiated Section 201 investigation and later determined that these three products did cause serious injury to the domestic industry. Without requiring the finding of unfair trade practice, Section 201 of Trade Act of 1974 is designated for the occasion when the increased import becomes substantial cause of serious threat or injury to US industries. However, as a more aggressive trade remedy, Section 201 has not been adopted for 16 years since the last investigation in steel imports in 2001.
On 22 January 2018, in response to the Section 201 investigation result, President Trump approved to impose safeguard tariffs ranging from 20% to 50% for three to four years on the three imported products. Notwithstanding the relatively non-discriminatory trade restriction under Section 201, the aim at China can still be observed from the press release from Executive Office of the President (EOP) of US in January 2018. It explicitly stated that the Chinese state-directed initiatives assisted Chinese solar companies in depressing product price to dominate the global supply chain, and “the US solar industry had almost disappeared” (Executive Office of the President of the United States [EOP], 2018, in press).

Lastly, in August 2017, President Trump directed USTR to investigate whether to apply the Section 301 investigation on China’s improper IPR regime and forced technology transfer. In addition to the lethargic enforcement of IPR regulation in China, Section 301 investigation in Trump age is also aiming at China’s “Made in China 2025 Initiative (MIC 2025)”. Introduced by China’s State Council in 2015, MIC 2025 is a series of ambitious state-directed industrial plans involving in large-scale cutting-edge technology acquisition and transfer for the purpose of upgrading Chinese manufacturing sector and boosting the future economic growth of China.

MIC 2025 is extensively criticized because of Chinese government’s dominant power in directing the plan. Chinese government would provide wide range of assistance to domestic firms involving in MIC 2025, including cheap funds from state-owned banks, discriminatory IPR regulatory and trade policy, etc. (Morrison, 2018c). President Trump’s policy advisor Navarro (2018) once argued that MIC 2025 had strong strategic implication for China’s ambition to promote the technological capability through intellectual property theft and forced technology transfer for its future dominance in advanced industries. Meanwhile, the ambassador Lighthizer also argued that China initiated MIC 2025 to aggressively undermine the US high-tech industries and economic leadership, and thus, actions to uphold fair trade practice and protect the competitiveness of US must be taken (USTR, 2018, in press).

Indeed, as Liu and Woo (2018) mentioned, the US-China trade friction has already evolved from grievance in job loss in US due to China’s cheap labor force and currency manipulation into “discontent over the loss of future high-paying jobs in high-tech industries
because of forced technology transfer to China” (p. 333). Trump administration eventually decided to adopt Section 301, which was labelled as “the nuclear weapon in trade war” by Chinese critics, to rectify China’s unfair practice in IPR-relevant issues. In March 2018, in response to the Section 301 investigation result (Table 5.4), President Trump signed the presidential memorandum and launched a series of tariff actions against China (Table 5.5).

Table 5.4 : Major findings in Section 301 investigation of 2017 against China

<table>
<thead>
<tr>
<th>Item</th>
<th>Description of Finding</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Use of foreign ownership restrictions, including joint venture requirements and administrative review and licensing procedures to require or pressure technology transfer from American companies</td>
</tr>
<tr>
<td>2</td>
<td>Imposition of discriminatory licensing terms that deprived the US technology owners’ ability to bargain and set market-based terms for technology transfer so that Chinese companies can obtain favorable terms during the bargains with American companies.</td>
</tr>
<tr>
<td>3</td>
<td>Facilitation of investments and acquisitions in the US companies and assets which generate large-scale technology transfer</td>
</tr>
<tr>
<td>4</td>
<td>Supports in unauthorized intrusions into networks of US companies to acquire confidential business information and other intellectual property.</td>
</tr>
</tbody>
</table>

