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The economic rivalry between Japan and the U.S. in the 1980s, and China and the U.S. since the 1990s

Topic and Research Question

Given the current anxiety over the trade war between China and the United States, this paper set-out to provide some context to the ongoing conflict by contrasting it with the last big trade war waged by the U.S. against their main economic rival of the past, Japan. By doing so the paper aimed to demonstrate that, unlike contrary claims in the media current tensions are not the result of bad policy by President Donald Trump, but rather the next step in a consistent continuation of U.S. trade policy. The academic sphere on the other hand suffers from the lack of comprehensive research to serve as a base for comparison. To allow for a neutral comparison between these cases, they were looked at from the U.S.' point of view. After identifying several inconsistencies in the State of the Art (such as a chief mischaracterization of the conflict and unsuitable comparisons to earlier trade wars), it was decided to focus on methods utilized by the U.S. for appraisal. The research questions therefore were:

▪ What kinds of measures does the U.S. employ against a serious economic rival?

as well as

▪ How does their approach with Japan differ from their approach towards China?

State of the Art

Most work in this area (with few exceptions) seems to mischaracterize or misunderstand the contemporary conflict as some sort of personal feud or erratic mood swing of the current President of the United States, while missing the consistency in U.S. trade policy in regard to dealing with upcoming economic challengers. Other articles seem more preoccupied with (unfitting) comparisons between the current conflict and the Smoot-Hawley tariffs of the 1930s. Even though some observers suggest similarities to the trade frictions with Japan in the past, most authors failed to either provide a comprehensive comparison and analysis or failed to grasp the true extend of the earlier conflict. Major publications include I. M. Destler's (2005) *American Trade Politics*, Thomas O. Bayard and Kimberly Ann Elliott's (1994) *Reciprocity and retaliation in U.S. Trade policy*, Jagdish Bhagwati and Hugh T. Patrick's (1991) *Aggressive Unilateralism. America's 301 trade policy and the world trading system*, and Ka Zeng's (2004) *Trade threats, trade wars*.

Methodology and Approach

Since common definitions of a trade war would not apply to Japan as Japan did not retaliate, an unusual approach became necessary. By utilizing the definition provided by Robert Franke (1931) and Helmut Lehner (1962), this study focused on "hostile economic measures", which, unlike other methodology, do not necessitate retaliation but instead focus on measures intended to harm an opponent's economy or provide one's own industries with some sort of economic advantage - not through competition but through political and economic coercion.

To compile the criteria catalogue, this study went back roughly 700 years in trade war history, to extract hostile economic methods from past conflicts, such as the Hanse boycotts, the Dutch-British skirmishes in the 17th century, Napoleon's continental blockade in the 18th century and most prominently the little-known trade war between the United Kingdom and Germany between 1870 and 1918.

By looking at these clashes through the lens of neo-mercantilism and economic nationalism, it was possible to identify and extract several measures. These were further generalized and condensed using techniques called abstraction and summarization as described by Philipp Mayring (2002), which resulted in 10 distinct categories. These are as follows: #1 Official Dispute Settlement; #2 Propaganda; #3 Official threats; #4 Unilateral legal actions; #5 Trade control; #6 Violation of state sovereignty; #7 Violation of private property rights; #8 Involuntary third-party involvement; #9 Violation of legal rights; #10 Tariffs.

Main Facts

Criterion one saw different forms of utilization of official channels, namely the WTO and GATT DS. These were used either as intended or as bargaining tools. In China's case, grey area measures, such as sabotage and legal discrimination were also sporadic occurrences.

The second criterion saw top down propaganda in both instances. The Japanese case additionally featured several bottom-up initiatives in form of the "book wars" and "Buy American"-campaigns – both of which were presumably facilitated by a politically hostile atmosphere at the time.

For the third criterion, both countries received threats based on existing laws, on proposed legislation, and directly through government officials.

Criterion number four saw strong unilateral utilization of domestic laws (not necessarily trade-related ones), the constant adaption of said legislation to allow for broader application and writing of negotiation demands directly into legislative texts. Grey-area measures like pre-emptive sanctions, discriminatory law application, non-transparent decision making, application of expired or non-applicable legislation and possible trade secret theft via information requirements was featured as well.

The fifth criterion saw heavy abuse of AD and CVD as laws were regularly updated to become applicable to legal business practices, third markets and to regulatory grey areas like NME-designated countries. It allowed for preliminary bans, pre-emptive sanctions and possibly also industrial espionage. Further measures included quotas in both cases and a boycott for Japan. Grey area measures included quotas for third markets, restricting market share in the U.S., retroactively legalizing illegal practices, arbitrary interpretation of trade law as well as a refusal to comply with terms of a signed agreement.

Criterion number six featured mostly grey-area actions such as export cartels, pre-emptive sanctions, blackmail, retroactive legalization of illegal practices, and the establishment of domestic certification bodies under foreign control. Furthermore, it saw semi-official monitoring and enforcement groups, responsible for creating favorable export conditions in targeted markets. Both cases saw varying forms of VIE, such as mandatory import targets and import-facilitation requirements.

The sevenths criterion demonstrated how the U.S. can disrupt foreign business operations by inquiring internal information, burdening them with high legal costs, stripping them of essential business functions (such as control over pricing of their products) and basically blackmailing them with market exclusion in case they refused to comply. Takeovers came with increasing uncertainty, as U.S. officials could interfere at any point and impose far-reaching mitigation measures.

Criterion eight mostly affected China and contained grey area practices, such as business-internal monitoring bodies, human bargaining chips, sanctions based on reasons unrelated to initial charges and the creation of an atmosphere of uncertainty. The chapter also featured various forms of 'aggressive multilateralism' in the form of chain boycotts as well as discriminatory FTA.

Criterion nine saw illegal bans, as well as nationality-based discriminatory treatment. Moreover, the Chinese case saw what initially might have been essentially a hostage situation. A court case additionally demonstrated how companies might be denied their legal rights, if these were to interfere with U.S. interests.

Tariffs featured in criterion ten were usually applied in retaliation under some other legal tool for enforcement purposes.

Results

The results demonstrated that the U.S. has been rather consistent in its trade policy and managed to improve and adapt its strategies over time. The fact that they were able to bring companies like ZTE and Huawei to their knees also reflects on their past success against Japan, where dependencies were reversed. It was further quite apparent, that the U.S. became much more willing to engage in questionable and aggressive tactics as they had less ways to engage China in an effective manner. Although tariffs generate much buzz, they were not primary tools in either case, but rather meant to create leverage for future negotiations. The aim of U.S. trade measures was never to protect the home market, but rather to utilize unrestricted market access to enforce economic interests abroad.

References

All references can be found in the full version of the MA thesis available at http://othes.univie.ac.at

About the Author

Eric Hanada holds a BA in Japanology from the University of Vienna. His first book chapter is scheduled to be released in Fall of 2019. After graduating from EcoS, he will return to Japan for his dissertation on the effects of economic crisis at the Graduate School of Frontier Sciences of the University of Tokyo.

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