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Japan-US Trade Frictions: The Past, the Present
and Implications for China-US Trade War

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Japan-US Trade Frictions: The Past, the Present and
Implications for China-US Trade War

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I. Introduction

China-US trade war has been under way since the middle of 2018. It was the United States that triggered a trade war by implementing protectionist measures against China in July 2018. China retaliated immediately by protectionist measures against the US, resulting in a full-blown trade war. The situation got worse as the exchanges were escalated. The negative economic impacts of the China-US trade war have begun to be felt not only in these countries, but also in other countries. Additional protectionist measures have not been applied since September 2018, and bilateral talks have been continuing.

Global economy would suffer from serious damage if the China-US trade war continues and gets escalated, as these two countries are two largest in terms of economic size. Furthermore, China-US trade war has a risk of damaging the multilateral global trading system under the World Trade Organization (WTO), which has contributed enormously to high growth of the world economy since the end of WWII, adding pessimistic elements to the future prospects of the world economy. Recognizing the negative impacts of the China-US trade war, it is important to manage the situation appropriately by avoiding the escalation and ending the trade war.

For the United States, the China-US trade war is not the first major trade friction. Since the end of WWII period, the US has been involved in a number of trade frictions. Among them, its frictions with Japan have been most severe and complex. US-Japan trade frictions began with textiles in the 1950s and they are still continuing in other areas such as automobiles. The US and Japan are scheduled to begin bilateral trade negotiation on a number of areas soon, although Japan would like to limit the area of negotiation to trade in goods.

In light of these developments, it is opportune time to review the experiences of US-Japan trade frictions in the past to learn and draw the lessons from the past. Such an analysis would contribute to the identification and formulation of appropriate policies not only for Japan, the US, and China, but also for other countries, for the realization free and open trading environment.

The remainder of the paper is structured as follows. Section II examines briefly the changing economic environment in the last 50 years, which has important influence on the formulation of trade policy. Sections III and IV analyze the US-Japan trade frictions, with a focus on developments in the 1960-2000 period. Section III takes up the frictions concerning Japan's exports to the US, while section VI examines the frictions concerning US exports to Japan. Since several good studies on these subjects including Ito and Hoshi (forthcoming) and Abe (2013) have been published, this paper attempts to

examine the economic impacts of the implemented measures in addition to discussing the evolution and developments of several trade friction episodes. Section V analyzes the contemporary trade frictions between the US and Japan, while Section VI presents some lessons and suggestions for the US-China trade war.

II. Changing Economic Environment Surrounding Japan, the US, and China

The last 50 years saw remarkable changes in economic environment surrounding Japan, the United States, China, and in other parts of the world. This section examines some of the important changes taken place since the 1980s, in order to set the stage for the analyses in the following sections.

One of the most important, if not the most important, factors affecting the US trade policy is its trade balance. Figure 1 shows US overall trade balance since 1985 as well as its bilateral balances with Japan and China. The US registered trade deficit throughout the 1985-2017 period. After maintaining about \$100 billion from 1985 to 1990, US trade deficit declined significantly to \$61 billion in 1991. However, trade deficit began increasing in the early 1990s to reach \$830 billion in 2006. After that US trade deficit declined and remained around \$600-700 billion in the 2010s. The proportion of trade deficit in GDP fluctuated between 1 and 3 percent from the mid-1980s to the end of the 1990s. Entering the 2000s, the proportion began to increase to hit a peak of 6 percent in 2006. Since then it declined and stayed around 4 percent in the 2010s.

Concerning bilateral trade deficit for the US, Japan, China, and the European Union (EU) accounted for the large proportions of US trade deficit. From the mid-1980s through 2017, both Japan and China continuously recorded trade surplus vis-à-vis the US. In terms of the share of Japan and China in US trade deficit, Japan's share was very large fluctuating between 35 and 65 percent from the mid-1980s to the mid-1990s. Japan's share began to decline in the 1990s to register around 10 percent in the late 2000s. Since then, it has stayed around 7-10 percent. Somewhat contrasting pattern may be observed for China. China's share was very small at less than 10 percent until the end of 1980s. From the early 1990s China's share began to increase continuously and rapidly to reach 45 percent in 2009. China's share in recent years stayed around 45-50 percent.

Relationship among the US, Japan, and China in terms of GDP changed notably from the 1980s to 2010s (Figure 2). The US remained the largest country in terms of GDP. Japan was catching up very fast from the mid-1980s to the early 1990s, thanks to rapid economic growth and an emergence of the bubble economy, but GDP stopped growing since the burst of the bubble economy in the early 1990s. The ratio of Japan's GDP with respect to the US GDP increased sharply from below 40% in the early 1980s to

70 percent in 1995, but it declined sharply since then to record 25 percent in 2017. A contrasting pattern can be observed for China. The ratio of China's GDP with respect to US GDP was around 10 percent until 1995, but then it began to increase very fast to reach 63 percent in 2017. It is interesting to see their relative positions in world GDP, as they more or less reflect the bargaining/influential power. From the mid-980s to mid-2010s, the shares of Japan, China, and the US in world GDP changed from 10, 2, and 35 percent to 15, 6, 25 percent, respectively. These figures indicate a rise of China and a decline of Japan and the US.

The importance of the US in Japan's exports is an important factor in determining Japan's trade policy toward the US. The larger the importance of the US, the more limited Japan's maneuverability. The share of the US in Japan's total exports increased from 33 percent in 1980 to 47 percent in 1985, and then it more or less continued to decline to 14 percent in 2011 before showing a slight increase (Figure 3). A similar pattern can be found for China, but the degree of dependence on the US was never as high as that for Japan. It showed an increase from 10 percent in the early 1980s to 28 percent in 2002, and then declined gradually to register around 20 percent in the mid-2010s. These figures indicate that Japan's maneuverability in dealing with the US increased since the mid-1980s, as the importance of the US for Japan's exports declined.

Two important events should be noted in analyzing the US-Japan trade frictions. One is the end of the cold war in the late 1980s. Since the end of WWII until 1989, there was geopolitical tension between the Eastern Communist Bloc led by the Soviet Union and Western Liberal Democratic Bloc led by the United States. Japan was under the Soviet threat, and Japan relied on the US for its national security. Thanks to the end of the cold war, which removed/reduced the threat from the Soviet Union, Japan's maneuverability in dealing with the US increased.

The other development is the establishment of the World Trade Organization (WTO) with more effective dispute settlement mechanism compared to that of the General Agreement of Tariffs and Trade (GATT), predecessor to the WTO. Under the WTO, WTO members can resort to the WTO's dispute settlement mechanism rather than bilateral trade negotiations to deal with trade disputes. Availability of an alternative method for dispute settlement improved Japan's position in its trade negotiations with the US. On the trading system, one should add the proliferation of free trade agreements (FTAs) since the 1990s as a new trend, which has implications on the formulation of trade policies for many countries.

III. Restriction of Japanese Exports in the US Market: Voluntary Export Restraint

Japan and the US had a series of trade frictions in a number of products/industries (Table 1) for many decades dating back to the 1930s. Trade frictions with the US until the mid-1980s mostly took the form of the US attempting to restrict Japan's exports to the US. Products/industries subject to trade frictions changed remarkably from textiles, steel, automobiles to semi-conductors, to name some. This section reviews some of the serious trade friction cases to see how Japan and the US were involved in trade frictions. After reviewing the cases, economic consequences of the measures taken by the two governments will be assessed.

III.1 Textiles:

In the post WWII period, Japan-US trade frictions began with textile dispute in the mid-1950s¹. During the late forties and early fifties, American textile manufacturers began to feel competitive pressure from increased textile imports from Japan. As Japanese textile imports grew, American textile manufacturers and unions began to regard Japanese imports as a threat. Although Japanese textile imports represented a small portion of American consumption (approximately 2 percent), in a few categories such as women's blouses (called "one-dollar blouse") Japanese imports captured a large portion of sales in the US. Faced with growing Japanese imports, textile associations started to file "escape clause" applications in 1956. Several pieces of legislation designed to limit Japanese imports were introduced into the US Congress. The US government, which wanted to avoid protectionism in the forms of tariffs and quotas to support freer global trade under the General Agreement and Tariffs and Trade (GATT), decided to negotiate a voluntary export restraint (VER) with Japan. Japan had no choice but to accept the request, as textiles were its major export items in the 1950s and the US was its major market. The result of the negotiations was Japan's VER of cotton textile products for five years starting in 1957. Japan accepted VER in cotton textile products without much resistance as it realized that the cotton production is on decline as wool and synthetic textile products began to increase.

