China, Japan, and the United States: Implications of Export-Led Growth for Evolution of the International Trading System

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Abstract

First Japan and more recently China have pursued export-oriented growth strategies. While other Asian countries have done likewise, the cases of Japan and China are of particular interest because their economies are so large and the size of the associated bilateral trade imbalances with the United States so conspicuous. We focus in this paper on the significant spillovers to the international trading system via the response of trading partners and especially the United States. Although the exports impose on trading partners a corresponding requirement to adjust, affected nations have looked for means to delay the adjustment process by reforming and introducing new rules to the trading system, or by enforcing certain rules but not others, with consequent implications for the system itself. This paper explores similarities and differences in the two cases, including the role of explicit and implicit subsidies, market structure, foreign direct investment, and technology transfer. We examine the trade policy responses to the surge of exports from Japan and then China, highlighting the impact of these episodes on the evolution of the rules-based trading system.

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1. Introduction

Japan in the 1950s through the 1990s and China since the 1990s have followed a similar (and similarly successful) strategy of promoting economic growth through rapid acquisition of advanced foreign technology and expansion of manufactured exports. As Table 1 shows, other Asian countries have done likewise, in some cases with exports growing as rapidly and for as long. However, Japan and China have presented special challenges to the GATT/WTO trading system because their economies and their share of world exports have been so large and also because the associated bilateral trade imbalances with the United States have been so conspicuous. At least politically, these large imbalances seem to contradict the GATT/WTO principle of reciprocity, which involves a balance of concessions across major players in the system.

We focus in this paper on the significant spillovers to the international trading system via the induced responses of trading partners and especially the United States. To keep benefits from the system relatively balanced and thus maintain the viability of the overall agreement, other members of the trading system, including leaders like the United States, have two options: to slow the export expansion or to speed up the exporters' own import expansion. The rapid growth of exports from new sources like Japan and China also imposes a requirement to adjust, both for trading partners directly affected and for the historical import sources of those trading partners. Responding to domestic pressures, affected nations almost always look for means to delay the adjustment process, whether by using existing trade rules or introducing new ones, and this in turn has important implications for the rules and functioning of the overall trading system. We review similarities and differences in the two cases, highlighting their implications for systemic evolution.

2. Similarities and differences at the macro level

There are striking parallels between recent U.S.-China trade frictions and the U.S.-Japan frictions that peaked in the 1980s. The most salient common element is the huge size of the bilateral trade imbalances. To many, the imbalance itself is convincing evidence of unfair trading practices. In both cases, the large bilateral trade deficits have been linked in the public mind to the steady decline in the share of manufacturing in total U.S. employment. Also similar are the allegations that the main forces sustaining export growth have been government subsidies and persistent currency undervaluation, rather than—or at least in addition to—comparative advantage. Both countries prevented currency appreciation, especially relative to the U.S. dollar, through accumulation of dollar-denominated government securities.[1] Both countries also channeled capital to preferred sectors through the banking system, in both cases eventually resulting in an overhang of bad loans that complicated efforts to improve capital-market efficiency.[2]

During their respective periods of rapid export growth, both countries accounted for a major share of total world exports. As of 2007, China's share of world merchandise exports had reached 8.7%, less than Germany's 9.5% share but topping the U.S. share of 8.3% as well as Japan's 5.1%, in each of the latter three cases from a much larger economy (WTO 2008). As of

[1] Corden (1981) advances an analysis of exchange-rate protection of the entire tradables sector through currency undervaluation. Unlike the use of trade policies to favor exports or restrict competing imports, undervaluation does not create distortions within the tradables sector as a whole. Recent empirical research shows that currency undervaluation is associated with export surges and higher GDP growth, especially for developing countries (Freund and Pierola 2008; Rodrik 2008). Rodrik suggests that an undervalued exchange rate can offset an informational market failure that would otherwise prevent firms in developing countries from identifying potential export products or markets.

[2] According to Saxonhouse (1983), Japanese industrial policy should be viewed as an effort to overcome distortions resulting from the country's poorly functioning capital market. China categorizes industries as "encouraged," "restricted," or "to be eliminated," with the classification subject to frequent revision. Although an ongoing goal of Chinese industrial policy is to facilitate movement from a planned to a market economy, firms owned entirely or in part by government units continue to play a major role in the economy. China uses industrial policy tools including taxation, indicative lending, and input pricing to provide firms with incentives intended to achieve desired modifications in the composition of economic activity (USITC 2007, Chapter 2).

2007, China had yet not equaled Japan's 10% peak share of global exports from the 1980s. Given the sharp drop in global import demand following the onset of the global financial crisis in 2008, China is less likely to surpass Japan's 1980s peak, although U.S. imports from China in 2008 ($337.8 billion) still exceeded their level in 2007 ($321.5 billion). The 2008 bilateral trade imbalance ($266.3 billion) also exceeded 2007's record figure by $10 billion.[3]

One last and very significant common element in the two episodes is in the responses from the United States and other affected importing nations. Most important is the persistent use of discriminatory strategies to delay adjustment to growth of competing imports. These strategies violate the spirit and sometimes also the letter of the GATT/WTO principle of most favored nation (MFN) treatment, i.e., nondiscrimination among trading partners. The immediate result has been to protect established import suppliers as well as domestic producers from the full effects of surging imports from new sources. The longer-term result has been to promote growth of imports from still newer sources. Protection targeted at Japan promoted export growth first in textiles and later in steel and semiconductors from the "newly industrializing economies" (Hong Kong, Singapore, South Korea, and Taiwan); recent U.S. and EU action in textiles and apparel targeted at China has benefited Vietnam, India, and Bangladesh, along with partners in various preferential trade agreements. The United States also initiated bilateral negotiations with Japan and later China to increase their purchases of U.S. exports. We provide more details on U.S. trade policies toward Japan and China in sections 4 and 5 below.

The United States has also sought to limit foreign acquisitions of U.S. companies from both nations (as well as others) on "national security" grounds. The Committee on Foreign Investment in the United States (CFIUS) was established in 1975 for the purpose of monitoring

[3] Morrison (2009), Table 1.

the effects of inward FDI.[4] In 1988, the U.S. Congress gave the President the power to block a foreign takeover based on advice from CFIUS indicating a threat to national security.[5] Among other cases, U.S. authorities prevented the acquisition of Fairchild Semiconductor by Japan's Fujitsu in 1987 and of Unocal, an oil producer, by the Chinese National Offshore Oil Corporation (CNOOC) in 2005. In contrast, greenfield investments, notably foreign-owned auto assembly plants, have been assiduously courted.[6]

However, there are also some notable differences between the two cases. Japan was already an established industrial nation in the 1980s. By the mid-1980s, Japan's per capita income was above that of most European nations; enrollment rates for secondary and higher education were likewise comparable to those of the richest nations (*World Development Report 1986).* In contrast, China is still poor, at least in terms of per capita income (around $3000 in 2007), despite a prolonged period of stellar growth performance.[7] Thus, it is not surprising that earlier trade frictions between Japan and the United States focused mainly on direct competition, i.e., Japan's increasing share of the U.S. market and its displacement of U.S. exports in third-country markets. In contrast, although direct competition with China is an irritant in U.S. trade, the recent situation has been mainly one in which China has displaced other established trading partners in supplying the U.S. market. This has stimulated interest on the part of other nations in

[4] In the early postwar period, U.S. participation in FDI was almost entirely as a home base for outward investments. Inward FDI began to take off in the 1970s, and by the 1980s the United States had become the world's largest host to inward FDI. CFIUS, an interagency committee chaired by the Treasury Secretary, was intended to address public and official concern regarding foreign control over U.S. economic activity.

[5] Congress passed the Exon-Florio amendment (§721 of the Defense Production Act) during a period of growing concern about foreign acquisitions of U.S. assets.

[6] An explicit goal of the 1981 U.S. VERs limiting auto imports from Japan was to encourage Japanese companies to move their factories to the United States. Between 1984 and 1987, seven Japanese companies built U.S. assembly plants—allegedly financed in large part by the quota rents created by the VERs.

[7] Per capita income and other national averages mask large differences between the coastal areas and the interior provinces in the north and west of the country.

joining preferential trade arrangements with the United States as a means of getting better-than-MFN access to the lucrative U.S. market (Bown and McCulloch, 2007). However, U.S. officials have already signaled their displeasure with increasing evidence that China is encouraging development in high-technology sectors, including some that will offer direct competition comparable to that in the earlier U.S.-Japan case.

In terms of overall trade patterns, there are similarities as well as differences. Like Japan, China is a major importer of raw materials, and these imports have grown at a pace similar to that of exports. However, China is far more open to manufactured imports, both of final goods and intermediate inputs, the latter an indication of China's much greater involvement in international vertical specialization. As a result, while China has had growing merchandise trade surpluses with the United States, the European Union, and Japan, it has had growing deficits with the rest of the world, and only recently a significant overall trade surplus.

China's trade to GDP ratio (2005-2007) was 71.3%, an astonishing figure given China's size and level of development. In contrast, the corresponding ratio for the United States was 27.2% and for Japan 31.5%.[8] Another significant difference is the role played by foreign direct investment (FDI). The first of China's export-oriented Special Economic Zones (SEZs), which opened in 1980, encouraged FDI through preferential treatment of foreign investors.[9] By 2004, China's stock of inward FDI stood at $702 billion, with an FDI to GDP ratio of 0.42, compared to Japan's 1986 stock of $7 billion, a negligible share of GDP. Indeed, even by 2004, Japan's stock was still only $97 billion and its FDI to GDP ratio 0.02.[10] While Japan and China both

[8] IMF trade profiles.

