

China's Response Suggestions to the Sino-U.S. Trade Dispute

Comparing the Trade Friction Between Japan and U.S. in the Last Century

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ABSTRACT

Since the outbreak of the Sino-U.S. trade dispute in 2018, China's response to this has become one of the priorities of China's foreign policy in recent years. Given this, this article will focus on the theme of China's response suggestions. Considering that the Japan-U.S. trade friction in the last century has some similarities with the Sino-U.S. disputes, this paper intends to adopt a comparative research method to understand the motivations and coping mechanisms behind trade frictions by reviewing and studying the Trade Friction between Japan and the U.S. in order to provide some suggestions to the Chinese side. The study found that China can deepen reform in areas such as intellectual property protection, reform and opening-up policy, strengthening communication and establishing effective communication mechanisms, and called on both sides to look at each other's concerns rationally. Through these measures, it could improve bilateral economic and trade relations and even multi-field diplomatic relations between U.S. and China.

Keywords: Sino-U.S. trade dispute, Japan-U.S. trade friction, Intellectual property, Market access, Consultation mechanism.

1. INTRODUCTION

The trade dispute between the U.S. and China has intensified since the Trump administration signed a memorandum in March 2018. President of the U.S. Donald Trump announced that he would impose tariffs on large quantities of goods imported from China, and China has reacted strongly to the policy after it has been implemented. The trade dispute has had a huge impact on U.S.-China relations and economic and trade development. In order to avoid the continuous deterioration of the situation and reduce the impact of the dispute, it is of great practical significance to study how China should deal with the trade dispute. Looking back at the Japan-U.S. trade friction that occurred gradually in the 1950s, it has some similarities with the Sino-U.S. trade dispute, such as Japan and China at that time were in a period of rapid economic development and industrial transformation, and produced a huge trade surplus with the U.S. Therefore, by comparing the perspective, that is,

studying the reaction of Japan and the United States in trade friction can provide a certain degree of reference and inspiration to China's policy response in the current dispute, so as to provide some ideas for the easing of the dispute and the recovery of economic development.

2. A BRIEF REVIEW OF THE JAPAN-U.S. TRADE FRICTION

In the 1950s, the early days of the Cold War, the U.S. began to shift its Post-World War II diplomatic focus to supporting its allies in Europe and Asia to help restore economic recovery and improve people's livelihood, to resist the continued expansion of influence in the Soviet-led socialist camp, and Japan was one of its allies. Thanks to a large amount of economic assistance and technical support from the United States, Japanese society quickly recovered from the post-war chaos. The economy developed rapidly, and capital began to accumulate. In 1955, Japan joined General

Agreement on Tariffs and Trade (GATT) at the initiative of the United States, taking into account the consolidation of alliances. [1] Since then, Japan has vigorously developed an export-oriented economy, focused on nurturing manufacturing, and continued to expand its merchandise exports to the United States, creating challenges for U.S. manufacturing. It was represented by the export of textiles. Because the cotton textile industry is a non-skilled labor-intensive industry, when Japan's labor prices were relatively low, Japan's exports of cotton textiles had more price advantages, so more popular in the U.S. market, but this seriously affects the U.S. textile manufacturers, they are facing increasing competitive pressure, employees are increasingly unemployed. Trade friction between Japan and the United States began to emerge. To ease the conflict, Japan decided to impose voluntary limits on the number of cotton textiles exported to the U.S. for five years beginning in 1957. After many consultations, the two sides signed the Japan-U.S. textile agreement in 1971, and the dispute over textiles gradually eased. [2]

Since the United States was Japan's leading exporter at the time, Japan began an industrial transformation in the 1990s and 1960s in response to textile export restrictions--vigorously developing capital-intensive industries such as steel manufacturing. Similar to the textile industry, heavy industrial exports to the United States have created a difficult business situation for similar industries in the U.S. Especially after the mid-1960s, the improvement of containers greatly reduced the cost of transporting goods, which allowed international trade to develop more rapidly. [3] Traditional industrial areas in America such as the Northeast and Midwest have been hit hard by sudden competitive pressures, and unemployment is higher than the national average. So there were negotiations between Japan and the United States over the steel industry. In the face of this friction, Japan has also taken the initiative to limit the number of exports to ease the conflict.