In 1961 President John F. Kennedy decided to negotiate an international agreement on cotton textile products, as part of his promises in the presidential campaign. In addition, an international agreement would cover imports from exporting countries other than Japan including Hong Kong, Korea and Taiwan, which increased their exports at the expense of Japan's exports, which were restricted under the VER (Figures 4A and 4B). Furthermore, an international agreement would "liberalize" Europe,

¹ Discussions on textile dispute draw on Yoffie (1983). See also Maeda (2000), and Destler, Fukui and Sato (1979).

which restricted imports of cotton product. The negotiation resulted in one-year agreement, the Short-Term Arrangement (STA) The STA was a quantity restriction arrangement and it had two important features. First, an importing nation could request restraint from an exporting nation. Second, a bilateral arrangement was acceptable. For the US, the STA was deemed success for limiting cotton textile imports and thus it was extended in the form of the Long-Term Arrangement (LTA) for five years in 1962 and then later two further three-year periods until 1973.

Quantity restriction on cotton textile trade under the US-Japan bilateral agreement, the STA and LTA arrangements had interesting impacts on Japan's exports of textiles to the US. Faced with limit on export volume, Japanese cotton textile producers upgraded the quality of their exports by shifting their exports to high-priced items, in order to increase export revenue. Another response was to shift their exports from cotton textiles to non-cotton textiles, that is, wool and synthetic textile products. From 1962 to 1970 American imports of Japanese cotton textile products declined from 351.2 million square yard equivalents to 330.6 million square yard equivalents, while the corresponding quantity for synthetic textile products increased seven-fold from 110.5 million square yard equivalents to 774.4 million square yard equivalents².

In 1969, President Richard Nixon dispatched Secretary of Commerce Maurice Stance to negotiate a multifiber textile arrangement with Japan and three other East Asian major exporters. This negotiation is to fulfil Nixon's presidential campaign promise. Negotiations were very difficult as Japan's textile industry strongly opposed to the US demand. Japan's industry accepted the US demand after the Japanese government promised to provide relief to the industry for the injuries caused by restraints of exports to the US³. The negotiations ended and the agreement was formally signed in January 1972. This textile negotiation was likely to be linked to the negotiation of Okinawa's reversion to Japan. The other countries signed the agreement following Japan. The agreements with four countries were transformed into the Multifiber Arrangement (MFA) under the GATT in 1974. Japan participated in the MFA but the MFA did not seem to have any impacts on Japan's textile exports, because Japan had lost competitiveness in textile production. Indeed, Japan did not fill the quotas since the early 1970s. The MFA expired in 2005.

The MFA resulted in spreading textile and apparel industry to a number of developing countries, which were not covered by the MFA. Faced with the restriction of exports of textiles, textile producers, whose exports are restricted, set up their production

² Yoffie (1983), Table 3.3.

³ Maeda (2000), p.467.

facility in a country that is not covered by the MFA, in order to maintain or expand exports to the US or Europe, which are protected by the MFA. Because of these developments, some countries including Cambodia and Bangladesh benefited as they became able to export textiles, while the US and/or Europe could not restrict the overall import of textiles effectively.

III.2 Steel

In the mid-1960s the US steel industry began to feel competitive pressure from increased imports, as the import ratio increased from 10% in 1966 to 17% in 1968⁴. Among increased imports, imports from Japan registered a rapid increase and they accounted for 40 percent of total imports in 1968. In response to rising protectionist sentiment, the Japanese steel industry implemented voluntary restraint arrangement (VRA) for three years starting in January 1969. In 1972 the Japanese steel industry announced an extension of VRA for two years, but it was not implemented as the consumer association in the United States filed a suit against the Japanese industry for a case of monopoly⁵.

In 1977 the US steel industry, which saw a rapid expansion of imported steel, began to file a series of anti-dumping petitions against Japanese steel. To resolve matters, the US government effectively imposed minimum price for steel imports, the so-called “a trigger-price mechanism” for seventeen steel products. Under the trigger-price mechanism, the reference price, or minimum price, is set based on the lowest production cost of Japanese steel on a quarterly basis and dumping investigation is triggered without anti-dumping charges when the import price is found lower than the reference price. The trigger price mechanism was instituted from January 1978 to January 1982 with a short break period from March to October 1980. In return, the US steel industry agreed to refrain from filing countervailing duty, anti-dumping or escape clause petitions. Steel producers again began filing petitions for special protection, ultimately inducing the reinstatement of the VER from October 1984 to March 1992 not only by Japan and the European Community, but also by Brazil, Mexico, South Africa, and Korea⁶. Steel firms continued to file petitions for relief. The US government sought extension of VER and tried to establish a system of multilateral export quota system similar to the MFA for the textile trade.

Japan’s VER in steel officially ended in March 1992. However, during the 1990s

⁴ The import ratio here is defined as the ratio of imports to apparent consumption (production + imports – exports). The figures are taken from Abe (2013).

⁵ The consumer association lost the case.

⁶ Flath (1998).

the US steel industry continued to file AD and safeguard petitions, while bilateral talks also continued. Japan took the AD and safeguard actions to the WTO dispute settlement mechanism for the judgement.

US steel imports from Japan increased substantially from the early 1960s and then declined after reaching a peak around 1980 (Figure 6). The decline continued until around the turn of the century, then began to increase again. This decline is likely to be affected by a series of restrictions imposed on imports from Japan. However, the decline in competitiveness of Japanese steel products is likely to be an important factor, as the share of Japan in total US imports declined notably over the years. The US introduced import restriction of steel products in 2018 as noted in the introduction.

III.3 Automobiles

The US automobile industry was in a very difficult situation in the late 1970s. The US economy was in recession, which was caused largely by the second oil crisis in the late 1970s. US consumers shifted their preference from large to small cars in response to increased gasoline prices, which are due to the first and second oil crises in the 1970s. In response to this change in US consumer demand, imports of Japanese small cars increased sharply (Figure 6).

The US automobile industry and the United Auto Workers (UAW) did not actively promote protectionism at first, as they were favoring free trade because the US automobile industry enjoyed competitive position for many years and it expanded its operation overseas⁷. However, the situation changed dramatically. The number-three car maker, Chrysler, almost failed and was only survived by the government assistance and as many as 650,000 workers were out of jobs in auto-related industries in late 1979⁸. Faced with difficult situation, Douglas Fraser, UAW President, made a strong campaign for trade restrictions and for investment in the US by Japanese automobile producers. In May 1980 the UAW together with Ford filed a petition for import restriction to the International Trade Commission (ITC) on the ground (escape clause) that a surge of imports caused a serious injury to the US automobile industry. The automobile issue became emotional and hysterical in the US and the expression “Japan bashing” was frequently used and reported in the Japanese media. This flaring up of the automobile issue was partly due to the Presidential race in 1980.

The ITC rejected the UAW-Ford petition by a three-to-two vote. The ITC concluded that increased imports were not a substantial cause of injury to the automobile

⁷ This section draws on Yoffie (1983) pp. 221-230.

⁸ Yoffie (1983) p.223.

industry. High interest rates, recession, and a shift of consumer demand from large to small cars were the most important reasons for the industry's problem. Now that the negative ITC decision made it impossible for President Jimmy Carter to take actions against increased imports, the US automobile industry and the UAW relied on the Congress for restricting imports. In response to industry's pleas, two ranking members of the Senate trade subcommittee, John Danforth and Lloyd Bentsen, introduced a quota bill in January 1981. Amidst growing support for the Danforth bill, newly inaugurated President Ronald Reagan introduced measures, which include removing and delaying the application of regulations, to reduce the financial burden of the industry⁹. As to the increased imports, Reagan decided to negotiate a VER with Japan.

The Japanese government announced an introduction of VER in May 1981 to limit Japan's passenger car exports to the US no more than 1.68 million units, annually starting in April 1, 1981 for three years to March 31, 1984 as announced¹⁰. The VER was renewed by an independent decision of the Japanese side with a higher ceiling of 1.85 million, in order to avoid the conflict with the US industry. The VER continued with a ceiling of 2.3 million after April 1, 1985, and the VER was finally lifted in 1994.

