US-China Trade Conflict: Dejavu or New One

Lessons From US-Japan Trade Conflict in 1980s and 1990s

Tamotsu Nakamura &
Yoichi Matsubayashi
1. US-Japan Trade Conflict in Retrospect
2. Similarities Between 1980s/90s and 2018
3. Differences Between 1980s/90s and 2018
4. Lessons From US-Japan Trade Conflict in 1980s
5. Summary
External (Trade) Imbalances: 1985

Surplus Countries

- Japan

Deficit Countries

- US
1. US-Japan Trade Conflict in Retrospect
US Trade Partners Having Surplus (1985)

- Korea
- Brazil
- Italy
- Mexico
- Hong Kong
- Germany
- Taiwan
- Canada
- Japan

BEA

Billion dollar
1. US-Japan Trade Conflict in Retrospect (80s & 90s)

- Voluntary Export Restrictions on Japanese Cars Exported to US
- Plaza Agreement
- Super 301 of Trade Act to Semiconductor Industry
- Japan-U.S. Structural Impediments Initiative (SII)
- US-Japan Comprehensive Economic Council
- Acceptance of Strong dollar by Rubin (US secretary of Treasury)
External (Trade) Imbalances: 2016

**Surplus Countries**
- Germany
- China
- Advanced countries

**Deficit Countries**
- US

Countries (Japan・Korea・Netherland etc)
1. Similarities (1) Two Countries’ World Share of GDP
About 40%
2. Similarities (2) LOW Trade Dependency Lower Than 40%
2. Similarities (3) Peak-out in Trade Surplus (Japan)
Trade balance in Japan (percentage of GDP)
2. Similarities (3) Peak-out in Trade Surplus (China)
Trade balance in China (percentage of GDP)
Comparisons: Behavior of Trade Surplus (USA)
Comparisons: Behavior of Trade Surplus (Germany)
Comparisons: Behavior of Trade Surplus (France)
2. Similarities (4) Rapid Aging (Japan) Driving Force of Decline in Trade Surplus
2. Similarities (4) Rapid Aging (China) Driving Force of Decline in Trade Surplus
Comparisons: Pace of Aging (USA)
Comparisons: Pace of Aging (Germany)

Worker-Elderly Population Ratio (Germany)

![Graph showing the worker-elderly population ratio in Germany from 1950 to 2060. The ratio decreases over time, with a significant drop around 2020 reaching a ratio of 1.7.](image-url)
Comparisons: Pace of Aging (France)
2. Similarities Should be Emphasized

1. Two Countries’ Share in World GDP $\approx 40\%$

2. Three Countries Less Dependent on Trade

3. Peak in Trade Surplus During Conflict Periods
   For Japan and China

4. Start of Rapid Aging for Japan and China
3. Differences (1) Real or Nominal Threat? Allies (Partners) or Antagonists (Opponents)?

“Japan is a Partner to USA”
Most Japanese Believe,
But Converse is • • • • • ? ? ? ?

Why US Republicans Soft to Japan in Trade?
Because of China??
China is Superpower
Both in Economy & Military.

Russia is Not. Neither is Japan.
3. Differences (1) Real or Nominal Threat? China Will Overtake US in GDP Sooner!!
3. Differences (1) Real or Nominal Threat?
Under Same Rules or Different Rules

Is Competition “Fair”?

In Particular, “Innovations” or “Intellectual Property Rights”

US and Japan Compete Under “Same” Rules
How About China and US?
3. Differences (1) Real or Nominal Threat? China Already Overtook US? Innovations

Number of Patents

- China
- US
- Japan

WIPO
3. Differences (1) Real or Nominal Threat?
Under Same Rules or Different Rules

Which is More Important?

Trade Deficits
  * US President Looking at this Deal?
or

Innovation Race
  * Vital Role in Long-Run
  and Military Strength
3. Differences (2) Policy Instruments in US-Japan Conflict

- Plaza Accord
- Japan-U.S. Structural Impediments Initiative (SII)
- US-Japan Comprehensive Economic Council
- Super 301 of Trade Act to Semiconductor Industry
- Voluntary Export Restrictions on Japanese Cars Exported to US
- Acceptance of Strong dollar by Rubin (US secretary of Treasury)
3. Differences (2)

Policy Instruments (Coordinations or Battles)

In 1980s and 1990s
- Plaza Accord
- Exchange Rate Adjustments
- Macro Policy Coordination
- Structural Impediments Initiative

In 2010s
- Tariffs, Sanctions, Safeguards
  &
- Series of Retaliations??
3. Differences (3)
Long and Complicated Supply Chains

In 1980s and 1990s
Not Many Industrialized Economies
⇒ Short and Simple Supply Chains
→ Consequences are “Predictable”

In 2010s
Long and Complicated Supply Chains
⇒ Consequences are Unpredictable
→ Cut Your Own Body with Your Own Sword!!
3. Differences Should be Emphasized

1. Japan Was NOT Real Threat to US China Can Be!!

2. Coordination V.S. Fights or Battles

3. Supply Chains
   - Short and Simple $\Rightarrow$ Predictable
   - Long and Complicated $\Rightarrow$ Consequences are Unpredictable
4. Lessons (1) Macro or Micro?