[9] One result may have been round-tripping of mainland capital, i.e., mainland investors routing funds through Hong Kong firms in order to qualify for preferential treatment.

[10] Hufbauer, Wong, and Sheth (2006, p. 77). Data for China include inward FDI from Hong Kong, of which some portion is due to round-tripping from the mainland. With Hong Kong considered separately from China, in 2007

achieved rapid productivity improvement through adaptation of advanced technologies developed in richer countries, Japan acquired technology mainly through licensing agreements, while for China FDI has been a major channel for technology transfer.[11]

Although industrial policy has played an important role in both Japan and China, the dominant role of Japan's Ministry of Trade and Industry (MITI) and Ministry of Finance (MOF) in the 1970s and 1980s has no close parallel in the China of today. Instead, much of China's economic policy-making has been decentralized, with the direction of industrial development the result of input at many levels, from the national to the "village." In this respect China more closely resembles the United States or the European Union, where individual sub-national units enjoy considerable scope for setting priorities and implementing policies. Finally, although moving from a planned toward a market economy, China remains a communist state and has not made significant steps toward a democratic system of government, at least at the national level (elections are routine at the village level); Japan's national government is an elected parliament, and economic policy-making remains relatively centralized.

These political and economic differences have direct implications for the resolution of trade disputes, whether through bilateral negotiations or through actions taken in the WTO system. Officials of China's national government may enjoy more freedom of action than their Japanese counterparts since the government does not need to satisfy a representative electorate. However, Chinese officials believe that the country's political stability is highly dependent on continued economic growth. Chinese policy makers have therefore been aggressive in

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Hong Kong ranks #3 worldwide in terms of FDI stock, after the United States and the United Kingdom, while China ranks #6, after France and Germany. Japan is #25 (CIA Factbook).

[11] In at least a few cases, firms in each country sought to acquire technology by acquiring foreign companies or by using subsidiaries as listening posts in the United States and other advanced countries. In both cases, industrial espionage was also alleged.

stimulating domestic demand as a means to offset the effects of the sharp drop in exports that China experienced in early 2009.

The trade policy options of the United States and other major trading partners may be more circumscribed than in the case of Japan due to China's integration into their own economies through FDI and vertical specialization.[12] The enforcement of a successful complaint through the WTO comes entirely through limited authorized retaliation, or at least the threat of retaliation. But with the extensive role of FDI and vertical specialization (or both) in most of China's export sectors, finding suitable targets for authorized retaliation may prove difficult. Nonetheless, the United States has moved since 2006 toward greater reliance on the WTO in handling its trade conflicts with China. The latest instance is the December 2008 announcement by the U.S. Office of the United States Trade Representative (USTR) regarding China's "Famous Brands" programs. The U.S. complaint cites the export subsidy elements of the programs—which may violate WTO rules that prohibit most export subsidies—as well as the "protectionist industrial policy" implied by the programs.[13]

3. Export-led growth, reciprocity, and the GATT/WTO system

The GATT/WTO practice of reciprocity has typically resulted in a balance of market-opening concessions across the major players in the system.[14] Unlike the principles of most favored

[12] On the other hand, security concerns may have shaped U.S. policies toward Japan until 1975, given U.S. reliance on Japanese bases during the Vietnam War.

[13] USTR (12/19/2008). Apart from actual cash export subsidies, the U.S. complaint seems to fly in the face of common practice worldwide. Most countries, the United States included, have extensive export-promotion efforts in place at the national, state, and local levels. See http://www.trade.gov/promotingtrade/index.asp, which describes some U.S. national efforts.

[14] Economic analyses such as Bagwell and Staiger (1999, 2002) that treat the GATT/WTO as a self-enforcing agreement focus on outcomes that can be sustained through each member's recognition that any country can seek to amend the initial bargain. From the perspective of sustainability and in light of constraints that self-enforcement

nation treatment (Article I) and national treatment (Article III), there is no "Article" of the GATT 1947 clearly identifying reciprocity as a GATT principle. However, the Articles that govern how countries *renegotiate* concessions – in particular Articles XXVIII and XIX – do contain explicit language about reciprocity, and the GATT/WTO practice of reciprocity has typically resulted in a balance of market-opening concessions across the major players in the system.[15] But when large economies such as Japan and China pursue an export-led growth strategy, the resulting increase in exports disturbs the initial "balance of concessions," i.e., the reciprocal market-access outcome. The major trading partners that are the recipients of the increased exports then seek ways to rebalance the bargain.[16] To restore balance and thus sustain the overall agreement, the other members of the trading system, including its leaders like the United States, have two potential strategies for rebalancing concessions. The first strategy is to slow down the export expansion. The second strategy is to speed up the exporting countries' own import expansion.

In sections 4 and 5, we examine the various policy approaches that the United States has implemented with respect to Japan and China in each of these two areas. Then in section 6 we address how these approaches have spilled over into other areas – including how the rules of the international trading system have themselves adapted to accommodate such changes, as well as

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implies, the rule of reciprocity then arguably feeds back to how initial negotiations are conducted. See additional discussions in Bown (2002a, 2002b).

[15] Economic analyses such as Bagwell and Staiger (1999, 2002) that treat the GATT/WTO as a self-enforcing agreement focus on outcomes sustained due to each member's recognition that any country may seek to amend the initial bargain. From the perspective of sustainability and in light of constraints that self-enforcement implies, the rule of reciprocity feeds back to the way initial negotiations are conducted. See additional discussions in Bown (2002a, 2002b).

[16] Indeed the increased incentive to "defect" can result from simple and natural economic market forces that are completely distinct from any "political" incentives to impose tariffs; for example, to assist preferred domestic industries or to redistribute income. For example, as a consuming country increasingly imports a product from a trading partner, a result is that the consumer increases its market power. A substantial increase in imports can therefore create an incentive for the importing country to seek to increase its tariffs to improve its own terms of trade, a rationale for increased tariffs that is different from any political motive.

some unintended consequences of U.S. policy choices in its attempts to ensure that Japan's entrance into the GATT and China's entrance into the WTO resulted in balanced bargains.

4. U.S. "management" of foreign export expansion into its market

The U.S. has implemented a number of policies, such as voluntary export restraints, safeguards, and antidumping, in its attempts to limit the growth of Japanese and Chinese exports into its market. We describe key examples of each of these policies.

4.1 Voluntary Export Restraints (VERs)

4.1.1 Japan: VER proliferation across industries, 1960s -1990s

Japan was admitted to the GATT in 1955 with strong support from the United States. Fourteen other members, fearing import competition based on low Japanese wages, initially limited their liberalization commitments by invoking Article XXXV. However, problems soon arose in the U.S.-Japan relationship over Japanese textile exports. By 1957, the first orderly marketing agreements (OMAs) between the United States and Japan had been signed.[17] These agreements represented a U.S. decision to forego GATT-sanctioned remedies in favor of a non-MFN, bilateral approach to handling trade frictions and set a pattern that was replicated for additional products and importing and exporting countries in subsequent decades in the form of negotiated "voluntary" export restrictions (VERs). Most notably, the market incentives created by the initial discriminatory form of protection eventually produced the worldwide Multi-Fibre Arrangement (MFA) in 1974. The MFA placed quantitative bilateral limits on textile and

[17] The United States had already negotiated similar restrictions on Japanese textile exports prior to World War II.

apparel trade between most importing and exporting countries until it was phased out as part of the Uruguay Round package.

In part due to the "success" of agreements on textiles (which promoted growth of exports from other, not yet restricted, countries in Asia and elsewhere) and as Japan made a full recovery from the effects of WWII, Japan's exports and U.S.-Japan trade frictions shifted toward a succession of more sophisticated products. Many of these resulted in the imposition of negotiated VERs subsequent to a safeguard (Section 201) petition requesting relief from surging imports for an injured domestic industry. Table 2 documents a number of examples of U.S. safeguard investigations resulting in such OMAs during the 1970s and 1980s in Japanese export products such as footwear, steel, television receivers, and even autos.

As table 2 also indicates, the safeguard law was not the only import-restricting policy that U.S. industries used to seek new trade barriers and which ultimately resulted in bilaterally negotiated VERs to limit Japanese exports to the United States.[18] U.S. antidumping policy, which we discuss in more detail in section 4.2 below, also resulted in a number of Japanese VERs. The most important of these was the semiconductor VER, negotiated after a pair of antidumping petitions filed in 1985.[19] A 1993 petition under the U.S. antidumping law also

[18] During this period, the U.S. also negotiated VERs with Japan and other exporters outside of the legal frameworks of the safeguard and antidumping laws. For example, in 1986 the U.S. negotiated a VER with Japan and other countries over machine tools under section 232 of the Trade Expansion Act of 1962. Section 232 authorizes the President to implement new import restrictions grounds of national security (Hufbauer and Elliott 1994, 91). Voluntary restraints on flat-rolled steel products had been negotiated in 1985 (Hufbauer and Elliott 1994, 103).