Faced with the VER, Japanese automobile firms adopted mainly two strategies. One is to start production of automobiles in the US. Honda was the first Japanese automobile company to start local production in 1982. Nissan, Toyota and other automobile companies (Hino, Suzuki, Subaru, Mitsubishi) followed Honda. In 2017, 3.8 million cars are produced by Japanese firms in the US, while 1.7 million cars are exported from Japan to the US (Figure 6). The other strategy is to shift exports to higher priced category. For Toyota sales in the US, the proportion of new car sales in \$4,500-6,000 range in total sales declined from 36.5% in 1981 to 24% in 1982, while the corresponding shares for new car sales over \$12,001 range increased from 0.5% to 12%¹¹.

III.5 Analysis

Japan and the United States were involved in trade frictions in a number of products/industries. In this section we took up three industries, textiles, steel, and automobiles¹², and examined how trade frictions emerged and how Japan and the US dealt with the frictions. We summarize our findings as follows.

⁹ Abe (2013).

¹⁰ Ito and Hoshi (forthcoming)

¹¹ Yoffie (1983), Table 6.2. Feenstra (1984 and 1988) also found quality upgrading and price rise of Japanese automobiles.

¹² Besides these industries, the following products/industries were subject to the VER: Ball bearings, Metal flatware, Pottery and chinaware, and machine tools.

We identify the occurrence of trade frictions in chronological order as textiles (1950s and 60s), steel (late 1960s-present), and automobiles (1980s – present). This chronological order is consistent with the level of sophistication of the products in terms of factor requirement, that is, unskilled and skilled labor, and physical capital. In relative terms, production of textiles requires unskilled labor, while the production of automobiles requires skilled labor and physical capital. Production of steel may be considered as somewhere between textiles and automobiles in terms of factor requirement. Realization of trade frictions in this chronological and sequential pattern indicates successful catching-by Japan in succession from unskilled-intensive industry to physical capital and skilled intensive industry. One may observe this pattern being consistent with dynamic comparative advantage resulting from the changes in the endowments of factors of production (unskilled and skilled labor as well as physical capital) in Japan.

Despite the differences in the timing, the evolution of trade frictions and the ways how Japan and the US dealt with the frictions are very similar for the three cases. First, sharp increase of Japanese imports threatens the US industry. Second, threatened industry asks the US government and the Congress for restriction of Japanese imports. Third, the US approaches the Japanese government and industry to restrict exports to the US. Fourth, the Japanese industry refuses the US demand. Fifth, the US proposes Japan to negotiate the voluntary export restraint (VER) by threatening possible imposition of tariffs and quotas. For the US government, the VER was a very attractive policy because the VER does not violate the GATT rule and thus can claim to support free trade while it can respond to industry's demand for protection. Sixth, the Japanese government persuades the Japanese industry to accept the US demand, in order to avoid political friction. Seventh, the Japanese industry grudgingly accepts US demand to introduce VER.

The VER had different impacts on the US and Japanese industries and economies. Both US and Japanese industries appeared to have benefited from the VER, although their benefits are quite different. First, for the US industry, the VER enabled the industry to survive and maintain/expand production and employment. Indeed, there are cases where protected industries/firms were able to raise substantial profits, as Flath reported that American automobile manufacturers' profits soared in 1983 and 1984, possibly as a result of the VER¹³. The Japanese industry also benefited in several ways. Their profits increased as they were able to raise the export price. Indeed, the VER created a "cartel" among the US and Japanese producers by controlling the quantity of

¹³ Flath (1998).

sales. The VER had a beneficial effect on the Japanese producers as the VER forced them to upgrade the quality of the products and to diversify the product range, so that they can increase profits. The biggest loser is the US consumers because the VER forced them to pay high price and to narrow their product choices.

Hufbauer et.al. (1986) empirically analyzed the impacts of trade protection on the US economy for 31 cases. Specifically, they estimated the impacts on domestic and import prices, trade, employment, consumption, production, and government revenue. Let us see the results of their analysis of the impacts of trade protection on automobiles (Japanese export restraints). According to their estimates, the prices of imported and domestic autos increased 11 and 4.4 percent, respectively. From the restraints, producers gained \$2.6 billion, while the consumers lost \$5.8 billion. Restraints induced 55,000 jobs. Adding benefits and subtracting costs, Hufbauer et.al. estimated the welfare cost to the US was \$2.4 billion. They also show very interesting figure that indicates the cost of restraints to US economy per job saved amounted to \$100,700 in 1984. This figure is significantly higher than the median income of males at \$24,000¹⁴. These findings indicate that export restraints incurred substantial cost to the US economy for saving jobs. They also estimated the gains to foreigners (Japanese automobile producers) at \$2.2 billion.

It is important to note that the VER resulted in retarding economic growth of the US by deterring reallocation of resources that is necessary for achieving economic growth and not being able to revive the competitiveness of protected industries. This point can be shown by the lack of upward trend of the competitiveness index for the protected industries (Figure 7). The index takes the value between -1 and +1 and the greater the index, the higher competitiveness. The positive index means that the industry is competitive, while the negative index means that the industry is not competitive.

IV. Opening of the Japanese Market

Faced with continued trade imbalance despite the application of a series of export restricting measures such as the VER, the US began to look at possible expansion of its exports to Japan. To achieve the objective, the US government organized a series of initiatives/talks with the Japanese government in the mid-1980s. One of the policies adopted to correct trade/current account imbalances was the Plaza Accord at the G-5 Finance Ministers and Central Bank Governors' Meeting in October 1985. The Plaza Accord called for readjustment of the currencies (depreciation of the US dollar and

¹⁴ US Census Bureau (1985), p.98.

appreciation of the Japanese Yen and West German Mark). In this section we take up the initiatives on trade and regulatory policies involving the US and Japan with an objective of correcting trade imbalance.

IV.1 Market-Oriented Sector-Specific (MOSS)

The Market-Oriented Sector-Specific (MOSS) talks were formed by an agreement between President Reagan and Prime Minister Yasuhiro Nakasone at the bilateral summit meeting in January 1985. The purpose was to remove barriers to entry for the products of the US interest by regulatory reform, tariff reduction, and other policy measures¹⁵. There were different views on the MOSS inside the US government. The USTR and the Department of Commerce were eager to set numerical target on Japan's imports, while the Departments of the Treasury and State opposed the numerical target and argued that the talks should focus on deregulation and trade liberalization, or process-oriented approach. The expression, Market-Oriented, was given, in order to make clear that the talks are not to set the numerical target¹⁶.

Initially, the four sectors (Telecommunication, Medicine and medical equipment, Electronics, and Forest products) were selected and discussions on the current market situations including entry barriers were conducted on each one of these sectors. MOSS talks included plenary session as well as expert meetings and working group meetings. Plenary sessions were attended by senior officials, while expert and working group meeting were attended by directors and staff, respectively. Several meetings at three levels were held in a year and the results of the discussions were reported by Minister of Foreign Affairs, Shintaro Abe, and Secretary of State, Geroge Shultz. According to the report, the MOSS talks made important progress in terms of increasing market access and paved the way for further market opening. Some of the market opening measures agreed include reduction and elimination of tariffs on electronics products.

IV.2 From Section 301 to Super 301

The Reagan administration adopted an aggressive export promotion policy, in order to correct trade imbalance, in addition to the adjustment in exchange rates under the Plaza Accord. The main instrument of the new trade strategy is Section 301 of the 1974 US Trade Act. Section 301 authorizes the president to retaliate against a foreign country that maintains unjustifiable or unreasonable tariff or other import restrictions or export subsidies, substantially reducing sales of the competitive United States

¹⁵ Abe (2013) pp. 62-66.

¹⁶ Abe (2013) p. 59.

product¹⁷. Section 301 cases can be self-initiated by the United States Trade Representative (USTR) or as the result of a petition filed by a firm or industry group. If USTR initiates a Section 301 investigation, it must seek to negotiate a settlement with the foreign country in the form of compensation or elimination of the trade barrier. The law does not require that the U.S. government waits until it receives authorization from the GATT. Section 301 is a powerful instrument for opening foreign market but it was rarely used because of possible violation of the GATT rule against unilateral action.

The US government applied Section 301 in a number of cases involving not only Japan but also other countries such as Canada and the EC, but the main target is apparently Japan. As for Japan, the US government applied Section 301 to a number of cases, which include cigarettes, leather products, and semi-conductors. The case of semi-conductors became controversial and eventually resulted in the semi-conductor agreement.