Source: Trump, 2018a

Table 5.5 : Major US tariff action under Section 301 and China’s retaliation

<table>
<thead>
<tr>
<th>Implementation Date</th>
<th>Country</th>
<th>Tariff Rate</th>
<th>Stated Imports Impacted</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jul.6, 2018</td>
<td>US</td>
<td>25%</td>
<td>USD 34 billion</td>
<td></td>
</tr>
<tr>
<td>Jul.6, 2018</td>
<td>China</td>
<td>25%</td>
<td>USD 34 billion</td>
<td></td>
</tr>
<tr>
<td>Aug.23, 2018</td>
<td>US</td>
<td>25%</td>
<td>USD 16 billion</td>
<td></td>
</tr>
<tr>
<td>Aug.23, 2018</td>
<td>China</td>
<td>25%</td>
<td>USD 16 billion</td>
<td></td>
</tr>
<tr>
<td>Sep.24, 2018</td>
<td>US</td>
<td>10%</td>
<td>USD 200 billion</td>
<td>Raise to 25% by Jun.15, 2019</td>
</tr>
<tr>
<td>Sep.24, 2018</td>
<td>China</td>
<td>5%, 10%</td>
<td>USD 60 billion</td>
<td>Raise to 10%, 20% and 25% on Jun.1, 2019</td>
</tr>
<tr>
<td>May.13, 2019</td>
<td>US</td>
<td>25%</td>
<td>USD 300 billion</td>
<td></td>
</tr>
</tbody>
</table>

Source: Morrison, 2018a
5.3.3. Designation of China as Currency Manipulator

Just as his predecessor President Obama who once claimed that “China’s trade surplus with the US is directly related to its manipulation of its currency’s value” (Hao, 2010, p.200), President Trump showed no exception in his view about China’s deliberate currency undervaluation. During the presidential campaign, Trump declared his intention to treat China as currency manipulator, thereby forcing China to go on the negotiating table and open the door for a fair bilateral trade relationship (Palmer & Schreckinger, 2015).

Nevertheless, since President Trump took office, China had never met all the three criteria to be labelled as currency manipulator. According to the threshold updated in Trade Facilitation and Trade Enforcement Act of 2015, the criteria include the significant bilateral trade surplus with US (over USD 20 billion), material current accounts surplus (above 2% of GDP) and persistent, one-sided intervention in foreign exchange markets for 6 of 12 months. Accordingly, although USDT often stressed the mammoth trade deficits with China as a serious concern, but USDT had never named China as currency manipulator in the semi-annual reports to Congress.

However, beyond all expectations, three months after the issuance of the semi-annual report in May 2019, considering the long history of Chinese government’s intervention in exchange rate for an undervalued currency and the declared intention of People’s Bank of China to interfere in foreign exchange market, USDT once again labelled China as currency manipulator after 25 years since 1994 (U.S. Department of the Treasury [USDT], 2019, in press). Meantime, President Trump (2019) also tweeted that the historical low exchange rate of RMB in 2019 was the evidence of China’s currency manipulation.

Nonetheless, in the report of January 2020, USDT revoked the currency manipulator designation of China based on the new phase one agreement in which China committed to refrain itself from competitive currency devaluation and improve the transparency of its exchange rate regime (USDT, 2020). After all, the market was seeing China's designation as a currency manipulator as either a signal of the escalation of trade war into currency war or the imposition of additional pressure on China for coming negotiations. Hence, the reversion of USDT’s designation may indicate the softened attitude of Trump administration toward China before the formal signing of phase one trade deal in the mid-January 2020 in
which China also conceded to increase its import of American products and services for additional two trillion USD in the following two years.


As indicated in figure 4-1 and 4-2, the similar trajectory of rapid economic growth of Japan since late 1960s and China since late 1990s can be observed. Indeed, following the alike export-oriented economic strategy and state-lead industrial plans, Japan and China became the world second-large economy respectively in 1968 and 2010. Besides, Bown and McCulloch (2009) also underscored the similarity between US-Japan and US-China trade friction: in both cases, the colossal bilateral trade imbalances were conceived as the result of unfair trading practice in the form of currency manipulation and government subsidies.