By the 1970s and 1980s, the economic and trade contradictions between Japan and the United States were more prominent. As a result of Japan's industrial transformation and upgrading, the domestic manufacturing industry from large capital-intensive industries gradually shifted to technology-intensive industries, home appliances, automobiles, and other fields of rapid development. The U.S. has been a leader in the high-tech field. Because high-tech industry is more strategic and likely to involve national security, the rise of other

countries in this regard is more likely to exacerbate their contradictions. In 1970, to limit Japan's occupation of the U.S. market for home appliances, the U.S. took steps such as requiring Japan to impose its export restrictions and anti-dumping duty to counter competitive risks. As far as the auto industry is concerned, the U.S. has always been a big auto producer, and Japan's progress in the automotive sector is also a challenge to the U.S. auto industry. Especially after the oil crisis of 1973, oil prices rose rapidly. Japanese cars are popular in the U.S. market because of their energy conservation and low engine power. By 1980, Japanese cars accounted for 22% of the U.S. market. Some U.S.-based automakers, including big companies such as Ford, have lost money as a result. Unemployment in the sector is also rising. To solve this problem, President Reagan took office and began negotiations with Japan. [4] After years of negotiations, Japan agreed to export restrictions and urged Japanese companies to invest directly in the U.S. and open up the Japanese auto market. Besides, the telecommunications industry, semiconductor industry, computer chip industry in Japan and the United States in the 1980s and even the 1990s have also experienced fierce trade frictions.

To address the decline in the competitiveness of U.S. exports caused by the trade deficit and the appreciation of the dollar, the U.S. signed the Plaza Accord with five countries, including Japan and the U.S., in 1985, which brought the U.S. dollar down in an orderly manner against other currencies. As a result, the yen began to appreciate sharply, which had a profound effect on the bursting of its bubble economy in Japan in 1990s.[5][6] In other words, the appreciation of the yen hindered the development of Japan's export-oriented industries, to cope with this situation, the Japanese government implemented quantitative easing monetary policy, lower interest rates. Excess money flows into the stock market and real estate, stimulating speculation in the economy and sharply rising asset prices. Because excessive speculation lacks the support of the real economy, the value of assets eventually falls rapidly. As a result, the economy began to decline. In addition, Japan and the United States continue to interact on trade friction through the use of Article 301 of the Trade Act and communication between the two sides on issues such as economic structure and policy, business practices, etc. By the 1990s, as Japan's economy was in the doldrums because of the bursting of the bubble economy, the U.S. trade

deficit with Japan was shrinking and trade friction between the two sides were shrinking.

3. THE SIMILARITIES AND DIFFERENCES BETWEEN SINO-U.S. TRADE DISPUTE AND JAPAN-U.S. TRADE FRICTION

On March 9, 2018, the Trump administration announced plans to impose tariffs of 25% and 10% on imports of steel and aluminium respectively, and on March 22 it planned to impose tariffs on imports of about \$600billion of goods from China. The biggest trade dispute since the establishment of diplomatic relations between China and the United States began. After four rounds of tariff increases, on January 10, 2019, China and the United States jointly held the 13th round of China-U.S. high-level economic and trade consultations on agriculture, exchange rates, intellectual property protection and other areas, and substantively reached the first phase of the trade agreement. The agreement was formally signed in January 2020. The Sino-US trade conflict has been temporarily eased.

Throughout the Japan-U.S. trade friction of the last century, the U.S.-China trade dispute is similar but different.