One of the important developments concerning Section 301 is the US-Japan semiconductor agreement in 1986¹⁸. Faced with rapid expansion of Japan's exports of semiconductors to the US, the Semiconductor Industry Association (SIA) of the US filed a Section 301 petition against Japan for its exclusionary market structure and dumping in June 1985, resulting in the US-Japan semiconductor agreement. The agreement contains basically two parts, one on the need to increase market access in Japan and the other on prevention of dumping. One of the controversial issues concerning this agreement is the side letter stating that the Japanese government recognizes the US semiconductor industry's expectation that semiconductor sales in Japan of foreign capital-affiliated companies will grow to at least slightly above 20 percent of the Japanese market in five years. It further states that the Government of Japan considers that this can be realized and welcomes its realization. The US interpreted that the Japanese government accepted the numerical target¹⁹. Based on this understanding, the US claimed that Japan violated the agreement, both by underpricing in third countries and by failing to make ample progress towards the goal of expanded foreign market share in Japan, and imposed sanctions in the form of retaliatory 100 percent tariffs on laptop and desktop computers, color televisions and power hand tools²⁰. The Japanese government thought that it only expressed an expectation and did not agree on achieving the numerical target. The semiconductor agreement was renewed for five years in 1991

¹⁷ Discussions on Section 301 and Super 301 draw on Flath (1998). Bayard and Elliot (1994) gives detailed discussion and analysis of Section 301 and Super 301.

¹⁸ Irwin (1994) provides detailed analysis on this issue.

¹⁹ This policy is called "voluntary import expansion (VIE)."

²⁰ Flath (1998).

as the 20%-target was not achieved. The foreign market share increased to around 30 percent in 1995. The US side considered this as a successful case of numerical target. However, there was a view that the increase in foreign market share is due to a decline in competitiveness of the semiconductor industry. It should be noted that one of the reasons that the US government was very anxious to deal with the semiconductor problem is its recognition that semiconductor is very important for the US economy. The Japanese learned a lesson that it had to be clear about non-involvement in numerical target in the future negotiations.

The US Congress was irritated by the lack of progress on correcting trade imbalance vis-à-vis Japan, resulting in attaching the so-called “Super 301” provision to the 1988 Omnibus Trade and Competitive Act (the law authorizing U.S. participation in the GATT’s Uruguay Round)²¹. The objective of Super 301 was to mandate the threat of trade sanctions against the foreign countries that are deemed to have undertaken unjustified and unfair trade practices. Super 301 required the USTR for 1989 and 1990 to issue a report on its trade priorities, name priority foreign countries restricting U.S. exports, and impose retaliatory sanctions if in the ensuing year the offending measures were not redressed.

In 1989, under the newly inaugurated George H.W. Bush administration, the USTR took up Japan’s exclusionary government procurement of super-computers and satellites, and its barriers to trade in forest products as the Super 301 agenda. In addition to Japan, India and Brazil were also named as priority countries. From the point of the US government, these cases were satisfactorily resolved, as USTR Carla Hills announced no new priority countries in June 1990. Japan agreed to abolish discriminatory features of government procurement of supercomputers, enforce non-discriminatory and transparent procurement of commercial satellites, reduce tariffs on wood products, and relax regulation on building standards for wooden buildings.

Bayard and Elliott (1994) conducted a detailed examination of the effectiveness of Section 301 and Super 301 in market opening. They analyzed 72 cases, of which 12 were Japanese cases. They evaluated the cases in two ways. One is to investigate if the negotiation objective is achieved, and the other is to evaluate the degree of market opening resulting from Section 301 and Super 301. A summary of the results of their investigation is shown in Table 2. As for the three Super 301 cases, negotiation objective was evaluated largely achieved in the satellites case, while for supercomputers and wood products cases negotiation objectives are evaluated partially achieved. Evaluation of the degree of market opening is somewhat different. Significant market opening can be

²¹ Flath (1998).

expected in the case of wood products, while only modest market opening is likely in the cases of satellites and supercomputers. A comparison of Section 301 and Super 301 cases tends to reveal little difference in the outcome. This observation is consistent with the finding by Bayard and Elliott (1994) based on their analysis of 72 cases. They conclude that on balance section 301 has been reasonably successful since 1985 in achieving the US goal of opening foreign markets and that aggressive unilateralism made a modestly positive contribution in moving the global trading system toward significant reforms²². Having made these concluding remarks, Bayard and Elliott propose that the US pursue a strategy of aggressive multilateralism under the newly established WTO.

IV.3 Structural Impediment Initiative (SII)

US and Japanese governments shared a view that in order to solve external imbalance problem not only macroeconomic coordination such as the one introduced in the Plaza accord but also structural adjustment is needed. Based on this understanding President Bush proposed to set up the Structural Impediments Initiative (SII) to discuss structural problem issues in May 1989. Prime Minister Sosuke Uno and President Bush agreed to start the discussions under the SII framework in July 1989. The objective of SII is to identify and solve structural problems in both countries that stand as impediments to trade and balance of payments adjustment with the goal of contributing to the reduction of payments imbalances. For the US side, it is hoped that SII makes Japan realize the importance of dealing with structural problems in the Japanese economy and society in order to reduce external imbalances. Japan demanded to identify and deal with structural impediments in both countries, because Japan had a view that the solving the problems requires structural adjustment on the US side as well. The structural impediments in Japan that the US identified are (1) savings and investment patterns, (2) land policy, (3) distribution system, (4) exclusionary business practices, (5) Keiretsu relationships, (6) pricing mechanism, while those in the US that Japan identified are (1) savings and investment patterns, (2) corporate investment activities and supply capacity, (3) corporate behavior, (4) government regulation, (5) research and development, (6) export promotion, (7) workforce education and training. The first meeting was held in September 1989. Discussions were held more or less every two months. The final report was released in June 1990. Some important points concerning Japan's impediments are to be presented below.

(1) Savings and investment pattern: Expansion and promotion of steady accumulation of social overhead capital. Expansion of leisure opportunity and flexibility

²² Bayard and Elliott (1994) p. 330.

in consumer finances from a medium to long term perspective, as the nation heads for an aging society toward the twenty-first century. (2) Land policy: Promotion of further supply of housing and land for buildings in metropolitan areas. Comprehensive review and adjustment of the land taxation system with the objective of making taxes more equitable, neutral and simple. Greater utilization of idle and underutilized land owned by the central or local governments or other public land. (3) Distribution system: Expedition of customs clearance procedure. Deregulation of the distribution system by deregulating a variety of laws and regulation such as the Large-Scale Retail Store Law. Import promotion. (4) Exclusionary business practices: Enhancement of the Antimonopoly Act and its enforcement. Greater transparency and fairness in administrative guidance and other government practices. Encouragement of transparent and non-discriminatory procurement procedures by private companies, Effective patent examination. (5) Keiretsu relationships: Strengthening the Function of the Fair Trade Commission. Promotion of foreign direct investment. Revision of the Take-Over Bid System. Enhancement of the Disclosure Requirements (6) Pricing mechanism: Implementation of measures to adjust price differentials between domestic and overseas markets Continuous implementation of domestic and overseas price survey and the dissemination of information to consumers and industries.

Evaluation of the SII talks seems to be rather positive. Noboru Hatakeyama, Vice Minister of MITI remarked that the SII talks and follow-up talks contributed significantly to the reduction/improvement of the structural problems by proving an improvement in savings-investment balance, formulation of public investment plan, revision of the Large-Scale Retail Store Law, shortening of the patent examination period, and revision of the Antimonopoly Law as examples. Schoppa (1997) concluded from his study of the SII talks that gaiatsu (foreign pressure) was successful in market opening in Japan for the cases, where domestic support within Japan existed²³. Abe (2013) argues that in the SII talks the US let Japan formulate its own policy measures to deal with the structural problems (impediments) rather than forces Japan to adapt US demands. He further states that this approach is very different than the result-oriented approach adopted by the Clinton Administration in the US-Japan Framework Talk, to which we turn next.

IV.4 US-Japan Framework Talk

Newly inaugurated US President, Bill Clinton, was eager to reduce trade imbalance vis-à-vis Japan. In order to achieve the objective, he is determined to open

²³ See Ito (1993) and Bayard and Elliott (1994) for similar arguments.

market of the US trading partners, especially Japan, by applying the objective criteria or result-oriented approach instead of process-oriented approach adopted by the previous administrations.