Indeed, supported by the economic success, the ambitious rising economies tend to loosen self-restraints and overstretch themselves in the global market, while the ruling power is trapped with the fear, insecurity and paranoia (Zhang, 2019). To heal such fear and insecurity, US therefore adopted similar aggressive trade policies to contain the rise and unfair trade practice of Japan and China. Based on the case study in previous chapter, this chapter focuses on the analysis of China’s response to the US aggressive trade policy in Trump age and the comparison analysis with US-Japan friction in 1980s. From the case study of US-Japan trade friction, the historical explanation has been built that the credibility of threats from US, the internal political cost and the assumption of international responsibility could significantly affect the emerging economic power’s response to the existing economy hegemony’s appeal for market opening (Figure 6-1). This explanation is adopted as the ground for the analysis of China’s response and the comparison between US-Japan and US-China trade friction.
6.1. Credibility of Threats from US

Just as Reagan administration in 1980s, Trump administration also mainly relied on unilateral aggressive trade policy to pursue a fair bilateral trade relationship with China. As a result, the credibility of threats from US will surely affect the response of China. In the American Presidency Project, University of California–Santa Barbara published the statistic regarding to the approval rating of US president by asking the participants of survey about whether they approve or disapprove of the way the US president is handling his job as President. Based on the statistics, it is discernible that that US constituency has been comparatively dissatisfied with the performance of President Trump – the percentage of disapproving has stably remained above 50% since his inauguration in January 2017 (Figure 6-2).
Figure 6-2: Donald Trump Approval Ratings (2017-Jun.2020)

![Donald Trump Approval Ratings](https://www.presidency.ucsb.edu/statistics/data/presidential-job-approval)


On the contrary, during his eight-year presidential term from 1981 to 1989, President Reagan was firmly approved by the majority of Americans in aggregated term (Figure 6-3). Albeit the statistics do not differentiate the approval ratings among different policies, it is still inarguable that the US domestic consensus on the approval of president performance was considerably solider in Reagan age than Trump age.

Figure 6-3: Ronald Reagan Approval Ratings (1981-1989)

![Ronald Reagan Approval Ratings](https://www.presidency.ucsb.edu/statistics/data/presidential-job-approval)

Indeed, President Trump’s policy grounded on America First was commonly attacked for its negative impacts on free trade system, relationship with alliance, globalization and internationalism. Murnane (2017) criticized that President Trump’s American First policy and disengage from international agreements and institution is “not likely to succeed” (p. 2). The public opinion poll held in 2016 campaign implied that 65% of Americans saw globalization as “mostly good” and 64% saw their living standard was better off because of international trade. Furthermore, the survey in public and opinion leaders conducted by Chicago Council Surveys in 2019 showed that 72% of Americans conceived that the US-China trade war will hurt the local economy. Furthermore, 68% of Americans even argued that US should undertake friendly cooperation in response to the rise of China instead of actively limiting China’s growth. Glaser et. al (2019) also claimed that skilful diplomacy should be engaged to avoid the mutual economic harm from trade war.

Another major difference between Reagan and Trump administration lays in their view of US primacy. As mentioned in Section 4.2, during the Cold War period, President Reagan was seeking peace through strength, that is, retention of US primacy. Reagan therefore employed aggressive market-opening trade policy to uphold steady American economic supremacy as well as to sustain the US economy prosperity – bedrock of US primacy. On the contrary, President Trump despised US primacy policy for its myriad cost and disregard the commitments to allies and international institutions. In other words, Trump’s policy is in fact marching toward isolationism, weighting the domestic development against the internationalism. Therefore, in spite of the similar aggressive trade policy adopted by Reagan and Trump administration, President Trump’s intention has primarily focused on the protection of domestic industry and retention of American jobs, instead of opening Chinese market.

As a matter of fact, China’s awareness of weak consensus among the US constituency also reflected in its reactions during the trade friction. China’s very first retaliation of raising tariff on the US soybeans was generally viewed as a strategy to erode the approval rating of President Trump because Midwest states are not only the primary origin of soybeans but also Trump’s stronghold during 2016 presidential election. In short, the fissure between the public opinion and president policy inevitably weakened the credibility of the threats from Trump administration, somehow urging China to retaliate aggressively.
6.2. Internal Political Cost

Unlike the cooperative US-Japan relation, US-China relation is comparatively adversarial. The political confrontation between US and China can be traced back to the Chinese Communist Party (CCP)’s victory over Kuomintang, the Chinese nationalist regime supported by US, in Chinese civil war in 1949. Afterward, under the leadership of Mao Zedong, China began to lean to Soviet Union: China’s “resist America and aid Korea” policy during Korean War of 1950 ultimately led to the US-Japan mutual security treaty. Hitherto, the US-China political conflicts in Tibet, South China Sea, Taiwan, Hong Kong are still ongoing. Furthermore, the radical differences in values such as human rights, freedom to speech and democracy also exacerbate the opposition between US and China.