In terms of similarities, for example, the immediate cause of the outbreak of the two conflicts was an increase in trade imbalances between each other. As far as Japan-U.S. trade is concerned, with the rapid development of the manufacturing industry and the continuous upgrading of industry, Japan has textiles, steel, home appliances, automobiles, and other goods exported to the United States. Since the mid-1960s, Japan has shifted from a trade deficit to a trade surplus with the United States. Since then, as the line chart shows, the surplus has fluctuated but has generally been growing. Japan's trade surplus with the U.S. reached \$380 million in 1970 and \$38.279 billion by 1990. [6] In terms of Sino-U.S. trade, the total value of China's exports to the U.S. reached \$478.42 and imports reached \$155.10 billion in 2018, according to the Commerce Department, and China's trade surplus with U.S. goods was \$323.33 billion, up 17.2% year-on-year. The United States is China's largest exporter. [7] The increase in the U.S. trade surplus would be a challenge to American local enterprises and employment issues and so on.

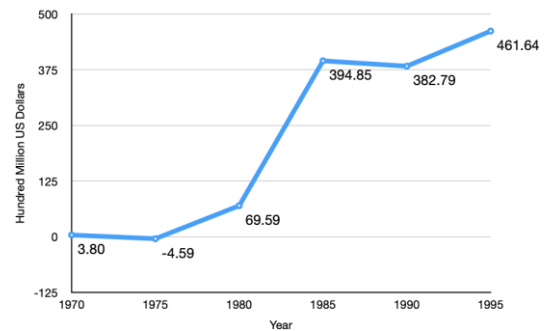


Figure 1 Trend chart of Japan's trade surplus with the United States (1970-1995).

a Source: Xu Mei. A comparative Analysis of Sino-US and Japan-US Trade Friction

Also, Japan at that time and today's China are in a period of industrial transformation. After the war, Japan gained a lot of technical support and improved its independent research and development capabilities by learning from foreign experience, thus developing rapidly in the reform and upgrading of the manufacturing industry. In the decades since the Japan-U.S. trade dispute emerged, Japan's leading industries have also transitioned from initial labor-intensive industries to large capital-intensive industries and to technology-intensive industries. Similarly, Today's China pays more attention to high-quality development and accelerates the pace of industrial upgrading. In 2015, the Chinese government proposed the Made in China 2025 program, which aims to upgrade the current manufacturing industry and focus on the development of scientific and technological innovation capabilities.[8] Because the high-tech sector is more strategic, it is also more sensitive at the national level.

Of course, there are differences between the two conflicts. For example, there are more political considerations behind the Sino-U.S. trade dispute. By contrast, there is more similarities could be sought in ideology and political system between Japan and the U.S. after World War II. Especially at the beginning of the Cold War, in order to meet the diplomatic needs to resist the influence of the Soviet bloc, the economic and trade contradictions between the two were more focused only on the economic field. But there are more ideological and political differences between China and the U.S., and if they don't communicate well with each other, they are more likely to be misunderstood. Especially in recent years, talk of China and the U.S. falling into the Thucydides' trap is endless, and there will be more political background factors in

each other's economic dealings.[9] Another difference is that the sudden outbreak of Covid-19 adds to the uncertainty of the already difficult Sino-U.S. economic and trade relations. In the face of a sudden global health crisis, the two countries, which were supposed to cooperate, were alienated from each other, further worsening bilateral relations.

4. SUGGESTIONS TO CHINA'S RESPONSE TO THE TRADE DISPUTE

Firstly, the Government should step up the protection of intellectual property rights. The rapid development of Japan's high-tech industry in the 1970s and 1980s, such as the rise of the automotive industry, challenged the market share of the U.S. high-tech industry. After President Reagan came to power, he stepped up the protection of intellectual property rights in the United States, arguing that one of the most important means to protect the competitiveness of American industry is to safeguard the trademark rights, patents, copyrights, and other intellectual property rights of American enterprises. In 1988, the Special 301 Clause was specifically added to the Omnibus Foreign Trade and Competitiveness Act of 1988, which he signed to strengthen the protection of intellectual property rights. In the same year, the United States launched an investigation into the Japanese patent system in response to the rising number of patent applications for Japanese products in the United States and the increasing share of the high-tech industry in the U.S. market. [10] After the conclusion of the investigation in 1989, the two sides began lengthy intellectual property negotiations.