At their first summit meeting between Prime Minister Kiichi Miyazawa and President Bill Clinton in April 1993, they agreed on the establishment of a new comprehensive bilateral framework on economic issues. In July 1993 Miyazawa and Clinton released a joint statement "Framework for a new economic partnership between Japan and the United States, with a view to promote trade and investment between the countries. Following items were agreed. In the macroeconomic area Japan is to apply fiscal and monetary policies to reduce huge current account surplus while the US is to adopt measures to reduce fiscal deficit. In the area of specific issues, government procurement, deregulation, automobile and auto-parts will be taken up. On cooperation, technology and environment will be included. In September 1993 the framework talks began with more than thirty working groups including those on macroeconomy, sector-structural issues, and cooperation in global perspectives²⁴. The following principles were agreed concerning the framework talks: two-way dialogue between the two countries, benefits to be given to other countries on a most-favored nation (MFN) basis, matters to be limited within the scope and responsibility of government, disputes to be settled in a manner consistent with international rules such as the GATT, refrain from application of unilateral measures (such as sanctions under Section 301 of the United States Trade Act), managed trade approaches such as setting numerical targets to be avoided. .

The talks did not go smoothly. The contentious issue was the introduction of "objective criteria." The US insisted its introduction because Japan could not be trusted to truly open up the market.²⁵ Japanese government refused to accept US demand because the government cannot influence over private-sector decisions such as those having to do with automobile and auto parts. Because of these differences in opinions on objective criteria, Prime Minister Morihiro Hosokawa and President Clinton decided to observe a "cooling off period" at their first summit meeting in February 1994. The talks resumed in March 1994 and finished in February 1996 at Hashimoto (Ryutaro) – Clinton summit. The US did not get objective criteria because of strong opposition from Japan, which was strongly committed to avoid managed trade, and because of a bitter experience of the semiconductor agreement. Persistent refusal of the US demand by Japan may be attributable to two new developments. One is the end of the cold war and

²⁴ Ito and Hoshi (forthcoming) presents detailed account and analysis of the US-Japan Framework Talks.

²⁵ Schoppa (1997) p. 254.

the other is the creation of the World Trade Organization, which were discussed in section II. Besides, the US could not find its supporters in Japan, unlike in the SII case²⁶. Let us briefly examine the case of automobile and auto-parts, which was considered to be the most difficult negotiation in the US-Japan, to find about the mood/atmosphere of the framework talk.

Automobiles and auto parts, which had been contentious issues since the 1970s, were one of three priority areas demanded by the US government²⁷, in addition to government procurement and deregulation of the insurance sector in the US-Japan Framework Talk²⁸. Specifically, three issues were heatedly negotiated. They were US automobile sales and auto parts sales in Japan and purchase of US auto parts by Japanese automakers in the US. The US government argues that there were imbalances in all three areas, limited sales of US products in all three areas. To deal with the situation, the US government demanded various revision of regulations regarding automobiles and auto parts such as the Road Transport Vehicle Law of 1951 to expand the sales of US products in Japan. As to the purchase of US auto parts by Japanese automakers in the US, the US demanded an increase in voluntary plans prepared by Japanese automakers. The US accepted Japan's response that a demand for an increase in voluntary plans needs to be excluded from the discussions because the government cannot influence the decision of private companies. However, the US government began an investigation on the regulation on auto repair parts under US Section 301 in October 1994. The talks were suspended as the Japanese government insisted that it could not negotiate the issue under Section 301.

Negotiation resumed in May 1995 after Japan presented two propositions for the resumption of the negotiation: expansion of auto parts purchase, foreign car dealers and repair market issues will be discussed in the framework talk and not under Section 301; numerical targets and the items that are not responsible by the government will not be negotiated. The negotiations did not reach an agreement because the US insisted the inclusion of numerical targets. In the meantime, the US government came to a decision that regulation in auto repair parts by the Japanese government violates US Section 301 and thus will impose punitive tariff of 100% on imported Japanese luxury cars unless the necessary action is taken. The Japanese government brought the case to the WTO's dispute settlement mechanism. Bilateral talks joined by the third party, Australia, took place but the US and Japan could not solve the problem.

²⁶ Schoppa (1997) p. 255.

²⁷ The other two areas are government procurement (electronic equipment and medical equipment) and deregulation (insurance market).

²⁸ Abe (2013), Maswood (1997) and Satake (2000) on automobile and auto parts dispute.

An agreement was reached on June 28, 1995, the day when the punitive tariff was to be implemented. The agreement contained the measures which include an expansion of market access for foreign cars, expansion of import of foreign auto parts, and deregulation in automobile maintenance and others. These measures will be applied for the period of five years with the following the understanding; the two countries abide by the international rules including the WTO, maintain the principles of free trade and free economy by excluding numerical targets, and the contents of the agreement will be applied on the MFN basis. At the press conference, MITI Minister, Ryutaro Hashimoto, made it clear that projected figures on the plans by Japanese automakers and on dealership are produced by the US government and the Japanese government was not involved at all. In other words, Japan rejected the voluntary import expansion (VIE) proposed by the US. The 1995 US-Japan auto measures expired at the end of 2000.

As were the cases in other negotiation areas in the US-Japan Framework Talk, the US did not get the numerical target in the automobile and auto parts negotiation. This outcome was attributable not only to the changing international environment discussed earlier but also to the following two developments. First, Japan did not want to repeat the mistake in the semiconductor agreement, and tried to avoid managed trade. Second, Japan's resistance to numerical targets was supported by many countries from Europe and Asia, which condemned the US action²⁹.

V. Resurgence of US-Japan Trade Frictions

The US and Japan experienced quiet period regarding trade frictions in the 21st century until Ronald Trump assumed the presidency of the United States in 2017. Several reasons may be pointed out for rather favorable bilateral trade relationship. One is macroeconomic performance. The US economy registered strong economic growth driven by IT (information technology) revolution except the period of Global Financial Crisis. By contrast, Japan experienced a long period of recession since the burst of the bubble economy in the early 1990s. These contrasting patterns in economic growth performance resulted in reduced demand for trade protection by the US. Besides, as for trade policy both the US and Japan were busy negotiating free trade agreements (FTAs).

One of the most important FTAs involving the US and Japan was Trans-Pacific Partnership (TPP). The TPP negotiations began in March 2010 with eight members of Asia-Pacific Economic Cooperation (APEC) including the United States. Japan was not involved in the negotiation at the beginning and it joined the negotiation in July 2013. Prime Minister Shinzo Abe had to overcome the strong opposition, which consisted of

²⁹ Maswood (1997).

mainly farmers and agricultural groups, by promising that protection will be maintained for five “sacred” agricultural products, rice, wheat, beef and pork, sugar, and dairy products. With a strong leadership of the US, TPP negotiation was concluded and the TPP Treaty was signed in February 2016. The TPP was considered to be very ambitious agreement, regarded as “21st century trade agreement,” with high level of trade and investment liberalization and comprehensive issue coverage including the chapters on e-commerce, state-owned enterprises, government procurement, labor, environment in addition to trade in goods, services, investment and other standard items in typical FTAs.³⁰

In the negotiation, for Japan one of the most controversial and sensitive items was trade liberalization in agricultural products. Despite strong opposition, the Japanese government committed to liberalize agricultural sector in the TPP much more compared to other FTAs. In terms of tariff lines, tariffs will be eliminated for 81 percent of total agricultural products after the transition period, much higher compared to approximately 50% for Japan’s other FTAs. Even for the five sacred agricultural products, trade liberalization in the form of tariff reduction and increased import quotas was committed. Furthermore, the US was given preferential treatment on rice and wheat in the form of special quotas. For the US, elimination of tariffs on automobiles was a difficult negotiation item.

President Donald Trump withdrew the US from the TPP on the third day in his office in January 2017. According to him, the TPP is a disaster. Trump does not like trade agreements with multiple countries like the TPP with twelve countries, and he believes that bilateral trade agreements would give larger benefits to the US because the US can exercise greater bargaining power. After the US withdrawal, remaining 11 TPP members went ahead to form an FTA without the US. Negotiations on the Comprehensive and Progressive TPP (CPTPP), or TPP11, began in May 2017. Negotiations progressed smoothly and reached an agreement in January 2018. The CPTPP was signed in March 2018 and entered into force in December the same year after six members ratified the treaty.

Since Trump took office of Presidency, he has actively introduced additional tariffs on several products for several reasons. One of the policies that have affected Japan was additional tariffs on steel and aluminum products (25 and 10 percent, respectively), which were introduced in March 2018 on account of protecting national security (US Section 232 of the 1962 Trade Expansion Act). The US government exempted those countries that accepted quantitative restriction, namely Korea, Brazil,

³⁰ On the TPP, see Urata (2018)

and Argentina for steel, and Argentina for aluminum, and Australia, but Japan was not exempted. Trump asked the Department of Commerce to investigate the case of automobiles for the possible application of Section 232 tariffs on imported automobiles in May 2018. The Department of Commerce found the case for applying 232 tariffs in February 2019, and it is up to the President to decide on the application of additional tariffs.