Fisher et. al (2011) once explained that the position confrontation between two parties gives negotiators hard time in achieving satisfying agreements as “each decision not only involves yielding to the other side but will likely produce pressure to yield further” (p. 22). In fact, Chinese government may consider that its concession to Trump administration in trade negotiations would end up pressing itself to yield to other issues which could undermine China’s critical interest in territory, national security or sovereignty. Therefore, position confrontation between US and China could drive Chinese government away from taking soft position.

On the other hand, any policy jeopardizing CCP’s regime in China is certainly pricy in terms of internal political cost. Governing China for seventy years, CCP has retained its political legitimacy with three pillars: economic growth, socio-political stability and national unity (Wang & Zheng, 2000; Deng & Guo, 2011). Zhu (2011) claimed that CCP regime has justified its persistent governance in China with “performance legitimacy”, which relies on accomplishment of concrete goals. Unlike LDP in Japan whose policy was significantly directed by the business groups donating the campaign funds, CCP has convinced its constituency, instead of any interest group, with the pragmatic idea that “the government is doing the right things and therefore has the right to rule” (Zhu, 2011, p. 125).

Nevertheless, the performance-based legitimacy tends to continuously lift people’s expectation. To meet the increasingly stringent expectation after the economic miracle in the past few decades, CCP has urgently sought for solutions to sustain the future economic
growth (Yang & Zhao, 2015). Thus, it is tenable to predict that, in order to preserve its regime in China eternally, CCP is less likely to concede to any policy which is considered indispensable to retain its legitimacy in China, especially MIC 2025 – the antidote for China’s middle income trap and the stagnation of economic growth.

6.3. Assumption of International Responsibility

Another dispute between US and China in regard to China’s developing-country status in WTO is the best reflection of China’s unwillingness to fully assume its international responsibility as a great economic power, at least from President Trump’s view. In April 2018, President Trump tweeted that in spite of being a great economic power, China is still taking tremendous perks from its developing-country status in WTO (Trump, 2018b). Nonetheless, based on Xi Jinping’s statement in his report to 19th CCP National Congress that “China’s international status as the world’s largest developing country has not changed” (Xinhua, 2017), Gao Feng, the spokesman of Minister of Commerce of PRC, retorted upon the accusation from US that China, as the world’s largest developing country in WTO, China would assume its international responsibility and obligations that “are compatible with” its development level and capacities. Gao Feng’s statement implied that China was unwilling and incapable to assume the full responsibility imposed by US.

Some may doubt that if Mao Zedong enforced planned economy in China for “surpass Britain and catch up to America (Chao Ying Gan Mei)” and modernization of China has been the primary goal of CCP ever since, isn’t being reckoned as a developed country something China long for? The fact is just the opposite in terms of China’s status in WTO. Under the special provisions of WTO, the developing countries can receive special offer and different treatment. Developing countries are entitled for longer timetable for tariff reduction, weaker market openness commitment, protections for domestic infant industries, technical supports in order to implementation of WTO rules, etc. These favorable treatments are designated to integrate developing countries into global trading system and to reduce global inequality at the expense of developed countries – namely the international responsibility of great economic power.

In July 2019, given that China has already been the world’s second large economy and world’s largest exporter in no matter labor-intensive or high-technology products, President
Trump cited China as the most dramatic example of the wealthy country exploiting the developing-country status in WTO at the expense of the developed countries and other economies who truly need special treatments (Trump, 2019). Nevertheless, it should not be ignored that China indeed is still suffering from thorny issues primarily faced by developing countries, such as relatively low GDP per capita, massive population in poverty, severe regional inequality and premature deindustrialization.