Trade Deficits CANNOT Be Solved By Trade Policies (Battles)

1. Domestic Problem
   Watch Out !! Even US Aging Rapidly
   Trade Deficits in US Increasing Further
   US on Journey in Searching New Trade Enemies
   Germany, Japan ⇒ China ⇒ Which is Next?

2. Macroeconomic Coordinations & Structural Reforms May Help But Cannot Solve!!
US’s Never-Ending Journey in Searching “Enemies”
Japan Has to Start Searching and Finding “Enemies” ???
Japan Has and Continue to Have Trade “Deficits”
4. Lessons (2) Uncertainties and Irreversibilities

Uncertainties DO Matter
Only When Irreversibilities Exist

In 1980s and 1990s,
Uncertainties in Trade & Exchange Rates
⇒ Overseas Shift of Production in Japan
   (Hollowing-Out)

Because of Irreversibility
   Slow Recovery from Recession (Lost Decades)
4. Lessons (2) Uncertainties and Irreversibilities

In Case of US-Japan Trade Conflict, Japanese Moved to Asia For Production

In Case of US-China Conflict, Many Advanced Economies Invest in China Not Only for Production But for Market Purpose

Uncertainties $\rightarrow$ FDI to China for Production $\downarrow$

(China Economic Growth $\downarrow$)

However, China is Still Attractive as Market!!
4. Lessons (3) “Size” Does Matter

In 1980s and 1990s, East Asia was Enough to Accommodate Japan

In 2020s and Later Asia will NOT be Enough to Accommodate China and India!!

Watch Out !!
Not Only “One Belt, One Road Initiative”
But Also “China’s Penetration to Africa” (Close to Europa)
Do You Remember What Happened On 5th of October in 1971? Unfortunately, I Forgot it!

PRC Became a Member Not Only of United Nations But Also of Security Council!

Who Supported PRC (People Republic of China)? African Nations!!

“Irreversible” Relationship Between Africa & China
4. Lessons (3) “Size” Does Matter
China’s Penetration to Africa

Africa’s Imports From

billion dollar

China
Germany
France
US
4. Lessons (3) “Size” Does Matter
China’s Penetration to Africa

Africa's Import from China/Africa's Import from EU15
4. Lessons Should be Emphasized

1. Trade Deficits is Domestic Problem

   CANNOT Be Solved By Trade Policies (Battles)

2. Uncertainties together with Irreversibilities

   Compound the Problems

3. Watch Out What Happening Behind the Conflict!!
On September 26th, US and Japan Agreed to Enter For Negotiating TAG (=Trade Agreement on Goods) (Joint Statement of the United States and Japan)

US
1. Bilateral Negotiation
2. Tariff Reduction on Agriculture

Win-Win? (TAG= Trump Abe Good?)

Japan
To Avoid
1. US-JAPAN FTA
2. Tariff Hike on Cars
Japanese Side Emphasizes
For Market Access, Japan’s Previous Economic Partnership Agreements Constitute Maximum Level

EU-Japan Economic Partnership Agreement (EPA) is an Important Negotiation Asset

Hopefully, Use It a Bargaining Chip in Negotiation with • • • • !!
## 5. Summary

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<tr>
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<th>1980・90s</th>
<th>2010s</th>
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<td><strong>Main Surplus Country</strong></td>
<td>Japan (Japan)</td>
<td>China (Germany)</td>
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<tr>
<td><strong>Main Deficit Country</strong></td>
<td>US</td>
<td>US</td>
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<tr>
<td><strong>Trade Friction Period</strong></td>
<td>About 15 years</td>
<td>?</td>
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<td></td>
<td></td>
<td>(Forever ?)</td>
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<td><strong>U.S Administrations</strong></td>
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<td>Trump (Rep)</td>
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<td>Bush (Rep)</td>
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<td>Clinton (Dem)</td>
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# 5. Summary

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<th>Policy Macroeconomic Policies</th>
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<td>Exchange Rate Adjustment (?)</td>
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<td>Macroeconomic Policy Coordination (?)</td>
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<td>Individual Negotiation → Comprehensive Negotiation</td>
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<th>Backgrounds of End of Trade Friction</th>
<th>Surplus Country</th>
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<td>Japan's Economic Growth Slowdown</td>
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<td>China's Economic Growth Slowdown?</td>
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<td>US Economic Growth Recovery</td>
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<td>US Economic Growth Slowdown?</td>
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Thank You Very Much for Your Attention!!

Tamotsu Nakamura & Yoichi Matsubayashi