Using Section 232 tariffs as a threat, the US persuaded/demanded Japan to negotiate bilateral trade agreement. President Trump and Prime Minister Abe agreed to start bilateral trade negotiation in September 2018. For the US the priority areas include agriculture and automobiles. Specifically, the US is eager to obtain greater market access in agricultural products, in order to rectify the disadvantageous position vis-à-vis CPTPP members such as Australia and Canada. The US wants to restrict the number of Japanese car exports to the US, while it wants to increase US car exports to Japan. The US is interested in negotiating a comprehensive agreement covering not only trade in goods but also other items such as trade in services and investment.³¹ Indeed, the contents that the US is interested in are very similar to those of the TPP. Although not included in the TPP, the US is keen on including the issue of currency manipulation in the agreement. In order to achieve the objectives, the US is likely to use tariffs on automobiles as a threat. Indeed, the US obtained favorable outcome in its renegotiations of Korea-US (KORUS) FTA as well as North American Free Trade Agreement (NAFTA) by using threats or greater bargaining power. In the revised version of the KORUS FTA, for example, the U.S. successfully extended the tariff on Korea-made pickup trucks (25%), due to be scrapped on January 1, 2021, until January 1, 2041. In the revised NAFTA, now called USMCA, tariffs are imposed on any vehicles imported from Mexico or Canada after an exemption for the first 2.6 million vehicles a year, a change from no such ceilings in the old NAFTA.

The Japanese government made it clear that the maximum that they can offer in the negotiation are those committed in the TPP. This position has to be maintained in order to avoid the power-based trading environment. If the US imposes additional tariffs on imported automobiles, Japan should take the case to the WTO's Dispute Settlement Mechanism. It should be noted that Japan has not brought the case of additional tariffs on steel and aluminum to the WTO while China, India, the EU, Canada, Mexico, and Turkey have do so. Japan should cooperate and coordinate with the EU, which is faced with the same situation as Japan, in dealing with the US on trade issues. In addition to these reactionary measures to the US action, Japan should increase the membership of

³¹ See USTR (2018) for the objectives of the US-Japan Trade Agreement.

the CPTPP by persuading other members and work hard to establish the Regional Comprehensive Economic Partnership (RCEP), which involve sixteen East Asian countries including Japan, China, India, Australia and others. Establishment of mega-FTAs such as the CPTPP, RCEP, and the Japan-EU EPA, which entered into force in February 2019, would give negative impacts on US firms and farms, possibly putting pressure on the Trump Administration to change the policy of bilateralism to regional/multilateralism.

VI. Implications for the US-China Trade War

The United States and China are currently involved in a trade war. The US imposed additional tariffs on its imports from China in July 2018, and China retaliated by imposing additional tariffs on its imports from the US. As of March 2019, approximately 50 percent of US imports from China were subject to additional tariffs, while the corresponding figure for Chinese imports from the US is approximately 85 percent. The objectives of US action are twofold. One is to reduce trade imbalance vis-à-vis China, in order to save/generate employment in the US, and the other is to deal with China's unfair trade/economic practices such as violation of intellectual property right and forced technology transfer from foreign companies investing in China.

There is a fear in the US that China is catching up with the US rapidly in information technology (IT) and other areas of advanced technology. To achieve the "Chinese dream of the great rejuvenation of the Chinese nation," China has set a target to become a global economic, military, and cultural superpower alongside the United States by the time of the centenary of the founding of the People's Republic in 2049. On economic front, it has launched the Made in China 2025 industrial policy with the aim of becoming a manufacturing superpower, and is promoting a strategy built around development of cutting-edge technology. It is also working on construction of a China-centered economic sphere by implementing the Belt and Road Initiative. The United States sees China's system of state capitalism as a challenge to the American-led market capitalism, and is seeking to shift the direction of China's policy through protectionist measures, in order to prevent China from conducting policies and strategies that challenge the United States.

In this section we attempt to find appropriate policies to stop trade war for the US and China by drawing implications from the US-Japan trade frictions. In order to achieve this objective, we first identify similarities and differences between US-Japan trade friction on the one hand and US-China trade war on the other hand.

Let us begin with the similarities. One important similarity is that both Japan then and China now have huge trade surplus vis-à-vis the US, as we saw in section II. Another similarity is their relationship with the US in terms of economic power. Both Japan in earlier periods and China at

present were/are catching up fast with the United States. This can be seen by a number of indicators. In section II we saw that in terms of GDP the gap between Japan and the US in the 1980s was narrowing rapidly, and in the 21st century a similar pattern is observed for the China-US gap. Although hard evidence is not readily obtained, there is an impression that the China-US gap is narrowing in many other areas including scientific achievement and military capability.

Yet another similarity is the differences in economic systems between the US on the one hand and Japan and China on the other hand. This does not mean that economic systems in Japan and China are the same. They are quite different. During the period of US-Japan trade friction, the US accused Japan of not practicing free market economy. The US claimed that in Japan exclusionary business practices such as Keiretsu and the government interventions in the form of industrial policy spread widely in economic activities, making entry of foreign firms and imports very difficult. In the case of China, the government intervention is pervasive and in particular important industries are dominated by the state-owned enterprises. State-owned enterprises financially supported by the government do not compete with other firms such as foreign firms on a level-playing field. Chinese economic system is characterized as the state capitalism, as opposed to the market capitalism in the US. In both trade frictions, the US perceived the opposing countries, Japan and China, as competitors in terms of economic systems.

These three factors pushed the US to target Japan and China in trade frictions and wars. There are also differences between US-Japan and US-China trade frictions. One is the political system. Both the US and Japan have democracy and share fundamental value such as human right and freedom of speech, whereas the US and China have different political systems, as China is autocratic political system ruled by one-party, the Communist Party. This difference makes US-China trade war much more severe in terms of competition than US-Japan trade friction. Another difference is response to the US action. Japan did not retaliate, while China retaliated. Another difference is external economic environment, under which two trade frictions took place, the 1980s for US-Japan friction and the 2010s for US-China friction. Compared to the 1980s, global supply (value) chains (GVCs) have been developed more intensively and extensively in the 2010s. Through widely spread GVSc the countries, including the US and China, are closely connected in the 2010s. Because of these differences in two types of trade frictions (wars), US-China trade war is much more serious and probably long-lasting compared to US-Japan trade frictions. Another difference in external economic environment is global trading system. As discussed in section II, the WTO was established in 1995 with greater capability in protecting and managing free and open trade system compared to the GATT, especially in the area of dispute settlement. With effective and speedy dispute settlement mechanism, US-China trade war has a better chance for resolution.

Let us think about the way the United States achieve two goals, that is, reduction/elimination of trade deficit and correcting China's unfair trade/economic practices without resorting to

protectionism, or trade wars. First on trade deficit, we argued in section III that trade policy such as trade protection is not effective way to deal with trade deficit problem. Based on this understanding, the US has to change its strategy, from trade protection to macroeconomic adjustment. Specifically, as trade deficit indicates overspending, i.e. imbalance between spending (expenditure) and earning (income), the US government needs to cut spending to reduce trade deficit. Turning to the problem of unfair trade/economic practices such as violation of intellectual property right and forced technology transfer in China, the US should find it more effective if it cooperates/coordinates with the countries such as Japan and the EU, which suffer from the same problems. In this regard, in addition to putting pressure on China, the US can work jointly with the EU and Japan to set up appropriate international rules in the WTO. Based on US experiences from US-Japan trade friction, specifically the SII, external pressure become effective when foreign country government (in this case the US government) allies with pro-change constituency in the target country (in this case China). In this regard, it is encouraging to observe an emergence of Chinese companies that complain about the violation of IPR protection by other Chinese companies, leading to stronger enforcement of IPR protection.

As for China, retaliation seems to be counterproductive, especially in the medium and long term, as it deteriorates economic situation in the US and other countries, which in turn would affect the Chinese economy negatively by reducing China's export. Instead of resorting to retaliation, China should use the WTO's dispute settlement mechanism (which China has done already) and participate in mega-regional free trade agreements (FTAs) without the US, with an objective of changing US trade policy. Specifically, China should make efforts in concluding the Regional Comprehensive Economic Partnership (RCEP) agreement, which involves sixteen East Asian countries, and trilateral FTA involving China, Japan, and Korea. In addition, China should consider joining the CPTPP. It should be emphasized that China can use the US pressure and commitments in mega-regional FTAs to improve economic systems in China, contributing to an improvement in economic efficiency, which in turn would promote economic growth.