Furthermore, regardless of the divergence between US’s and China’s perception in international responsibilities compatible with the current economic status of China, even if China is going to assume its international responsibility as a great economic power, will China necessarily fulfill its responsibility in line with the expectation of US? Unlike Japan, the emerging superpower of 1980s seeing itself as the ally of the western industrialized countries and the advocate of US dominance, China has been generally positioned as the challenger of the US prominence. While Japan fulfilled its responsibility for the preservation of global free trade system by opening its domestic market, China has dedicated itself to establishing new international institutions and trade network free from the dominance of US. That is, although China is unmistakably the economic superpower nowadays, just as Japan in 1980s, the political and economic distinctions between these two countries caused their unalike recognition and fulfillment of the international responsibility.

6.4. Overview of Comparative Analysis

In a nutshell, the radical different scenario in the three identified factors can be found in the comparative analysis between US-Japan and US-China trade friction (Table 6.1). First of all, whereas the credibility of threats from US in US-Japan trade friction was fortified by the solid domestic consensus for adopting aggressive trade policy, the credibility of threats in US-China trade friction has been eroded by the serious divergence in the US public opinion. Many Americans contended that instead of aggressive trade policy, friendly cooperation and skilful diplomacy should be adopted to avoid the full-scale trade war. Also, in contrast to the constant strong approval of President Reagan, the high level of disaffection to President Trump even propelled China to retaliate by further undermining President Trump’s stronghold in Midwest states. As a result, the aggressive trade policy could hardly exert the comparable strength on China as it once did on Japan in 1980s.
As to internal political cost, the prevailing pacifism and reliance on US for national security deterred Japan away from retaliatory actions and meantime motivated the policymakers to positively respond to the appeal from US for market opening. On the contrary, since the position confrontation brings each concession the additional cost of yielding further, the longstanding US-China ideological and political rivalry has refrained China from conceding to US. Furthermore, while the main interest groups in Japan were also in favor of a more liberal and deregulated business environment, CCP has born the significant risk that market opening would jeopardize its regime in China.

Lastly, the assumption of international responsibility is certainly a more complex issue: it involves the state’s recognition and fulfilment of its responsibility. Acting in line with the expectation from its western allies, Japan emphasized the US dominance and upheld the global free trade system by enforcing market opening policy. Opposed to Japan, China reiterated its willingness to assume the responsibility compatible with its current development level and capacities. In other words, Chinese government conceived that the status quo has not yet allowed China to assume the full responsibility expected by US. Furthermore, instead of merely preserving the existing system as Japan did in 1980s, China’s impetus to establish new trade network and international institutions under its own lead also indicated that China would fulfill the international responsibility in a more reformative way.

**Table 6.1: Comparison between Japan (1980s) and China (2017-) in trade conflict with US**

<table>
<thead>
<tr>
<th>Factors</th>
<th>Japan (1980s)</th>
<th>China (2017-)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credibility of threats from US</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>- Solid domestic consensus among constituency and Congress in the adoption of aggressive trade policy</td>
<td>- Divergent public opinion in the adoption of aggressive trade policy</td>
<td></td>
</tr>
<tr>
<td>- Constant strong approval rating of President Reagan</td>
<td>- Wide critics to America Fist ideology</td>
<td></td>
</tr>
<tr>
<td>- Retention of US primacy in terms of political and economic power.</td>
<td>- High level of disaffection to President Trump</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Policy marching toward isolationism: weigh the domestic development against the internationalism</td>
<td></td>
</tr>
<tr>
<td>Factors</td>
<td>Japan (1980s)</td>
<td>China (2017-)</td>
</tr>
<tr>
<td>------------------------------</td>
<td>-------------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Internal political cost</td>
<td>Low&lt;br&gt;- Prevailing pacifism&lt;br&gt;- Cooperative relation: mutual cooperation and security treaty between US and Japan&lt;br&gt;- Shared values of freedom and democracy&lt;br&gt;- Support from main interest groups</td>
<td>High&lt;br&gt;- Position confrontation in several political issues&lt;br&gt;- Radical difference in values of human rights, freedom to speech, democracy, etc.&lt;br&gt;- Concern in preserving the legitimacy of CCP regime in China</td>
</tr>
<tr>
<td>Assumption of international responsibility</td>
<td>Low&lt;br&gt;- Recognition of responsibility in line with expectation of its western allies&lt;br&gt;- Recognition of US dominance&lt;br&gt;- Fulfillment of responsibility by upholding the existing international order, especially the global free trade system</td>
<td>High&lt;br&gt;- Recognition of responsibility compatible with its current development level&lt;br&gt;- Establishment of new international institutions and trade network&lt;br&gt;- Fulfillment of responsibility in a more reformative way</td>
</tr>
</tbody>
</table>