[19] In July 1985, Micron filed an antidumping petition over 64K DRAMS that led to the imposition of duties on imports from Japanese firms Hitachi, Mitsubishi, NEC, and Oki Electric. The duty order on 64K DRAMS remained in place until 1993. In October 1985, the U.S. firms Advanced Micro Devices, Intel, and National Semiconductor filed a separate petition over Eproms, and in December 2005 the U.S. government self-initiated a petition over 256K and above DRAMS. The petitions led to negotiated VERs ("Suspension Agreements" in the language of U.S. antidumping) by which Japanese firms Fujitsu, Hitachi, NEC, and Tokyo Shibaura (Toshiba) agreed to limit exports to the U.S. market. The 256K DRAM suspension agreement was revoked in 1991, and the Eprom agreement was not formally revoked until 1997. Additional detailed data on each of these antidumping cases has been compiled in Bown (2009).

resulted in a VER over photo paper between the U.S. firm Kodak and Japanese firm Fuji; this dispute was a precursor to a later high-profile Kodak-Fuji WTO dispute. A 1996 antidumping petition over sodium azide resulted in a negotiated VER with three Japanese chemical-producing firms.

4.1.2 China: Textiles and apparel, 2005-2008

The terms of China's 2001 accession to the WTO in 2001 granted WTO members a number of China-specific transitional safeguard mechanisms designed to cope with an anticipated increase in exports from China, and especially textiles and apparel following the scheduled end of the Multi-Fibre Agreement. [20] The U.S. implemented two separate China safeguards in domestic legislation. For the 2001-2008 period, a safeguard administered by OTEXA in the U.S. Department of Commerce covered only U.S. imports of textile and apparel products from China. Separately, under Section 421 of the U.S. trade law, the U.S. has access to a broader China-specific safeguard through 2014.

Facing a surge in imports of textile and apparel products from China following the expiration of the Multi-Fibre Arrangement on 1 January 2005, the United States negotiated a voluntary export restraint with China for the 2005-2008 period.[21] Although the rules of the WTO preclude use of VERs, they have nonetheless returned.[22]

[20] On the economic effects of the end of the MFA, see Brambilla, Khandelwal and Schott (forthcoming) and Barrows and Harrigan (forthcoming).

[21] The WTO's Trade Policy Review of China (WTO 2006, 60-61) describes the VER settlements between the U.S. and China (as well as a similar arrangement between the EC and China):

"On 10 June 2005, China and the European Communities signed a Memorandum of Understanding (MOU), placing export restraints on ten categories of Chinese textiles and clothing exports to the EC until 31 December 2007. The growth rates of these exports would be limited to between 8% and 12.5% per year. As a quid pro quo, the EC agreed to end its ongoing safeguard investigation on these products and to refrain from adopting measures as permitted under Article 242 of China's WTO Working Party Report, in categories not covered by the MOU…Under

4.2 Antidumping

Combined, Japan and China faced a major share of all U.S. antidumping activity over the 1979-2008 period; 25% of all U.S. investigations targeted either Japanese or Chinese producers, and 33% of all U.S. antidumping measures imposed targeted either Japanese or Chinese producers.[23] However, as figure 1 indicates, U.S. antidumping over 1979-2008 is really two different stories: the rise (1979-1988) and fall (1989-2008) of antidumping use to manage the growth of Japan's exports to the United States, and the increased use of antidumping (since 1989) to manage growth of China's exports to the United States. In figure 1, the bars indicate the number of U.S. antidumping measures imposed during various sub-periods between 1979 and 2008; the lines indicate the respective shares of Japan and China in total U.S. AD measures imposed in each of the sub-periods. U.S. targeting of Japan with antidumping reached its peak in the 1984-1988 period, when the United States imposed more than 20 new import restrictions on Japanese exporting firms; measures restricting imports from Japan accounted for more than 20% of all new AD measures the United States imposed during that period.

After 1988, U.S. use of AD against Japan slowly declined, whether measured by the number of new measures imposed on Japanese exporters or by Japan's share in total U.S. use of antidumping. At the same, U.S. use of antidumping shifted dramatically toward imposition of

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the Interim Measures, MOFCOM compiles a "Catalogue of Textiles Products Subject to Interim Export Administration", including exports of textiles and clothing subject to restrictions imposed by countries or regions unilaterally, and textile exports subject to temporary quantitative control under bilateral agreements. For each product listed in the Catalogue, the quota is partly assigned through a bidding system, and partly allocated based on the exporter's share in China's total export value for the previous year in the respective categories.…A similar agreement was signed with the United States on 8 November 2005. The restraints on certain categories of textiles and clothing exports from China are effective from 1 January 2006 to 31 December 2008; exports of these products are expected to increase by 8% to 10% in 2006, by 13% in 2007, and 17% in 2008."

[22] Under the self-enforcing WTO system, the United States and China were free to choose this option as long as no country filed a complaint.

[23] These are the authors' estimates based on the data in Bown (2009). Investigations naming firms in more than one European Union member country for the same product are combined as a single case.

new import restrictions against China. During the second half of the period (1999-2008), the United States imposed more than 50 new antidumping import restrictions on Chinese exporters, and these restrictions were roughly a third of all antidumping measures that the United States imposed during this period. Figure 2 illustrates the time pattern of U.S. antidumping investigations and measures imposed against Japan (panel a, 1979-2000) and against China (panel b, 1989-2007) as compared to the growth of the U.S. bilateral trade deficit (normalized as a share of the total value of bilateral trade) with each country. The data show a strong positive correlation over time between the size of the bilateral trade deficit and the frequency with which the partner has become a target of U.S. antidumping as a partial effort at "managing" the trading partner's export expansion into the U.S. market

4.3 Countervailing duties

Countervailing duties are a third form of contingent protection available to U.S. officials as a means to manage increased imports. Under the U.S. "anti-subsidy" law, officials can target imports they believe have been unfairly subsidized by foreign governments; such imports are then subject to an import tax equal in size to the foreign subsidy. Interestingly, the United States never used its countervailing duty law to address imports from Japan over the entire 1979-2008 period.[24]

From 1979 until 2006, the United States also never used its countervailing duty law to impose new import restrictions on China.[25] A 1984 policy decision of the U.S. Department of

[24] Out of 533 countervailing duty investigations in the United States between 1979 and April 2008, only one involved imports from Japan, a 1982 investigation of "Certain Nuts Bolts And Screws." However, the case was withdrawn before receiving even a preliminary subsidy or injury determination.

[25] Domestic industries did initiate three countervailing duty petitions during this time period, however. U.S. petitions were filed in 1984 ("Textiles And Textile Products"), 1991 ("Oscillating Fans And Ceiling Fans") and 1992

Commerce explicitly exempted China cases from consideration under the countervailing duty statute. However, in November 2006, U.S. producers of "Coated Free Sheet Paper" included China in a petition they were filing against Indonesia and Korea over alleged subsidies. In March 2007, the Commerce Department opened the door for the United States to begin imposing countervailing duties on imports from China by reversing its earlier policy.[26] In December 2007, the U.S. International Trade Commission (USITC) made a negative injury determination in the coated free sheet paper case, and no duties were imposed. However, the reversal of the Commerce Department policy also opened the door for *other* U.S. industries to request import protection against China under the countervailing duty law. As table 2 indicates, thirteen additional investigations against China had been initiated as of April 2009, and all cases that had reached the stage of a final decision resulted in the imposition of new countervailing duties, one as high as 226%.

4.4 Changing the relative terms of U.S. import market access for other exporters

U.S. imposition of restrictions on imports from Japan and China sometimes benefit producers in other (unrestricted) exporting nations in addition to, or rather than, competing U.S. producers. This has been especially true for Chinese textiles and apparel, where other developing countries share China's comparative advantage relative to the United States. In such cases, restrictions on Japan and China have improved the *relative* terms of U.S. import market access available to other exporters. However, in many cases the United States has created the same relative

("Chrome-Plated Lug Nuts And Wheel Locks"), however all of these cases were either withdrawn or terminated without any Department of Commerce or USITC rulings. See Bown (2009).

[26] See Department of Commerce, "Press Release: Commerce Applies Anti-Subsidy Law to China," http://www.commerce.gov/opa/press/Secretary_Gutierrez/2007_Releases/March/30_Gutierrez_China_Anti-subsidy_law_application_rls.html , 30 March 2007.

advantage for other exporters through a variety of preferential (discriminatory) trade arrangements. Most of these arrangements are permitted under GATT/WTO rules.

Trading partners that competed with Japan in the U.S. market and benefited from formal preferential trade agreements with the United States during this time period include Israel (1985) and Canada (1987). With the growth of U.S. imports from China, the United States entered into preferential deals with Mexico (NAFTA, 1994), CAFTA-DR, Bahrain, and Morocco. The United States also offered various groups of developing countries further extensions of major preferential programs, including the Generalized System of Preferences, for Andean countries through the Andean Trade Preference Act (1992, expanded as the Andean Trade Promotion and Drug Eradication Act under the Trade Act of 2002), and for countries in sub-Saharan Africa through the African Growth and Opportunity Act (2004). While these special preferential arrangements are often motivated primarily by non-economic objectives rather than to restore the market position of established suppliers to the U.S. market, they do improve the market access of firms in other countries relative to their rivals in China.

5. U.S. attempts to improve its exporters' market access in Japan and China

The second strategy a country facing continued export expansion into its market can use to rebalance concessions is to expand its own exporters' access to the other country's market. The U.S. has taken a number of related approaches with the goal of improving the access of its exporting firms to these markets.