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Table 1 History of US-Japan Trade Frictions

1957	Cotton textiles, VER
1962	Short term agreement on cotton textiles
1963	Long term agreement on cotton textiles (-1974)
1966	Steel, VER (-1992)
1974	Textile agreement, wool and synthetic fiber textiles (-1991)
1977	Color TV, OMA (-1980)
1878	Steel, trigger price (-1982), Machine tools, minimum price (-1987)
1981	Automobiles, VER (-1994)
1984	Steel, VER (-1990)
1985	Market-Oriented Sector-Selective (MOSS) talks
1986	1st Semiconductor agreement
1988	Machine tools, VER (-1993)
1989	Structural Impediments Initiative (SII. -1990)
1991	2nd Semiconductor agreement
1993	Framework talks (until 1996)
1995	Automobile negotiations
Note:	
VER:	Voluntary export restraint
MOSS:	telecommunications equipment and services, electronics, forest products, pharmaceuticals and medical equipment (1985), automobiles and auto parts (1986), super computers (1987)
SII:	Savings-Investment pattern, land usage, distribution, exclusive trade practices, keiretsu
Source: Ministry of International Trade and Industry, various issues	

Table 2 Assessment of Section 301 and Super 301

Type of product	Period of case	Actual value of US exports to the target	Negotiation objective achieved?	Degree of trade liberalization resulting from 301
Manufactured (thrown silk)	2/14/77-3/3/78	About \$5 million (1979-81)	Largely.	None. Restricted market reallocated, not opened; data support conclusion that US gain was at the expense of other exporters
Manufactured (leather)	8/4/77-12/85	About \$100 million (1987-90)	Partially.	Modest. Japan converted quotas to tariff rate quotas and lowered other tariffs.
Agriculture-related (cigars)	3/14/79-1/6/81	Negl. (Industry anticipated \$5 million with liberalization)	Nominally.	Very little, if any.
Agriculture-related (pipe tobacco)	10/22/79-1/6/81	Negl. (about \$1 million anticipated after liberalization)	Nominally.	Very little, if any.
Footwear	10/25/82-12/85	\$45 million	Partially.	Modest.
Manufactured (semiconductors)	6/14/85-6/4/91	About \$800 million (1987-90 average)	Nominally.	Negative because retaliation imposed.
Agriculture-related (cigarettes)	9/16/85-10/6/86	About \$1 trillion (up from less than \$100 million prior to 1986)	Largely.	Significantly
Agriculture (citrus)	5/6/88-7/5/88	About \$100 million	Largely.	301 case may have contributed modestly to resolution of dispute
Services (construction)	11/21/88-7/31/91	\$200 million	Partially.	A few US firms appear to have been largely coopted.
Manufactured (satellites)	6/16/89-6/15/90	About \$50 million	Largely	Modest if implemented.
Manufactured (supercomputers)	6/16/89-6/15/90	About \$30 million	Partially.	Modest if implemented.
Manufactured (wood products)	6/16/89-6/15/90	About \$700 million	Partially.	Significant if implemented fully following Uruguay round.

Source: Bayard and Elliott (1994)

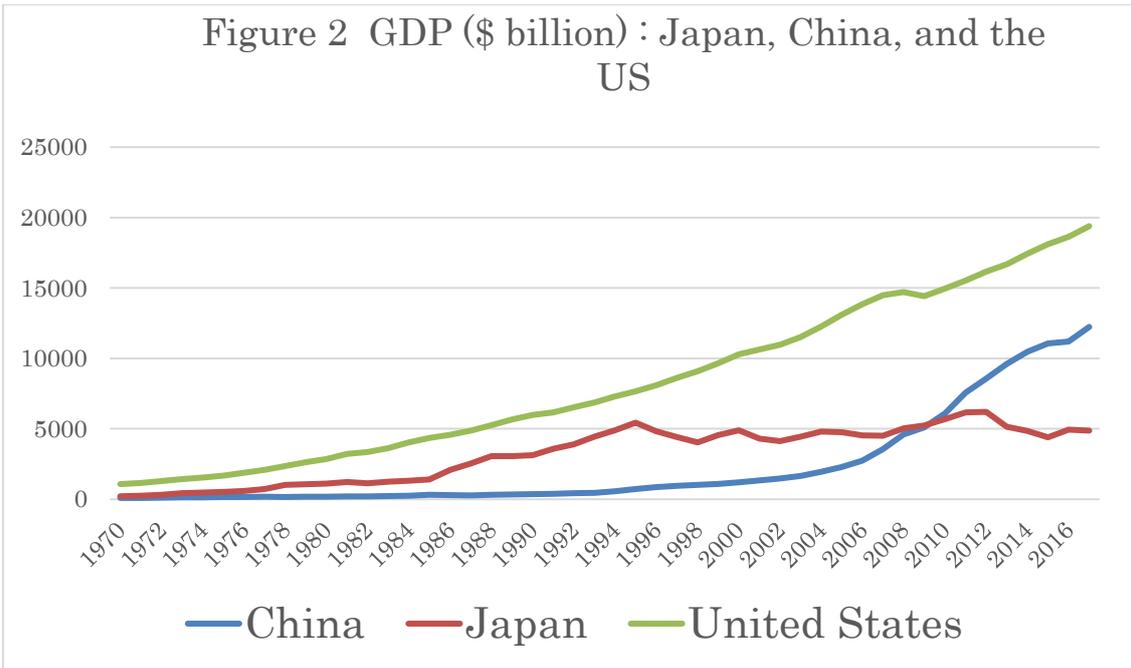
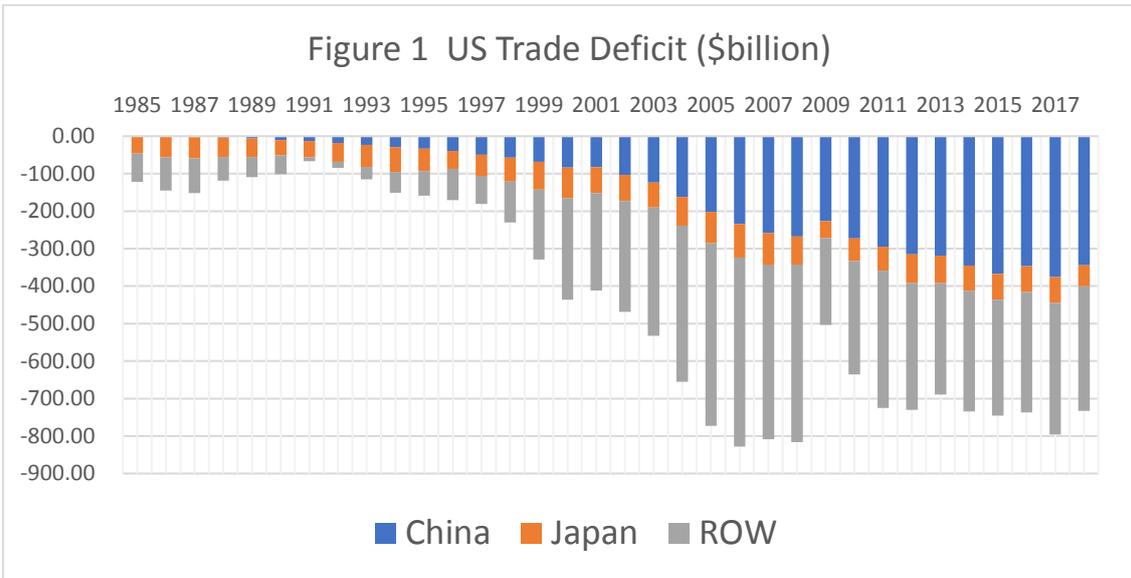


Figure 3 The Share of the US in Total Exports (%)