7. Conclusion

The intensive trade friction between US and China since 2017 has caught the eyes of countless investors, entrepreneurs and policy makers around the world. Indeed, owing to the close alliance of political and economic power, US could no longer either tolerate the skyrocketing bilateral trade imbalance in favor of China or bear the risk of losing its dominance in advanced industries to China’s rapid technology progress. Consequently, under President Trump’s America Frist doctrine, the protectionism wave in US trade policy has reached to the peak. The aggressive trade policy has thus been extensively adopted by Trump administration to contain China’s unfair trade practice and rising economic power. The surging trade protectionist has yet dragged US and China into the action-reaction cycle of punitive trade policies, further aggravating the bilateral trade friction.

Nevertheless, the US-China trade friction is not the first case happening between the world’s two largest economies. The latest case of US-Japan trade friction of 1980s even has striking similarities to the proceeding US-China trade friction. Rising in alike trajectory, both Japan and China have adopted export-oriented economic strategy and state-led industrial plan for fast accumulation of foreign exchange reserve and quick industrial transformation. Both
countries hence have been widely denounced for their unfair trade practice: in particular, both have exploited the global free trade system while closing the domestic market from fair competition. As a result, marketing opening has become the centerpiece of the appeal from US in both trade conflicts.

This research aims at exploring how the proceeding US-China trade friction can affect market opening in China by drawing the lesson from the historical US-Japan trade friction. What does US-Japan trade friction of 1980s teach us? By reviewing the major bilateral negotiations of 1980s, this research found that US had managed to virtually eliminate the structural trade barriers and reinforce the market opening of Japan. Three factors – credibility of threats from US, internal political cost, and the assumption of international responsibility – are identified as the crucial forces affecting Japan’s willingness to open its market. In US-Japan trade friction, the strong credibility of US aggressive trade policy, low internal political cost born by Japanese policymakers, and Japan’s willingness to recognize and fulfill international responsibility in line with the expectation of its western allies had composed a favorable scenario for US to open the market of Japan.

Nevertheless, through the case study of US-China trade friction, this research noticed that the US-China rivalry in post WWII international order along with the long-standing conflicts regarding to China’s unfair trade practice in the form of state capitalism, IPR infringement, and currency manipulation has substantially entangled the trade friction between US and China in Trump Age. In the subsequent comparative analysis, up to present, none of the favorable factors previously identified in US-Japan trade friction can be found in current US-China trade friction. The divergence in US public opinion and strong disaffection to President Trump has undermined the credibility of US aggressive trade policy. Simultaneously, the inherent US-China political and ideological rivalry and CCP’s reliance on performance legitimacy significantly raised the internal political cost born by Chinese policymakers. Even more, China’s recognition and fulfillment of its international responsibility are also far beyond the expectation of US.

In conclusion, the comparison analysis of three factors between US-Japan and US-China trade friction tells the story that albeit similar aggressive trade policies were adopted in both cases, it is less likely for US to open China’s market to the level it once did in Japan in
1980s, especially in terms of those non-tariff trade barriers, which have strategic implication in sustaining CCP’s regime in China. Last but not least, the reader must be aware that this research contains certain limitations as it mainly relied on the case study and qualitative comparative analysis of historical information. Meanwhile, as US-China trade friction is still proceeding, any significant economic or political event, such as the pandemic of 2020 and the coming US president election, can dramatically affect the final result.
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