5.1 Japan

When Japan joined the GATT in 1955, the country was still very poor. The post-World War II occupation by the United States had only ended in 1952, and Japan's domestic market was not yet attractive to U.S. exporters of manufactured goods. Japan had relied heavily on food imports from the United States and other countries in the immediate postwar period, but as Japanese farmers recovered from the war, the demand for imported food waned. Traditional policies of self-sufficiency began to be restored, and in some cases U.S. food exports were excluded. Thus, early market-opening efforts focused on agricultural products.

By the mid-1970s, the United States had adopted a more formal and legalistic approach to improving its exporters' access to the Japanese market. Over the next twenty years, U.S. officials pursued at least 23 different actions against Japan in attempts to open up its market to U.S. exports. The United States used a combination of its Section 301 law as well as formal trade disputes under the GATT (1977-1994) and WTO (1995 onward). Under Section 301, a U.S. export industry can petition the U.S. government to take up its concern that it has lost foreign market access because another country is not living up to a trade agreement it has signed with the United States. Section 301 was strengthened and revitalized in 1988.[27]

Figure 3 shows formal U.S. market-opening initiatives against Japan and the bilateral U.S.-Japan trade deficit by year from 1965 through 2000. Similar to the U.S. use of antidumping against Japan shown in figure 2a, there is a strong positive correlation between the size of the bilateral trade deficit and U.S. actions to open up Japan's markets. Table 4 presents more

[27] For a discussion of Section 301, see Bhagwati and Patrick (1990) and Bayard and Elliott (1994). All but one of the Section 301 cases against Japan listed in table 4 are primarily about a U.S. export industry seeking additional access to the Japanese import market. The one that does not fall into this category is the 1976 investigation of Japan and the European Community in which the two were accused of colluding in a way that deflected Japanese exports away from the EC import market and toward the U.S. import market.

detailed information on each of the 23 examples of formal Section 301, GATT, or WTO trade disputes that the United States initiated to open up Japan's market. While the United States had begun using the GATT dispute-settlement provisions in 1948, it did not file its first formal trade dispute against Japan until 1977.[28] U.S. use of GATT dispute settlement in the attempt to open up Japan's market to its firms was most frequent during the 1977-1988 period, when it filed a total of 11 formal disputes against Japan. Japan was clearly an important target for the United States during this period, facing nearly one third of the 35 GATT trade disputes the United States initiated. Beginning in 1989, partially out of frustration with the relatively toothless dispute settlement provisions of the GATT and partially as a negotiating tactic to increase the pressure on the other GATT contracting parties to reform the dispute-settlement provisions, the United States shifted away from using GATT dispute settlement and instead relied solely on its unilateral Section 301 policy tool to pursue cases against Japan. Whereas all but one of the Section 301 investigations against Japan during 1977-1988 resulted in the United States bringing a formal GATT trade dispute, none of the next four Section 301 cases, initiated during 1989-1994, did so.[29] In the WTO era that began in 1995, all U.S. Section 301 investigations of Japan have been forwarded to WTO dispute settlement, along with two other disputes that did not go through the Section 301 channel.

[28] The United States was not the first country to file a formal GATT trade dispute against Japan. That distinction belongs to Australia, which filed a formal dispute in 1974 over Japanese quantitative import restrictions on beef. The data on GATT disputes described in this section draw on Hudec (1993).

[29] The only Section 301 investigation of Japan during 1977-1988 that did not lead to a U.S.-initiated GATT dispute was the Semiconductor case initiated in 1985. As we have described in section 4.2 above, the U.S. domestic industry simultaneously filed antidumping petitions against Japanese exports, which led to the negotiation of voluntary export restraints and ultimately the bilateral semiconductor agreements. Under these agreements, Japan promised to undertake "voluntary import expansions" to increase semiconductor imports from U.S. exporters. This in turn led to two formal GATT disputes. The EC initiated a dispute against Japan in 1987, alleging that its agreement with the United States discriminated against EC exporters. Japan initiated a dispute against the United States in 1987 after the United States retaliated by raising tariffs against Japan for its failure to live up to the terms of the bilateral semiconductor agreement.

In what sectors and issues has the United States used these formal channels to obtain additional Japanese market access for its exporters? As the products in table 4 show, there is considerable range. In the 1970s, desired export market access was primarily in agriculture-based products (tobacco, leather) and lower-value-added manufacturing (silk, cigars, cigarettes, footwear, bats). In the mid-1980s, while there were continued pressures to obtain Japanese market access for U.S. agricultural products (dairy, legumes, starches, sugars, groundnuts, pineapple, tomato, fish, citrus, and beef) and also wood products, there were new issues of importance to U.S exporters as well. Some of this involved newer intellectual-property-intensive export products where the United States had a strong comparative advantage (semiconductors, supercomputers, satellites, auto parts), but also involved were issue-areas and disciplines where the GATT rules were only slowly becoming responsive, e.g., trade in services (construction, architectural, engineering) as well as three separate disputes over Japan's government procurement procedures.

Once the WTO era began in 1995, the United States immediately began to test its new dispute-settlement provisions in a number of areas in which the Uruguay Round had introduced new disciplines. One example is a 1995 WTO dispute under the new TRIPS (Trade Related Aspects of Intellectual Property Rights) Agreement, in which the United States alleged that Japan was not sufficiently protecting the copyrights of U.S. musical artists for their past performances and sound recordings. The United States also quickly tested the reach of the new General Agreement on Trade in Services (GATS) in the infamous 1995 Kodak-Fuji dispute, in which it alleged that Japanese government policies were the cause of Kodak's inability to gain access to the Japanese market for photographic film and paper. Finally, U.S. agricultural interests continued to play a role as the United States pursued "standards" cases under the new

Agreement on Sanitary and Phytosanitary (SPS) Measures. The United States demanded that Japan remove burdensome import restrictions and testing requirements for various U.S. fruit exports, arguing that such trade barriers could not be justified on the basis of scientific risk assessments as required under the new WTO disciplines.

5.2 China

China was a founding member of the GATT but withdrew following the communist revolution in 1950. Although it became interested in rejoining (and achieving MFN status) soon after the 1979 commencement of market-oriented reforms and gained GATT observer status in 1982, China did not resume full-fledged membership in the GATT/WTO system until 2001. Perhaps learning from their experience with Japan and other major countries that have adopted export-led growth strategies, the United States and other WTO members demanded many more import market-access commitments when they negotiated the terms of China's accession to the WTO than had previously been the case with new arrivals. [30] Moreover, China's reentry was conditional on many special provisions, some "Special China Safeguards" that allowed "temporary" discriminatory restrictions on Chinese exports and others requiring China to comply over time with many special multilateral and bilateral (U.S.-China) commitments.

Perhaps the most fundamental issue raised by China's entry is its legacy as a centrally planned economy. Although industrial policy has now been decentralized to a significant extent, explicit and implicit subsidies remain an integral part of the nation's industrial policy. Under the

[30] When the WTO was created in the Uruguay Round, many less-developed countries were permitted to join without special conditions. Other transition economies joined prior to China or around the same time without special conditions. China's "special" treatment was presumably a consequence of its already evident potential for significant impact as an exporter. The growth of Chinese exports to the United States, Japan, and the European Union as well as other countries did accelerate following its WTO accession in 2001, triggering use by some countries of the special China safeguards to manage the burgeoning imports.

terms of its accession agreement it is still accorded non-market-economy status, which translates into huge dumping margins and anti-dumping duties. Along with remaining cash subsidies and tax rebates, China still provides financial support of state-owned enterprises (SOEs), easy access to loans for preferred companies and sectors, administrative guidance favoring FDI in preferred sectors, as well as persistent exchange-rate undervaluation (with the effect of protecting domestic producers from competing imports and subsidizing exporters).

Although current trade rules cover explicit cash subsidies and some tax rebates, the protected role of SOEs and heavy governmental discretion in the allocation of financial capital has parallels in the practice of many other member countries. WTO disciplines regarding trade-related investment are weak at best, and the WTO has no explicit (actionable) mechanisms for dealing with a country's manipulation of its exchange rate as an implicit means of favoring national firms over their foreign rivals in domestic or export markets.

With the opportunity to negotiate the terms of China's entry into the WTO, the existing membership was able to extract massive accession commitments from China that included scaling back explicit subsidies to SOEs as well as reforms to banking sector. But ultimately, the self-enforcing nature of the WTO system requires other members to enforce China's commitments to reining in subsidies through formal WTO dispute settlement activity under the WTO's Dispute Settlement Understanding (DSU). But since there are no explicit WTO mechanisms for dealing with the issue of subsidization via currency manipulation, even if countries seek to combat China's subsidization through the DSU, members must resort to other policy instruments to confront this type of implicit subsidy.

How are WTO members confronting the China subsidy problem, and what are the tradeoffs between the different approaches available? The first is through WTO anti-subsidy

disputes, of which there have been a number (see Table 3). So far China has settled every WTO dispute over subsidies initiated at the WTO with a promise to remove the allegedly WTO-inconsistent measure. The only exception is the "Famous Brands" case, which was only initiated in December 2008. Nevertheless, if the parties to a dispute were unable to negotiate a settlement and the dispute went to WTO adjudication, Chinese officials are becoming well informed on WTO rules and case law regarding subsidies and countervailing measures. China has been following the evolution of WTO rulings on subsidies closely from other countries' disputes as well as its own. China has participated as an interested third party in over a dozen formal WTO disputes involving other countries' subsidies issues. An alternative way for countries to rein in China's use of subsidies apart from initiating a WTO dispute is for affected countries to facilitate their domestic firms' use of the country's countervailing duty law to get the enforcement. There is increasing evidence that WTO members are using this route.