Similarly, one of the key points of this Sino-US trade dispute is intellectual property rights. One of the reasons for enhancing the protection of intellectual property rights is to conform to the trend of international trade. One of the three basic agreements of the WTO is the Agreement on Trade-Related Aspects of Intellectual Property Rights, and as a member of the Organization, China's enterprises should be in line with international rules to avoid unnecessary trouble. In addition, this is the requirement of China's accelerated industrial upgrading and the construction of an innovative country. In recent years, China's intellectual property rights system has been continuously improved, but there are still some shortcomings. Further, improve the relevant system construction, increase the ability to ensure

that can effectively promote the enthusiasm of enterprise innovation. In 2019, the central government issued a directive calling for intensified protection of intellectual property rights, which accelerated the pace of institutional construction in related fields.

Secondly, the Government should continue to deepen reform and expand opening-up. On the one hand, another issue of Japan-U.S. friction is market access, and for us, 40 years of experience in reform and opening-up have proved that the policy of opening up has enabled China to develop rapidly. Chinese President Xi Jinping and Premier Li Keqiang have also repeatedly stressed that China will continue to expand its market opening. In order to fulfill this promise, since 2013, China has set up dozens of expansion and opening platforms in China, such as several Free Trade Zones and Guangdong-Hong Kong-Macao Greater Bay Area, and some policies to expand market opening have been tried first in these regions. For example, in 2017, the central government approved the establishment of financial pilot projects in five provinces, including Guangdong, to provide experience in further opening up financial markets. And externally, we should also open up diversified markets. In the last century, Japan expanded its exports to countries such as Southeast Asia in response to trade friction and transferred some capacities to other countries because of its rising labor and land prices. The opening up of diversified markets can effectively reduce dependence on a single country and improve economic risk resistance. China, for example, could increase economic and trade ties with neighbouring countries such as Southeast Asia, as Japan did in the last century. on January 1, 2020, the ASEAN countries and China, Japan, South Korea, Australia, and New Zealand jointly signed the Regional Comprehensive Economic Partnership, which provides a new platform for China to open up new markets. Today, populism is a problem facing many countries around the world, and conservative forces are beginning to rise. At this particular moment, understanding the profound significance of the open policy is necessary.

Thirdly, both sides should effectively establish and utilize bilateral and multilateral dialogue mechanisms. Because of the differences in social culture, ideology, and political system, it is understandable that China and the U.S. sometimes have misunderstandings with each other. To this end, they need to actively establish a dialogue mechanism for frank and detailed exchanges of

views, in order to resolve misunderstandings to ease the contradictions. Besides, consultations on several major trade disputes could also be made to multilateral platforms. After the establishment of the WTO, some trade disputes between Japan and the United States were resolved through the organization. In dealing with disputes, China could learn from Japan's experience of cooperation among enterprises, governments and scholars. To this end, Governments should vigorously cultivate talents in international law, learn to master international rules and popularize relevant knowledge to domestic enterprises. Let them learn how to comply with and apply these laws.

5. CONCLUSION

From a comparative perspective, it briefly illustrates the enlightenment of Japan-U.S. friction to China's response to the Sino-U.S. trade dispute. First of all, strengthen the protection of intellectual property rights, which not only conforms to the rules of international trade but also promotes the upgrading of domestic industries. Secondly, continue to expand the market opening. The experience of reform and opening up proves the necessity of opening up the market. Domestically, more areas of market access should be researched by the government. Externally, more international markets should also be sought. Thirdly, establish effective bilateral and multilateral consultation mechanisms to enhance mutual understanding through consultations. Some trade disputes could also be resolved through international platforms such as the WTO. Both the United States and China are important powers, and both sides have a responsibility to maintain a stable and fair world trading system. The ongoing economic disputes between them will do real harm to each other. It is hoped that the two countries can put aside their prejudices, communicate frankly and resolve their disputes rationally. In addition, there are many shortcomings in the analysis of the similarity and differences between the two trade conflicts in this paper, such as there should be a lot of data and cases support, it should be more training in data collation and case search. It is also noted that, to deal with the unstable economic situation, China has put forward a domestic economic circulation strategy. It is hoped to do more research in this policy field in the future.

AUTHORS' CONTRIBUTIONS

This paper is independently completed by Rui Xue

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