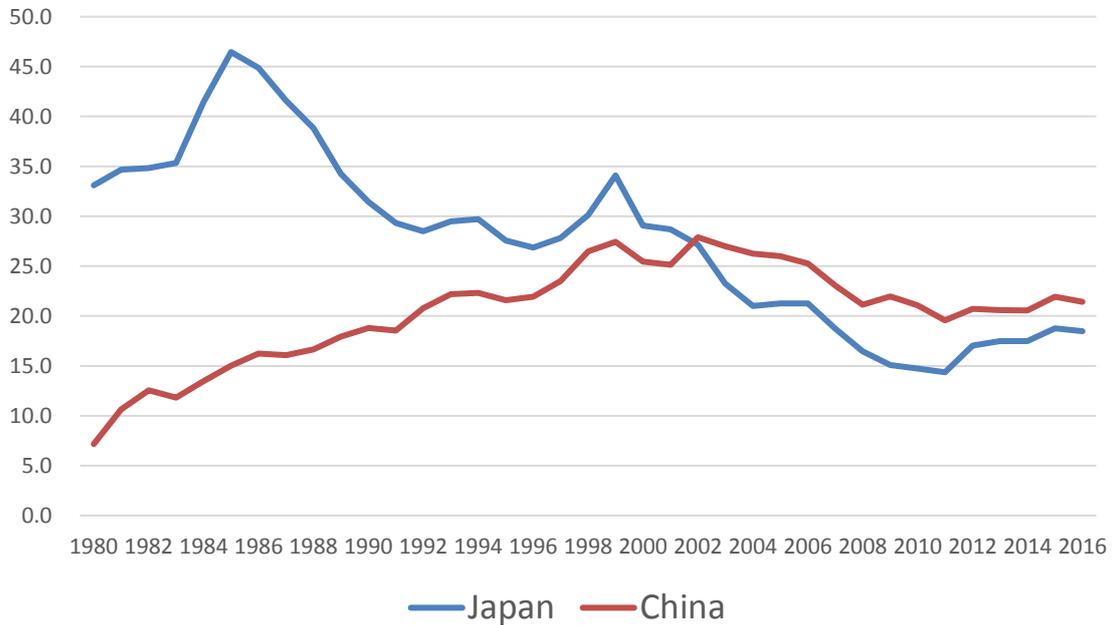
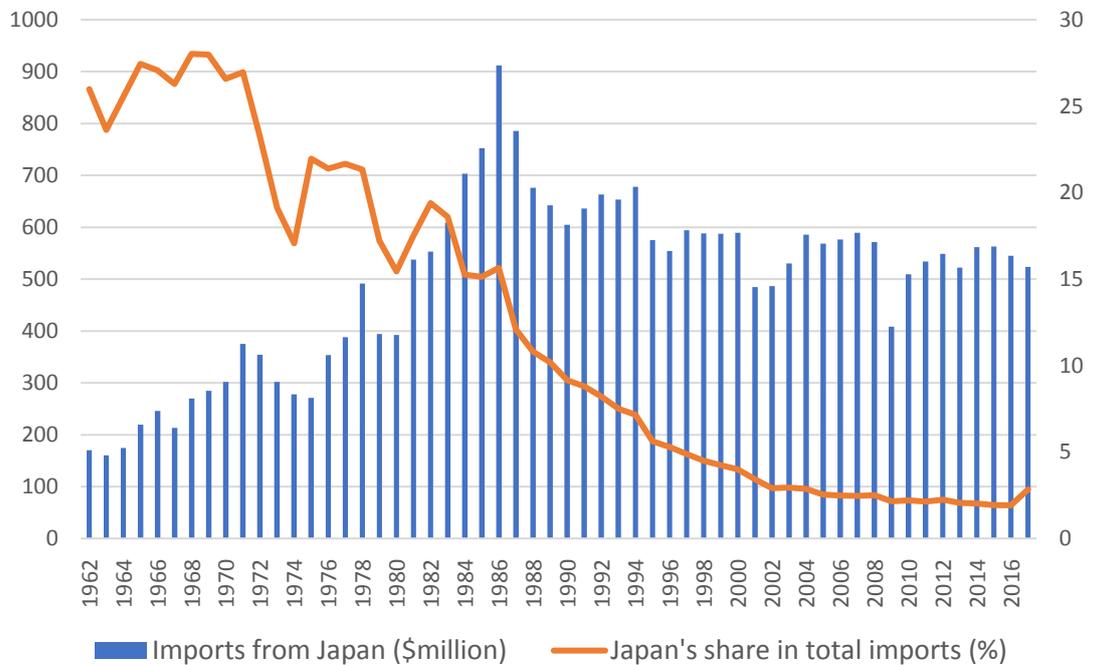


Figure 4A US Textile Imports from Japan



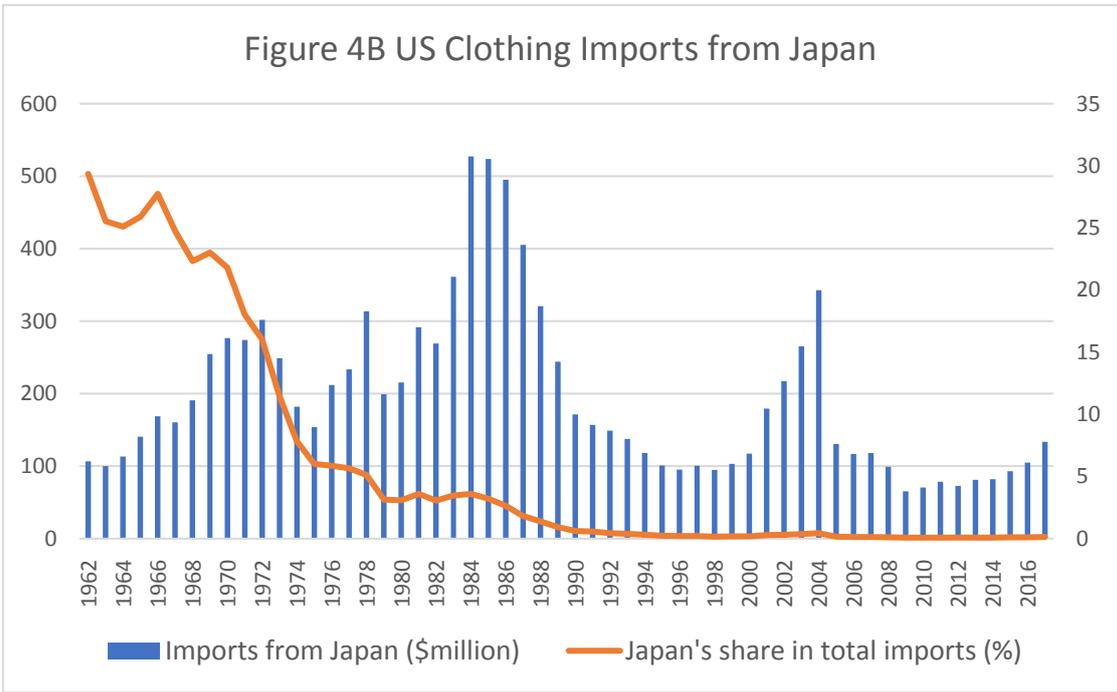


Figure 6 Japan's Automobile Exports to the US and Local Production in the US (1,000 units)

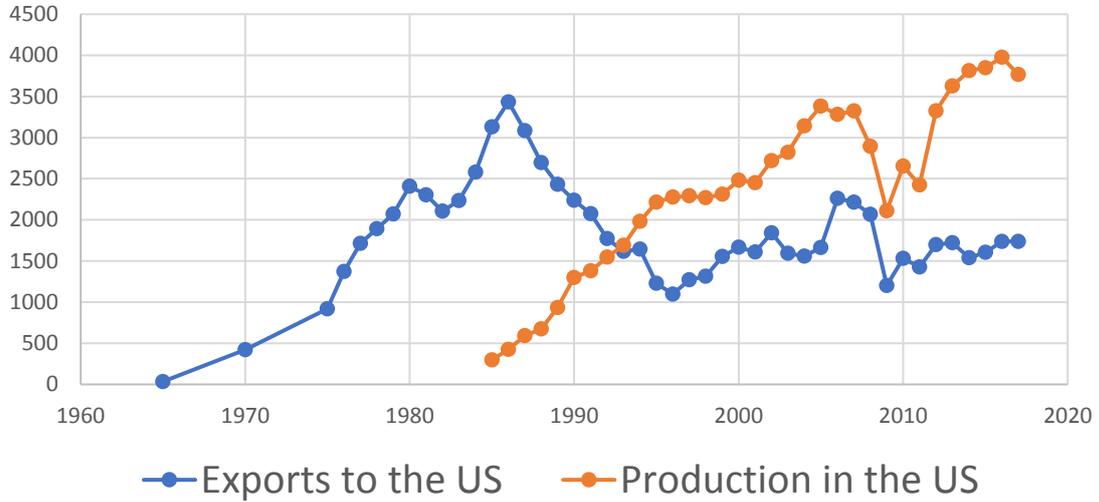


Figure 7 Competitiveness Index