When China acceded to the WTO in 2001, it had cut tariffs significantly on a broad range of products, making its applied tariffs both relatively low and quite close to the bound rates. As table 5 indicates, China's applied and bound tariffs are only slightly higher than those of the United States and Japan overall and actually lower than Japan's in certain areas (e.g., agriculture). China's tariffs are also much lower on average than those of other major emerging economies such as India and Brazil, countries that have been part of the GATT/WTO for decades longer than China.

But as figure 2b shows, the U.S. bilateral trade deficit has nonetheless been expanding rapidly, with no sign of decline after China's accession to the WTO in 2001.[31] Thus, beginning

[31] For a number of years prior to 2001, even though China was not a member of the WTO, the United States had given it MFN treatment. Thus, the U.S. applied tariffs faced by China were not substantially reduced by China's 2001 WTO entry, although the uncertainty of that treatment was likely reduced.

in 2004, the United States began efforts similar to those taken against Japan in the late 1970s to get China to open up its market to U.S. exports. Table 5 documents the formal disputes the United States has initiated against China through 2008, in which it alleges that China has not sufficiently (quickly or in depth) lived up to its import market access commitments. The domestic industries behind the U.S. formal initiation of disputes included both dominant U.S. comparative advantage-based export interests such as intellectual-property-intensive goods and services like information technology (semiconductors), Hollywood movies and other media, financial information service providers and traditional capital-intensive industries like autos. Like the WTO disputes involving the United States and Japan discussed earlier, many of the issue-areas are relatively new and/or involve somewhat new disciplines, including TRIPS and the Agreement on Subsidies and Countervailing Measures (SCM), where China is particularly vulnerable given its history of state-owned enterprises and its still incomplete transition to a more market-oriented economy.[32]

Finally, in addition to the formal WTO disputes that the United States has chosen to initiate to address the bilateral imbalance with China, it is also worth noting a path that the United States has not yet undertaken, i.e., resumption of unilateral Section 301 actions.[33] This is notable given that the USTR received a number of recent petitions to investigate China under Section 301. In each year between 2004 and 2007, the USTR received at least one petition

[32] Indeed, the shift toward U.S. use of countervailing duty policy against China described above and illustrated in table 3 may reflect the U.S. desire to speed the elimination of China's domestic subsidy programs, which increase China's ability to export while reducing foreign access to China's domestic market.

[33] At the same time of the general U.S. emphasis of Section 301 during 1988-1994 that we described above in the context of our discussion about Japan, the USTR also investigated China under three separate Section 301 investigations between 1991 and 1994. Despite it not being a member of the GATT, two Section 301 investigations related to intellectual property rights and one concerned the general conditions of China's import market access that the U.S. alleged imposed barriers via quantitative restrictions, burdensome licensing procedures, technical barriers and a lack of transparency. For a discussion, see Bayard and Elliott (1994, Appendix Table and 355-465).

requesting the use of Section 301 to investigate China's exchange rate or manufacturing labor rights, alleging that undervaluation of China's currency constitutes a WTO-inconsistent subsidy or that its mistreatment of manufacturing workers affects U.S. market access. In each instance, the USTR has declined to investigate the issue of the petition.[34]

6. Systemic implications: Uruguay Round agreements and the WTO

U.S. priorities in the Uruguay Round were shaped by dissatisfaction with its inability over several decades to access certain export markets, especially that of Japan. Thus, the United States sought to negotiate more disciplines on "standards," including the SPS Agreement, as well as agreements on Technical Barriers to Trade (TBT), government procurement, services (GATS), subsidies (SCM Agreement), and intellectual property rights protection (TRIPS). All countries also had to undertake new disciplines over trade in agriculture (subsidies and domestic support) as well as clothing and textiles through the phase-out of the MFA. We have already seen the results in the context of our discussion of WTO disputes brought by the United States against Japan since 1995 (table 4) and China since 2001 (table 6), putting the new rules to the test.

[34] Specifically, USTR (2005, 259) states, "One petition alleged that certain labor policies and practices of the Government of China with respect to Chinese manufacturing workers are unreasonable, as defined in section 301(d) of the Trade Act, and burden or restrict U.S. commerce. The USTR determined not to initiate an investigation under section 302 of the Trade Act with respect to the petition because the Government of the United States is involved in ongoing efforts to address with China many of the labor issues raised in the petition, and because initiation of an investigation would not be effective in addressing the policies and practices covered in the petition. Two substantially similar petitions alleged that the policies and practices of the Government of China with respect to the valuation of Chinese currency deny and violate international legal rights of the United States, are unjustifiable, and burden or restrict U.S. commerce. The USTR determined not to initiate investigations with respect to the petitions because the United States is involved in ongoing efforts to address with China the currency valuation issues raised in the petitions, and because initiation of investigations would not be effective in addressing the policies and practices covered in the petitions." In 2005 the USTR declined to pursue a similar petition against China over currency (USTR 2006, 225), in 2006 over labor (USTR 2007, 215), and in 2007 over currency (USTR 2008, 206).

U.S. actions prior to the Uruguay Round also had an important influence on the negotiating positions of other countries. The new WTO Agreement on Safeguards put a formal ban on the use of voluntary export restraints (VERs), an attempt to rein in the proliferation of VERs that began in the 1960s and continued through the 1990s.[35] U.S. resort to "aggressive unilateralism" and retaliation threats through its increasingly active use of the Section 301 policy in the 1988-1994 period helped convince Japan and other U.S. trading partners to accept a more binding and legalistic system of dispute settlement, resulting in the WTO Dispute Settlement Understanding (DSU). However, the Uruguay Round failed to impose additional rules-based discipline on policies such as antidumping.

Table 7 documents how Japan and China have used WTO (and GATT) dispute settlement against the United States. During the WTO period, the clear focus of Japan's WTO efforts has been on reforming U.S. use of antidumping. Japan has filed disputes over U.S. imposition of particular antidumping measures, e.g., hot rolled steel imported from Japan. Japan has also challenged the little-used "other" U.S. antidumping law (Antidumping Act of 1916) as WTO-inconsistent because it allows for punitive damages above the imposition of ad valorem duties. It joined the collective challenge to the U.S. Byrd Amendment, under which antidumping duties collected from foreign firms were refunded to the domestic U.S. firms behind the antidumping petition. Japan has also challenged the Department of Commerce's use of "zeroing" to inflate dumping margins, thus resulting in higher duties.[36] Finally, Japan challenged the way in which the United States conducts its "sunset reviews." These reviews are supposed to lead to the

[35] See the discussion in Bown (2002a). While VERs are banned under the Agreement on Safeguards, they are implicitly encouraged elsewhere in the WTO Agreements, such as the encouragement of "price undertakings" by targeted exporting firms in investigations under the WTO's Antidumping Agreement. Finally, because the WTO dispute settlement is still a self-enforcing system, VERs are still likely to occur in practice provided that no member complains. Since in many instances exporters are better off under a VER than under the alternative (a higher duty under some other policy), in most instances there is no party to complain.

[36] Bown and Sykes (2008) provide a discussion of zeroing.

removal of the imposed antidumping duties after five years, but in most instances in the United States the duties remain in place well beyond the five-year limit.

China has taken a similar, albeit more limited, approach thus far to using WTO dispute settlement. As table 7 indicates, its only dispute on the complainant side prior to 2007 was the challenge it joined with Japan, the EC and six other WTO members challenging the 2002 U.S. imposition of steel safeguard import restrictions. But since 2007 China has begun to challenge the U.S. use of antidumping and countervailing duty policies on its exports. The first dispute that it initiated against the United States (after the imposition of a preliminary duty) became moot after the USITC found no evidence of injury, and so no final duties were imposed as we discussed above. However, in response to the increasing U.S. antidumping activity and the new U.S. stance on countervailing duty use, in 2008 China initiated a challenge to the U.S. laws that resulted in the first four instances in which China's exporters were targeted with U.S. CVD (table 3).

One consequence of the failure of the United States and other WTO members to address AD reform is that the use of AD has proliferated globally across the WTO membership. Indeed, the most frequent users of antidumping are now developing countries, with other developing country exporters, especially China, the most frequent target.

7. Looking Ahead

A goal of this paper is to provide a framework that allows us to make sense of the U.S.-Japan and U.S.-China trade relationships over the past thirty years, seeing similarities and differences as well as implications for evolution of the GATT/WTO system. The central similarity in the

two bilateral relationships is the huge bilateral imbalance, a reflection of these countries' export-led growth strategy. In both cases, the result has been a strain on the reciprocity-based trading system. We have looked at the imbalance as the result of exports that grew too fast and imports that grew too slowly, but in both cases, the U.S. public and government officials chose to interpret the imbalance as symptoms of non-market considerations. In both cases, the policy responses included policies that addressed the symptoms and also efforts to deal with what were perceived as underlying causes. But in both case the U.S. public and government officials were slow to acknowledge another underlying cause: the very low U.S. saving rate and the resulting macroeconomic imbalance that translated into a large external imbalance.

On the import side, the two cases are similar in the U.S. resort to VERs and antidumping, as well as negotiation of preferential agreements with traditional suppliers of relevant imported products. One difference is that the United States has recently begun using countervailing duties against China, an approach it did not take with Japan. Another is the use of the China-specific safeguards negotiated when China joined the WTO.

On the export side, use of U.S. Section 301 and GATT dispute settlement against Japan in the 1977-1994 period looks similar to the use of WTO dispute settlement since 2006. Differences are more subtle; not surprisingly, U.S. efforts in both cases reflected dominant export interests at the time. In the case of Japan, the role of keiretsu and active industrial policy were seen as an important part of the problem. In the case of China, the legacy of a non-market system remains an issue, even though an increasing share of import-competing products and exports come from parts of the economy where private ownership and market forces are strong.

U.S. frustration with its lack of success in prying open the Japanese market led to new rules introduced into the WTO system (SPS, TBT, Government Procurement, Information

Technology, TRIPS, Agriculture). The most important change was the introduction of a new system of dispute resolution with "teeth," though this required the United States to modify the aggressive unilateralism that had characterized its approach to trade policy in the pre-WTO period. As we have noted, no progress has been made on antidumping, although the improved dispute settlement system may help to address this problem over time.

One interesting comparison that cannot yet be completed concerns the ends of the two episodes. Japan-bashing was moderated by the rapid appreciation of the yen relative to the dollar that began in 1985 and slowed to a crawl during Japan's "lost decade" in the 1990s. In the case of China, the underlying saving/investment imbalance associated with the huge U.S. trade deficit has began to be corrected by the recession, and China itself has shifted toward a growth strategy that depends less on foreign demand for its exports.

Looking ahead to new issues, prospects for global negotiations are now dominated by two issues that overshadow others that constituted the previous agenda (e.g., food safety, agricultural policy, labor standards). One is the global recession, with the associated decline in the volume of world trade and the rise of new protectionism. The second is climate change and the trade-policy implications of efforts to limit carbon emissions—and to deal with "eco-dumping" by countries not willing to join in these efforts.

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Table 1. Percentage growth in export values in constant U.S. dollars

Country	Period	No. of years	Average annual growth rate
Japan	1954-81	27	14.2
Korea	1960-95	35	21.5
Malaysia	1968-96	28	10.2
China	1978-07	29	13.6
NIEs*	1966-97	31	13.1

*Newly industrialized economies of Hong Kong SAR, Korea, Singapore, and Taiwan (Province of China).

Source: Updated from Prasad and Rumbaugh 2003, 48; China data from International Financial Statistics, U.S. dollar values deflated using U.S. Producer Price Index for all finished goods.

Table 2. Examples of U.S. Safeguard (SG) and Antidumping (AD) Petitions Resulting in VERs with Japan, 1975-1997

	U.S. Law	Product	Petition Year	USITC Case No.	Years of VER
1.	SG	Stainless steel and alloy tool steel	1975	201-TA-5	1976-
2.	SG	Footwear	1975	201-TA-7	1976-
3.	SG	Footwear	1976	201-TA-18	1977-
4.	SG	Television receivers	1976	201-TA-19	1977-
5.	SG	Certain motor vehicles and chassis/bodies therefor	1980	201-TA-44	1981-
6.	SG	Carbon and certain alloy steel products	1984	201-TA-51	1984-
7.	AD	Eproms (Erasable programmable read-only memory – semiconductors)	1985	731-TA-288	1986-1997
8.	AD	256K and above DRAMS (Dynamic random access memory – semiconductors)	1985	731-TA-300	1986-1991
9.	AD	Photo paper and chemicals	1993	731-TA-661	1994-2000
10.	AD	Sodium azide	1996	731-TA-740	1997-2002

Source: Data collected by the authors from various USITC publications. “SG” refers to a safeguard under the U.S. Section 201 law; “AD” refers to antidumping under the U.S. Section 731 law.

Table 3. U.S. Countervailing Duty (CVD) Investigations of China, 2006-2009*

No.	Product	Petition Year	Final CVD Imposed (%)
1.	Coated Free Sheet Paper	2006	0.00 (no injury)
2.	Circular Welded Carbon Quality Steel Pipe	2007	37.28
3.	Certain New Pneumatic Off-the-Road Tires	2007	5.62
4.	Light-Walled Rectangular Pipe and Tube	2007	15.28
5.	Laminated Woven Sacks	2007	226.85
6.	Lightweight Thermal Paper	2007	13.63
7.	Raw Flexible Magnets	2007	109.95
8.	Sodium Nitrite	2007	169.01
9.	Circular Welded Austenitic Stainless Pressure Pipe	2008	1.01
10.	Circular Welded Carbon Quality Steel Line Pipe	2008	35.67
11.	Citric Acid and Certain Citrate Salts	2008	na**
12.	Certain Tow-Behind Lawn Groomers and Certain Parts thereof	2008	na**
13.	Certain Kitchen Appliance Shelving and Racks	2008	na**
14.	Oil Country Tubular Goods	2009	na

Sources: Bown (2009), *data as of 15 April 2009. 'na' indicates final determination not yet available, ** indicates that a preliminary CVD was imposed after a preliminary determination of injury and subsidization.

Table 4. U.S. Section 301 Investigations Targeting Japan's Import Market Access, GATT and WTO Disputes, 1955-2008

	Product – Alleged market access issue	Year*	Sect. 301	GATT/ WTO dispute
1.	**Steel** – Japan/EC agreement "deflected" Japanese production to the U.S. market	1976	Y	N
2.	**Thrown silk** – discriminatory market access agreement with Brazil, Korea, China	1977	Y	Y
3.	**Leather** – quantitative import restrictions and high tariffs	1977	Y	Y
4.	**Cigars** – import barriers and discriminatory internal taxes	1979	Y	Y
5.	**Pipe tobacco** – high import prices and limits on distribution and advertising	1979	Y	Y
6.	**Leather footwear** – quantitative import restrictions	1982	Y	Y
7.	**Metal softball bats** – technical barrier to trade of discriminatory testing/certification	1982	N	Y**
8.	**Single tendering procedures** – general practices of government procurement	1984	N	Y
9.	**Semiconductors** – domestic policies created "protective structure" and market access barrier	1985	Y	N†
10.	**Cigarettes** – high tariffs, domestic monopoly, distribution restrictions	1985	Y	N
11.	**Certain agricultural products** – quantitative import restrictions on dairy, legumes, starches, sugars, groundnuts, preserved beef, fruit pastes and juices, pineapple, tomato	1986	N	Y
12.	**Herring, pollack, and surimi** – quantitative import restriction on fish	1986	N	Y
13.	**Citrus** - import quotas on fresh oranges and juice, domestic content requirements	1988	Y	Y
14.	**Construction services** - barriers to foreign architectural, engineering consulting	1988	Y	N
15.	**Beef** – quantitative restrictions on imports	1988	N	Y
16.	**Satellites** – ban on government procurement of imports	1989	Y	N
17.	**Supercomputers** – restrictive government procurement practices of imports	1989	Y	N
18.	**Wood products** – technical barriers to trade (product standards, building codes, testing and certification) affecting imports	1989	Y	N
19.	**Auto parts** – policies that restrict foreign access to replacement parts market	1994	Y	N†
20.	**Alcoholic beverages** – Japanese "shochu" taxed internally at a lower rate than comparable imported products (vodka, liqueurs, gin, genever, rum, whisky, brandy)	1995	N	Y
21.	**Sound recording measures** – copyright law provided insufficient duration of intellectual property rights protection for past performances and sound recordings	1995	N	Y
22.	**Consumer photographic film and paper** – discriminatory policies inhibit sale and distribution of foreign products	1995	Y	Y
23.	**Agricultural products** – "codling moth" testing requirement results in import ban of apricots, cherries, plums, pears, quince, peaches, nectarines, apples, walnuts	1997	Y	Y
24.	**Apples** – import restrictions due to risk of transmitting "fire blight" bacterium	2002	N	Y

Source: Compiled by the authors from WTO (1995, 2009), Bayard and Elliott (1994, Appendix Table and pp. 355-465) and USTR (2009, various years).

Notes: *Earliest year of initiation of formal Section 301 petition or GATT/WTO dispute. **Disputes were not a GATT dispute initiated under Article XXIII, but a dispute documented in Hudec (1993). †U.S. retaliation or threatened retaliation led to Japan filing a GATT/WTO trade dispute against the U.S.

Table 5. Applied Tariffs and Bindings for Selected WTO Members, 2007

WTO Member Country	Product Category	Binding coverage (%)	Average Bound Tariff (%)	Average Applied Tariff (%)
U.S.	All	100	3.5	3.5
	Agriculture	na	5.0	5.5
	Non-agriculture	100	3.3	3.2
	Clothing	100	11.4	11.7
Japan	All	99.6	5.1	5.1
	Agriculture	na	22.7	21.8
	Non-agriculture	99.6	2.4	2.6
	Clothing	100	9.2	9.2
China	All	100	10.0	9.9
	Agriculture	na	15.8	15.8
	Non-agriculture	100	9.1	9.0
	Clothing	100	16.2	16.0
Brazil	All	100	31.4	12.2
	Agriculture	na	35.5	10.3
	Non-agriculture	100	30.8	12.5
	Clothing	100	35.0	20.0
India	All	73.8	50.2	14.5
	Agriculture	na	114.2	34.4
	Non-agriculture	69.8	38.2	11.5
	Clothing	54.9	43.5	22.2

Source: Compiled by the authors from WTO World Tariff Profiles 2008. The entry ‘na’ indicates not available. Binding coverage is defined as share of HS six-digit subheadings containing at least one bound tariff line. Simple averages are of the ad valorem (ad valorem equivalent) six-digit HS duty averages.

Table 6. U.S.-Initiated WTO Trade Disputes over China's Import Market Access, 2001-2008

No.	Product/policy – Complainant(s) and issue	Year
1.	**Integrated circuits** – U.S. alleged that China's domestic value-added tax and rebate scheme violated national treatment thus discriminating against imports	2004
2.	**Automobile parts** – U.S., EC and Canada alleged that China's policies violated rules on national treatment and subsidies and created disincentives for domestic auto manufactures to use imported parts	2006
3.	**Refunds, reductions or exemptions from taxes and other payments –** U.S. and Mexico alleged that China's policies granted WTO-inconsistent subsidies granted if firms purchased domestic over imported goods or on the condition that firms meet export criterion	2007
4.	**Movies, music, publications (IPR Enforcement)** – U.S. alleged that China was in violation of TRIPS because its laws failed to sufficiently enforce the intellectual property rights of foreign-produced movies, sound recordings and other publications	2007
5.	**Movies, music, publications (Distribution)** – U.S. alleged that China was in violation of GATS for barriers to the distribution of foreign-produced movies (theatrical release or home entertainment), sound recordings and other publications	2007
6.	**Financial information services and foreign financial information suppliers –** U.S., EC and Canada alleged that China's policies which require foreign financial information suppliers (e.g., Bloomberg, Thomson-Reuters, Dow-Jones, Pearson) to supply their services through an entity designated by Xinhua News Agency discriminates against imports	2008
7.	**"Famous Brands"** – U.S., Mexico, and Guatemala alleged that policies such as "China World Top Brand Programme" and the "Chinese Famous Export Brand Programme" allocate subsidies based on export performance criterion and are thus in violation of the SCM Agreement	2008

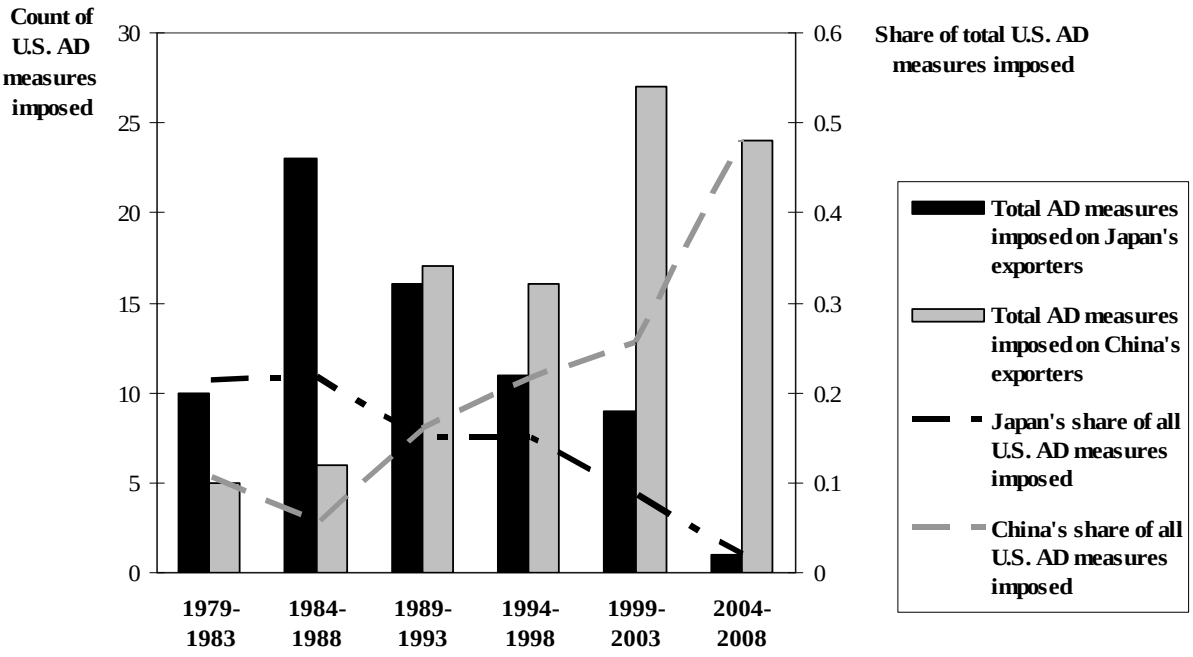
Sources: Compiled by the authors from WTO (2009).

Table 7. Japan and China Use of GATT and WTO Dispute Settlement to Challenge the United States, 1955-2008

No.	Product/policy – Complainant(s) and issue	Year
1.	**Countervailing duty calculation ("*Zenith* Case")***† – Japan alleged as GATT-inconsistent the U.S. procedure for calculating subsidies during countervailing duty investigations in a way that penalized trading partner exemption of exporters from indirect taxes (e.g., VAT schemes)	1977
2.	**Semiconductor retaliation*** – Japan alleged that the U.S. violated GATT obligations by unilaterally raising tariffs against Japan's exports in response to a disagreement over whether Japan was abiding by the 1986 bilateral semiconductor agreement	1987
3.	**Section 301 import duties on autos** – Japan alleged as WTO-inconsistent the proposed U.S. retaliation during the U.S. Section 301 investigation on Japan's market access for foreign auto parts	1995
4.	**Government procurement** – Japan and EC alleged as a WTO-violation of the Government Procurement Act the Massachusetts "Burma Act" legislation banning the state government from purchasing from any persons who do business with Burma	1997
5.	**AD Act of 1916** – Japan and the EC alleged that the U.S. Antidumping Act of 1916 was WTO-inconsistent as it allowed for imposition of penalties beyond the imposition of duties allowed by the Agreement on Antidumping and thus had a "chilling effect" on exporters	1999
6.	**AD on hot-rolled steel** – Japan alleged that the U.S. violated obligations by imposing WTO-inconsistent antidumping duties on hot rolled steel products	1999
7.	**Byrd amendment** – Japan, the EC and nine other countries alleged the U.S. "Continued Dumping and Subsidy Offset Act of 2000" policy of refunding to domestic petitioners the collected foreign duties after affirmative antidumping and countervailing duty investigations as a WTO-inconsistent subsidy	2000
8.	**Sunset review of AD on steel** – Japan alleged as WTO-inconsistent the U.S. procedure for conducting a "sunset review" for removing antidumping duties on imports of corrosion resistant steel	2002
9.	**Steel safeguards** – China, Japan, the EC and six other countries alleged as WTO-inconsistent the 2002 U.S. imposition of an import safeguard on a variety of steel products	2002
10.	**Zeroing** – Japan alleged as WTO-inconsistent the U.S. procedure of using the method of "zeroing" (giving a value of zero for data on above normal-value sales instead of the positive value) in dumping margin calculations at various stages of the antidumping investigation and review process	2004
11.	**Coated free sheet paper AD/CVD** – China alleged as WTO-inconsistent the preliminary antidumping and countervailing duties the U.S. imposed on imports	2007
12.	**Certain products AD/CVD** – China alleged as WTO-inconsistent the antidumping and countervailing duties the U.S. imposed on imports of "Circular Welded Carbon Quality Steel Pipe," "Certain New Pneumatic Off-the-Road Tires," "Light-Walled Rectangular Pipe and Tube," and "Laminated Woven Sacks."	2008

Sources: Compiled by the authors from WTO (1995, 2009) and Hudec (1993). *Dispute taking place under the GATT. All other disputes took place under the WTO. †Not a formal Article XXIII dispute, but found in Hudec (1993)

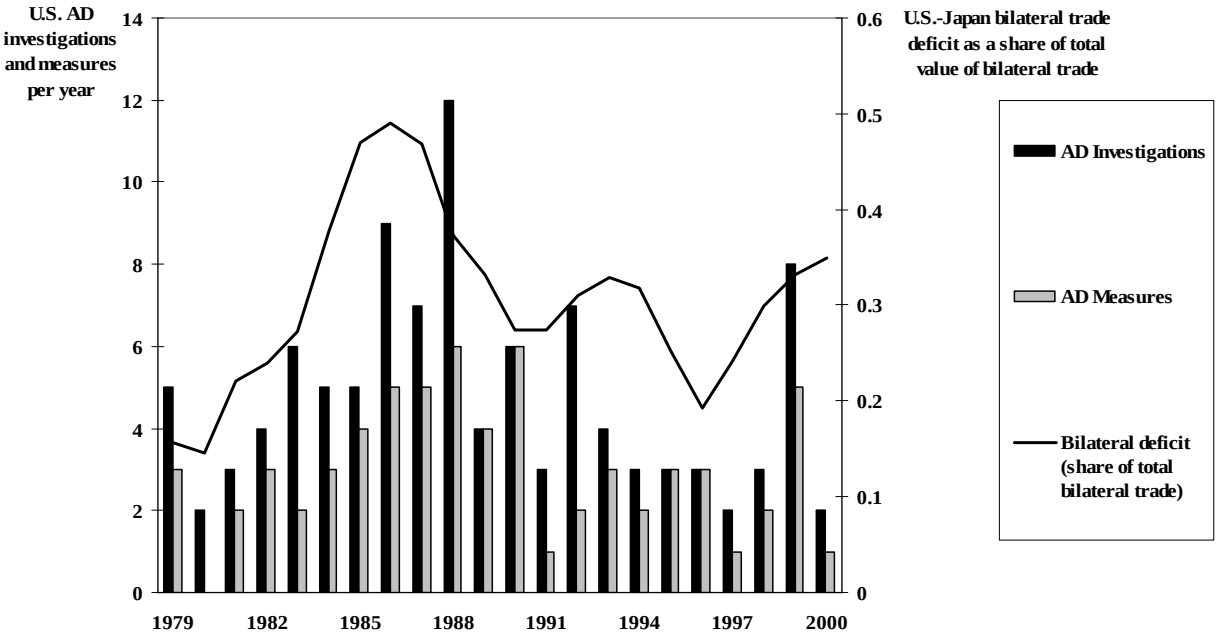
Figure 1. U.S. Antidumping Activity against Japan and China, 1979-2008



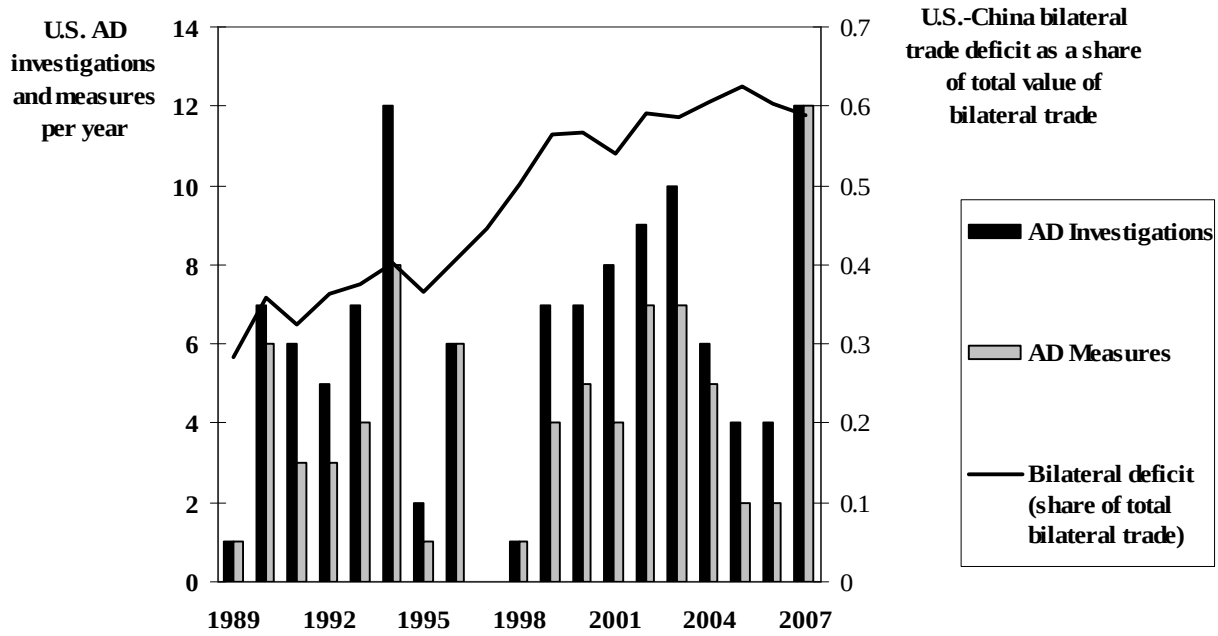
Source: Compiled by the authors from Bown (2009). Data is number of antidumping investigations initiated during those years that resulted in the imposition of final antidumping measures.

Figure 2. The U.S. Bilateral Trade Deficits and Use of Antidumping

a. U.S.-Japan, 1979-2000

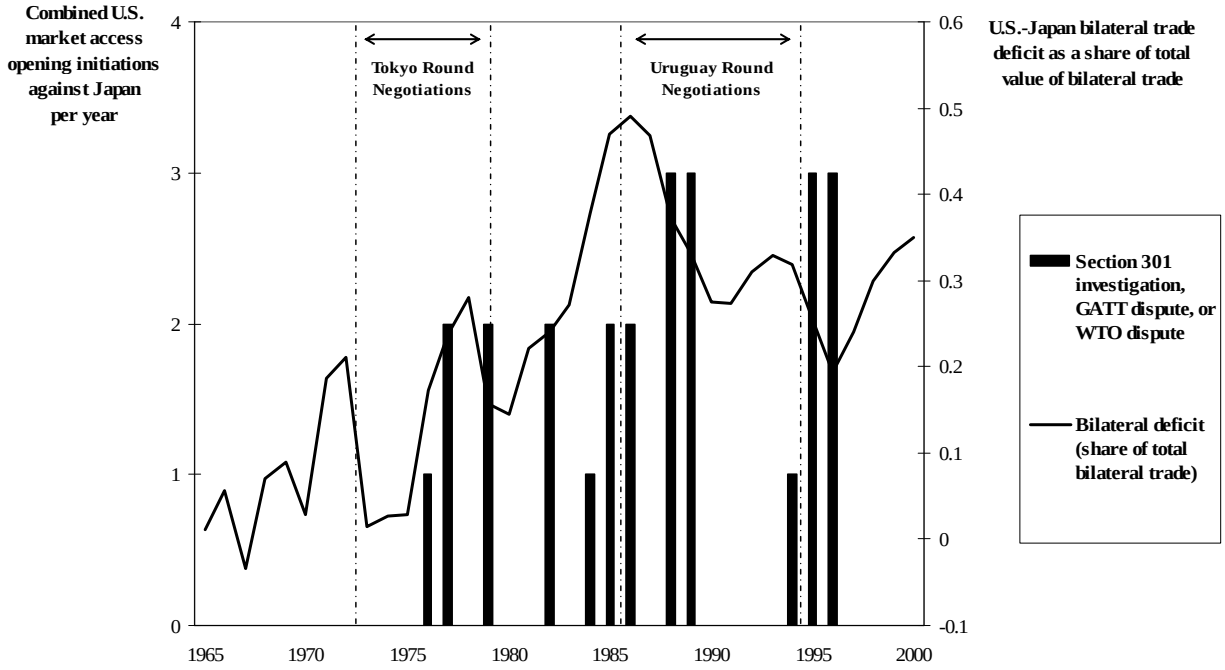


b. U.S.-China, 1989-2007



Source: Antidumping data compiled by the authors from Bown (2009). Light bars indicate number of antidumping investigations initiated during those years that resulted in imposition of final antidumping measures. U.S.-Japan bilateral trade data is taken from Feenstra et al. (2005). U.S.-China bilateral trade data is taken from USITC Dataweb. China is defined as China + Hong Kong.

Figure 3. The U.S.-Japan Bilateral Trade Deficit and U.S. Section 301, GATT, and WTO Formal Trade Dispute Activity against Japan, 1965-2000



Sources: Section 301, GATT and WTO dispute initiation data compiled by the authors as described in table 4. U.S.-Japan bilateral trade data from Feenstra et al. (2005).

Appendix 1. Points of Comparison: China (1990-2000s) and Japan (1970s-1980s)

Similarities	Differences
High savings rate	Per capita income (about $3000 for China in 2007; a substantial fraction of population living below $2 per day)
Export-oriented growth strategy	
Large domestic market	Major role of agricultural reforms (China)
Large bilateral trade surplus with US	Openness to manufactured imports (China)
Large share of world exports	Special Economic Zones (China)
Allegations of unfair trade and dumping	Large global trade surplus (Japan)
Industrial policy, subsidies to preferred industries	Key role of inward foreign direct investment (China)
Export concentration by industry	Mode of technology transfer
Exchange rate undervaluation	Enforcement of intellectual property rights
Large official and private holdings of U.S. government securities	Participation in vertical specialization
	Centralization of industrial policy (Japan)
Host-country scrutiny of outward FDI	
	Industrial organization (Japan's keiretsu)
Lack of transparency	
	Direct competition with U.S. exports (Japan)
Western double standard	

China has followed an export-led growth strategy since its â€œreform and opening upâ€ started in the late 1970s. As part of the decision to increase the role of market mechanisms, one of the first reforms implemented was to open up trade with the outside world. This decision was soon followed by the 1979 law on Sino-Foreign Equity Joint Ventures, officially welcoming the foreign direct investment (FDI) needed to create a manufacturing sector in what was then a heavily agricultural economy.5 In 1980, the first four special economic zones (SEZs) were createdâ€"in Zhuhai, Xiamen, Shenzhen, and Shantou Chinaâ€™s foreign trade development has strengthened the nationâ€™s ties with the rest of the world, effectively pushed forward the countryâ€™s modernization, and promoted world prosperity and progress. China entered the World Trade Organization (WTO) in 2001.Â However, hindered by the international political environment at that time and the countryâ€™s planned economic system, Chinaâ€™s foreign trade development was relatively slow. In 1978 China entered the new period of reform and opening up.Â (Figure 4 The Growth of Chinaâ€™s Total Import and Export Volume in Major Service Sectors 2005-2010). Chinaâ€™s foreign trade development has greatly pushed forward the countryâ€™s modernization drive. China has grown into an open economy. Our results also lead us to question whether Japanese exports were a particularly important source of productivity growth. Our findings on Japan suggest that the salutary impact of imports stems more from their contribution to competition than to intermediate inputs. Furthermore our results indicate a reason for why imports are important. Greater imports of competing products spur innovation. Our results suggest that competitive pressures and potentially learning from foreign rivals are important conduits for growth.Â Our results thus call the views of both the World Bank and the revisionists into question and provide support for those who advocate more liberal trade policies. Acknowledgements and Disclosures. Download Citation.